National Grain and Feed Association
TRANSFORMING AMERICA'S HARVEST ™

1400 Crystal Drive, Suite 260
Arlington, VA 22202
(202) 289-0873
ngfa.org

BEFORE THE
SURFACE TRANSPORTATION BOARD

Docket No. EP 775

GROWTH IN THE FREIGHT RAIL INDUSTRY

TESTIMONY OF THE NATIONAL GRAIN AND FEED ASSOCIATION

Good morning, my name is Mike Seyfert, and I am the President and Chief Executive Officer of the National Grain and Feed Association. I want to begin by commending Chairman Primus and the Board for bringing stakeholders together to help find solutions to grow the freight rail industry.

The NGFA consists of more than 800 grain, feed, processing, exporting and other grain-related companies operating more than 8,000 facilities. Our membership includes grain elevators; feed and feed ingredient manufacturers; biofuels companies; grain and oilseed processors and millers; exporters; livestock and poultry integrators; and associated firms, including all the Class I railroads.

The NGFA's extensive membership includes ag shippers and rail carriers who partner on more than 3 million carloads per year, which is greater than 15 percent of total U.S. carloads. I believe this valued partnership can grow, and I look forward to providing ideas for creating a conducive environment for freight rail growth.

Transportation modal data from the U.S. Department of Agriculture (USDA) shows that rail routinely carries about 40 percent of our nation's grain to export terminals, while barges carry about 45 percent and trucks about 15 percent. This relationship between the three transportation modes carrying grain to export terminals has held for the past forty years with trucks only slightly gaining share.

USDA data also shows the last transportation mode for grain before it is consumed domestically. These domestic grain movements are essentially a two-mode competition between rail and truck as barges are not commonly used for domestic movements, being predominantly used for moving grain to export terminals.

In the 1980s, rail moved over 40 percent of domestic grain, but that share has fallen to under 20 percent. NGFA believes there are two primary factors that have driven this trend. First, rail carriers have merged making shorter hauls less common. Simply put, there are fewer railroads whose main business is shorter, regional movements. Second, the grain industry has added significantly to its domestic processing capacity. These processing plants are usually built close to the farms that produce the grain and are predominantly served by truck transportation due to that proximity, which makes rail transportation infeasible.

In the 1980s, the ratio of exports to domestic consumption for grain was one-third to two-thirds. Today the ratio has shrunk to one-fourth to three-fourths. The shrinking share of exports negatively impacts rail opportunities from a relational standpoint. However, the added grain processing provides opportunities for rail to move grain products, such as biofuels, seed oils and feed co-products, to export markets and domestic markets.

Grain production in the United States has nearly doubled over the past forty years. The average increase in grain production is more than two percent per year. USDA is projecting production of corn, soybeans and wheat to grow from 21 billion bushels last year to 23 billion in 2033 and for grain exports over the same period to increase from 4.5 billion bushels to more than 5.5 billion. USDA believes grain exports will maintain the current one-fourth share of grain use over the next ten years. The forecast growth in grain production and steady export share of grain demand has potential to buoy grain exports and provide opportunities for rail freight growth.

In addition to the organic rail freight growth in moving grain products through increased production, I believe there is room to grow market share for grain and grain products through sustained efforts by the Class I railroads to improve service and become more cost-competitive against other forms of transportation. These efforts can be helped by sound rail regulatory policy and commercial practices.

However, before I begin with these recommendations, I want to again point out that NGFA's membership includes all six of the Class I Railroads, and we consider them valuable members of NGFA and important partners of our shipper and receiver members. There are certainly differences in views on policies and operations that occur between the Class I's and shipper/receiver members. Differences in the past that have occurred are well-documented. Since joining NGFA three-and-a-half years ago, it has been my priority to improve communication and discussions between the association, all our members, and the Class I railroads.

We have made significant progress in this area and, I believe, now have strong lines of open and honest communication. These open lines of communication sometimes lead to both tough and positive discussions. These conversations allow us to work together on solutions for both the railroads and our shipper/receiver members. These policy recommendations are made with that acknowledgement and should not come as a surprise to our Class I members.

The NGFA believes there are rail freight efficiencies that can be gained through Docket

No. EP 768, which seeks the adoption of rules to permit rail customers to levy financial penalties on railroads for inefficient use of private railcars. Financial penalties are used by rail carriers to incentivize shippers to more quickly load and unload trains. To the extent the Board can introduce reasonable incentives for both sides, our shipper/receiver members believe it would lead to more reliable freight rail service and one could argue that freight rail growth would follow.

The NGFA commends the Board for issuing a final rule on Docket No. EP 711, Sub No. 2 for the purpose of establishing reciprocal switching rules when there is inadequate service, but we continue to believe it will not be successful until the Board adopts rules that permit reciprocal switching to enhance competition. The NGFA believes more rigorous competition will result in larger volumes moved by rail. I urge the Board to view EP 711 as a rule in need of continual updating.

NGFA encourages the Board to continue to develop guidance on the standards that govern the provision of rail service upon reasonable request under 49 U.S.C. §11101. The statutory common carrier obligation statute remains largely undefined. There needs to be a clearly defined regulatory backstop that all industry participants recognize. We believe defining the common carrier obligation is another route the Board can take to grow freight rail.

Lastly on policy, NGFA thanks the Board for issuing updated rail rate challenge rules. By statute, the rail rate rules do not apply to contract rates, which makes it even more important to introduce more rail-on-rail competition with updates to EP 711 on reciprocal switching. Through increased competition, the need for rail rate rules becomes less important. Through competitive rail freight rates NGFA believes freight rail volumes will grow.

As I mentioned previously, the NGFA's preference is to seek commercial solutions between ag shippers and rail carriers, and we have made substantial progress in this area.

When service is considered unacceptable by shippers, we do our best to have our first call be to rail carriers. Ag shippers understand rail carriers must be run as businesses, but as in many partnerships, not every gain or loss is shared equally. Thus, when carrier decisions or service performance have oversize impacts on ag shippers, industry and/or NGFA makes the carrier aware to provide them an opportunity to rectify the situation. For example, NGFA meets with carriers when it hears from members about service breakdowns to ensure the carrier is aware that it has customers who have experienced problems. This open line of communication can help carriers know which parts of the network need help and it can inform shippers on what to expect on rail service to aid planning. These commercial discussions are necessary to help move more freight by rail.

We also acknowledge that freight growth can be rapid and concentrated on certain lines. We have told our rail partners that when that happens it is important to ensure agricultural movements are not displaced. Export, processing and animal feeding operations rely on reliable and resilient rail service to prevent demurrage on vessels, processing shutdowns and animal welfare concerns.

As stated earlier in my testimony, the share of exports relative to domestic use has decreased, but I want to clarify that overall grain export volume has trended higher due to significant growth in grain production. This increase in export volume has provided growth opportunities for freight rail. However, I would like to note significant increases in grain production and supply chain investments in Brazil and Russia have improved their ability to compete for global grain market share. Over the last ten years, production of corn, soybeans and wheat has increased by 65 percent in Brazil and 76 percent in Russia and a large majority of the new production has entered the export market. I am noting this increase in international competition to stress the importance of competitive rail access and a rail system that moves U.S. grain when it needs to move.

I do not know what the future holds for other grain exporters, such as Brazil and Russia, but I would not bet against the American farmer and agribusiness and our nation's ability to compete. I believe there will be opportunities for rail carriers and the grain industry to continue partnering to export more grain and grain products.

There are also many new rail spurs that have been built next to new grain processing facilities in recent years to service domestic processing. Grain products produced from domestic processing provide significant opportunities for freight rail growth. The new rail spurs are a sign that the relationship between agriculture and rail is still growing, and NGFA anticipates the growth will continue.

Lastly, I reiterate that grain production continues to increase in the United States and we believe it is safe to say the U.S. grain and feed industry is a success story, having thrived for hundreds of years and still growing. Additionally, the partnership with rail is another success story, being over a century old and as essential as ever.

Mr. Chairman and members of the board, thank you for your time and attention today and for holding this hearing on growing rail freight. The more than 800 members of NGFA thank you. I respectfully request that my full prepared statement be included as part of the record. I would be happy to answer any questions you may have.