

Rail congestion costs farmers

ST. PAUL — The Minnesota Grain and Feed Association has been around for 108 years and for 108 years its members have been having trouble with railroads, its executive director told members of a joint legislative committee.

MGFA executive director Bob Zelenka said of the 600 grain elevators in Minnesota, 150 are served by rail, and 50 of those have unit train loading facilities. All of those have been impacted to some degree by rail delays that date back to last fall. Shuttle loaders, in particular, have lost thousands of dollars as grain quality deteriorated while waiting for trains to arrive.

The railroads have become more responsive to shippers following two hearings held by the Surface Transportation Board, he said. The most recent hearing was Sept. 4 in Fargo. The STB has directed railroads to provide more transparency.

State policymakers want to know what they can do to remedy the rail congestion situation and to that effort held a four-and-a-half-hour joint hearing of the House Transportation Finance and Commerce and Consumer Protection committees and the Senate Transportation and Public Safety; Commerce; and Jobs, Agriculture and Rural Development committees on Sept. 30.

"This is a growing crisis. ... It's not just about farmers getting product to market," said Rep. Joe Atkins, DFL-Inver Grove Heights. "We're hearing that farmers are paying as much as five times what they were paying last year to get their product to market. That means there's an impact on everybody across Minnesota ... the price of bread, the price of cereal. ... It's not just a rural issue. It's an issue that impacts people in the suburbs, people in the metro, people from every corner across the state are impacted when the cost of getting the product to market goes up."

The railroad hit bottom in March 2014, said Brian Sweeney of the BNSF, when it was 30 days behind with agricultural customers. They have improved to only eight-and-a-half days late.

Sweeney also disputed that oil companies are getting priority over other freight, saying that everybody's service is suffering from congestion.

In a telephone interview, North Dakota Agriculture Commissioner Doug Goehring confirmed that oil companies are indeed waiting for trains. He's taken calls from the oil industry asking why he's advocating for agricultural transportation, when oil companies, too, are waiting for locomotives.

Building more rail infrastructure, adding cars and locomotives and more workers on the ground will help resolve the congestion, Goehring said.

The high cost of rail, which shows up in the \$1 basis in North Dakota, is a double slap to farmers who have seen grain prices fall, in some cases nearly by half since last year.

"We need a better market," Goehring said. "I understand that because I am a farmer, my son and I farm."

He's personally experienced the effect of rail congestion. When he called his local elevator to sell soybeans in early 2014, he was told if he could get them some rail cars, he could move his soybeans. He waited three months for the rail cars to arrive.

And those cars haven't been cheap. Rep. Patti Fritz, DFL-Faribault, said her farmer constituents in Rice, Steele and Dodge counties have told her rail car rates to move grain have risen from \$750 to \$4,000.

Zelenka said rates have reached as much as \$6,000 per car on the secondary market where shippers bid against one another for freight.

Sweeney emphasized that railroads don't reap the proceeds from freight sold on the secondary market.

A University of Minnesota study commissioned by the Minnesota Department of Agriculture found that higher transportation costs cost state farmers \$100 million in March through May. Farmers in northwestern Minnesota were most impacted by a higher basis, the study found.

Minnesota Agriculture Commissioner Dave Frederickson said that in his hometown of Murdock, corn was selling for about \$2.83, with a 65 cent basis.

The cost of freight is simple an issue of economics, he said.

"Welcome to America, it's a supply and demand situation," Frederickson said. "Unfortunately there are some of us that are involved in production agriculture, farming, that are going to experience that from a negative side."

Oil companies were simply willing to pay more for cars.

Frederickson said he recently met with Burlington Northern Santa Fe CEO Matt Rose who told him the railroad is going to invest \$5 billion into the system, including \$100 million in Minnesota.

The simple answer to increase capacity is to double track, Frederickson said, likening it to having a four-lane highway instead of a two-lane.

Sweeney said they adding double tracks to address capacity issues. They are also adding employees and spending \$1 billion to buy locomotives and buying 900 additional grain cars.

Adding track is a three-year project, Sweeney said. "There's no quick, immediate fix," he said.

The congestion may not be as severe this fall for another reason: Grain prices.

Zelenka suspects there won't be a lot of grain moving this fall as prices have dropped to less than \$3 per bushel for corn and less than \$9 per bushel of soybeans. Time will tell what the situation shapes up to be this fall, with harvest just starting it's too early to tell.

He's hopeful the state's livestock, 21 ethanol plants and three biodiesel plants will consume commodities so that anything piled on the ground this fall can be moved into permanent storage by January.

"We're going to have a problem with storage this fall, no doubt about it," Zelenka said. Minnesota farmers have 1.5 billion bushels of on-farm storage and grain elevators have another 700 million bushels of storage.

USDA is estimating Minnesota's statewide corn yield at 170 bushels per acre, up from 160 in 2013. The state's soybean yield is estimated at 42 bushels per acre, compared to 41 bushels per acre in 2013.

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