Grain takes a detour

Railroad bottlenecks, congestion and high freight prices have frustrated Minnesota farmers this year as they try to sell their corn and soybeans.

Now some are turning to an alternative: barges instead of railcars. They are bypassing rail terminals and driving to river ports, giving the barge industry a modest but significant bump in business.

As of Nov. 1, year-to-date grain barge tonnages were 13 percent higher than the five-year average and the highest since 2010, according to a USDA report issued last week. That rising demand has also affected prices, and another federal report noted that barge rates for export grain in October averaged 33 to 60 percent higher than the five-year average during that month.

The CHS grain terminal just southwest of Minneapolis sits at the far end of that food chain. It’s here — and in three neighboring terminals on the Minnesota River in Savage — where millions of bushels of corn and soybeans that roll off Minnesota farm fields begin their journey around the world.

The terminals are the northernmost location in the Mississippi River’s navigation system, which extends about 1,800 river miles to the Gulf of Mexico. As oil trains from North Dakota compete for space with trainloads of consumer goods, coal and grain, the river system has become more important than ever to farmers.

“It’s a quiet, quiet industry so it doesn’t get a lot of attention, but it’s so vital to this region and it affects so many people,” said CHS Savage terminal superintendent Greg Oberle.

The grain transportation system is like a three-legged stool, he said, including river, road and rail.

“We obviously grow more grain in this country than we use domestically,” Oberle said. “We have to rely on our exports, and we have to stay competitive in the world.”

Minnesota was the fourth-largest agricultural exporting state in the country in 2012, behind California, Iowa and Illinois.

Half of the nation’s soybean crop is exported, and half of that goes to China, said Mike Steenhoek, executive director of the Soy Transportation Coalition. In the 2009-2010 season, 3.7 million tons of soybeans grown in Minnesota moved by rail, and 1.4 million tons moved by barge, he said. The Iowa-based coalition includes 12 state soybean boards, including Minnesota, and two national soybean groups.

Steenhoek said corn and soybean growers within 70 miles of a river terminal usually find it economical to send their grain to river terminals, unless they sell it closer to home for animal feed, ethanol plants or other uses. But the recent delays, shortages and high costs to move export grain by rail are driving more business to barges, he said.

“Normally some grain handlers will say that the river’s too far away and it just doesn’t pencil out,” he said. “But with rail service being what it is, they’re willing to drive further to access the river.”

Some of the shipping demand is coming from bumper corn and soybean harvests this year, but Steenhoek said rail issues are also part of the mix. “There clearly is an increase in demand for barges as a result of some of these rail challenges,” he said.

Ben Doane, barge freight coordinator for CHS, said that higher costs in recent months to ship grain by rail to Pacific Northwest ports benefited river traffic. “The main effect is the Gulf is more competitive in terms of exports out of the U.S. than the Pacific Northwest, so that probably resulted in more barges being loaded,” he said. “That’s just because of bad logistics and high rail costs and maybe even a lack of confidence to execute shipment because it was dependent on rail.”

Doane said railroad freight costs have dropped significantly in the past few weeks, so the market may be about to change again.

At the CHS terminal in Savage last week, Oberle stood in a glass-enclosed room between two drive-through truck bays. Grain trucks approached on each side to be weighed on scales. Drivers dropped off paperwork, and then cranked open doors on the underside of their trucks to dump the grain in less than 10 minutes.

The soybeans and corn kernels poured through grates in the ground into a deep pit, where they were whisked away through pipes and routed into storage bins to await shipment. In some cases, the grain goes directly from trucks to conveyor belt 8, a beige structure on stilts that speeds the crop a quarter of a mile across flood plains and wetlands to a waiting barge in the main channel of the river.

One barge can hold the equivalent of 60 trucks or 15 railroad hopper cars full of grain.

“It amazes people when I tell them that during harvest you can have grain standing in the field in the morning, and it can be going down river on a barge that afternoon,” Oberle said. “It’s that quick.”

But barges are not without their own drawbacks. Between Savage and St. Louis, the barges need to move through 26 locks, most of which were built in the 1930s and occasionally have their own delays, bottlenecks and shutdowns. And much of the system has 600-foot locks, which are too short for standard modern tows with 15 barges. Operators need to uncouple the barges and maneuver them through the locks in two operations, tripling lockage times.

The river navigation system is also seasonal, at least in northern states like Minnesota, and typically shuts down between the end of November and mid-March, depending on weather and ice conditions. This year the shipping season in St. Paul began about two weeks later than normal because of ice, and is expected to shut down about one week early because of the potential for freeze-up.

University of Minnesota professor and grain marketing economist Ed Usset said that whether farmers and elevator operators choose rail or barges, they’ll almost always pay some of the highest freight costs because of the great distances to the Gulf and to Pacific Northwest ports.

If the price of corn moving overseas from the Gulf is $4 per bushel, said Usset, using a hypothetical example, a farmer might receive $3.80 if they delivered it that day to Memphis, or $3.60 at the Quad Cities in Illinois and Iowa, or $3.40 at Prairie du Chien or Savage in Wisconsin and Minnesota.

“The world isn’t going to pay any more for that grain just because freight costs more,” he said. “The price [that farmers receive] gets pushed down, not pushed up.”

And when either transportation system has problems that bump up shipping prices even more, he said, the farmer takes the hit. In the past year with railroad service diminished, Usset said, elevator operators wanting to serve their farmer-customers had to consider the more expensive option of trucking grain to river terminals, and offering growers less for their crops. “If it’s a higher cost to them, then it’s a lower bid to you,” he said. “That’s the conundrum we’re in right now.”

Some growers are selling corn to ethanol plants, and others are storing corn and soybeans on their own farms and waiting for prices to improve, said Bob Zelenka, executive director of the Minnesota Grain and Feed Association.

“They can sit on it short-term, but they’re going to need to sell off some of that grain in a few months,” he said. “Farmers have bills to pay.”

Source: Minneapolis Star Tribune