

I am Rick Calhoun, I am Vice' president of the Grain and Oilseed Supply Chain-North America for Cargill. I also am the president of Cargo Carriers, a subsidiary barge line of Cargill. I present this testimony today on behalf of the National Grain and Feed Association and the North American Export Grain Association. The NGF A is comprised of 900 grain, feed, processing, exporting and other grain-related companies that operate about 6,000 facilities that handle more than 70 percent of all U.S. grains and oilseeds. The NGFA's membership encompasses all sectors of the industry, including country, terminal and export elevators; feed manufacturers; cash grain and feed merchants; end users of grain and grain products, including processors, flour millers, and livestock and poultry integrators; commodity futures brokers and commission merchants; and allied industries. The NGF A also consists of 35 affiliated state and regional grain and feed associations, as well as two international affiliated associations. The NGF A has strategic alliances with the Pet Food Institute and the Grain Elevator and Processing Society, and has a joint operating and services agreement with the North American Export Grain Association (NAEGA).

NAEGA, established in 1912, is a not-for-profit trade association comprised of private and publicly owned companies and farmer-owned cooperatives involved in and providing services to the bulk grain and oilseed exporting industry. NAEGA member companies ship practically all of the bulk grains and oilseeds exported each year from the United States. The Association's mission is to promote and sustain the development of commercial export of grain and oilseed trade from the United States. NAEGA acts to accomplish this mission from offices in Washington D.C., and in markets throughout the world.

The agricultural transportation and marketing system has for many decades been one of the true strengths for u.s. agriculture and its ability to function efficiently in domestic markets and be highly competitive in global markets. For domestic markets, dependable and economical rail service has allowed livestock, processing and other users of raw agricultural products to be located in areas outside of major production areas and closer to concentrations of retail consumers. In export markets, a very efficient inland waterways system, and network of rail lines throughout the U.S. has provided the U.S. farmer one of the most economically efficient pipelines to the global marketplace. For a number of reasons, this V.S. transportation system is turning from a strength into a potential weakness. Because of higher fuel and energy costs, congestion on railroads and highways, a lack of investment in modernization and maintenance of the inland waterway system, the cost of moving agricultural products to markets is escalating sharply in the V.S. At the same time, some of our strongest competitors in South America and elsewhere are building infrastructure to make their transportation systems more efficient. Can these trends be reversed? While there are some things that can be done to help correct this loss in the V.S.'s competitive position, it will take a number of years, even if we make the decision very soon to move forward. But I will caution, in our view, it is not altogether clear that the V.S. will ever be able to reestablish the previous competitive advantage in transportation logistics that we have enjoyed in the past.

#### The Impacts of Hurricane Katrina

There is, of course, immediate concern about the impacts of Hurricane Katrina on the performance of New Orleans-based export movements and the entire inland waterway river

system. The resulting disruption to grain export elevator operations -and more importantly to logistics -combined with the adequate supplies in competitor origins has made U.S. corn and soybeans somewhat less competitive in global markets during the harvest season. Eventually, the record likely will show some short-term loss of market share with traditional U.S. customers like Korea that again are sourcing corn from other countries, including China. While barge and export movements are improving, the latest USDA data indicate that barge shipments in the latest week are still 27% under the previous 5-year average. The NGFA and NAEGA commend Secretary Johanns and the Bush administration for post-hurricane initiatives intended to assist in the recovery. One of those programs involves providing incentive payments to offset costs associated with discharging and either disposing or directing to alternative uses out-of-condition corn contained in barges stranded in the New Orleans region. This action is essential to alleviating short-term transportation congestion in the region and to moving barges back up-river to transport new-crop grain.

It is our understanding that USDA thus far has provided incentives to discharge a total of 204,918 short tons of damaged corn from barges. This figure includes 69,918 short tons from 45 barges awarded in response to a USDA Federal Register notice issued in late September that attracted \*offers\* involving a total of 291 barges containing 422,194 short tons of damaged corn.

USDA in the Nov. 7 Federal Register announced it is soliciting additional offers to provide incentive payments to discharge barges of any agricultural commodity, including grain, that had been loaded and shipped to the New Orleans region before Aug. 29, when Hurricane Katrina came ashore. While affected companies continue to address this situation in a methodical manner, many barges with damaged grain await disposition at a time when the marketplace desperately needs more barge capacity. The NGFA and NAEGA are pleased that the administration has decided to redirect remaining available funds allocated for hurricane recovery in this way. But we reiterate the importance of acting expeditiously. More barge transport capacity would help alleviate storage congestion, expedite the movement of new-crop grain into the New Orleans region to meet demand for U.S. grain exports, and continue to have a favorable effect on hurricane-related barge freight rates that have depressed grain prices and increased government outlays for loan deficiency payments. According to USDA's own data, the logistical problems on the river system reduced the corn basis in Memphis from a more normal 20 cents per bushel prior to the hurricane to a low of 50 cents per bushel. In Savage, Minn., the basis fell to a low of 80 cents per bushel before recovering back to about 53 cents under the nearby futures. Roughly speaking, every 100% increase in barge freight rates above tariff adds 10 cents per bushel to the transportation costs, and making additional barge freight capacity available would be expected to have a timely and appreciably positive impact on improving interior basis levels for producers.

While the aftereffects of Hurricane Katrina likely will be felt well into 2006 in the grain marketing chain, this experience serves as a vivid reminder of how agriculture transportation is running at virtually full capacity and how vulnerable we are to disruptions. We have clearly lost

export business volume to countries like Korea during this period that will be difficult to recapture. The U.S. government and private interests need to get serious about how we can expand transportation capacity, or we will constrain economic growth in both agriculture and in other sectors. In our comments below, we offer views on the challenges that lie ahead in building additional transportation capacity. Barge Freight and Inland Waterways System

The U.S. inland waterway system is a primary source of U.S. competitiveness in global markets. As our river system has deteriorated and others have made investments in transportation infrastructure, the U.S. freight advantage over global competitors, such as Brazil, has diminished. While some improvements in the river system are being made, some of the key locks and dams on the upper Mississippi and the Illinois Rivers that carry a huge portion of the grains and oilseeds that typically move into export markets are very old and are too small to facilitate efficient barge movements. As you know, the House has passed a water resource development bill to authorize some of these high-priority projects, but the Senate has yet to act. Many of the members of the Senate Agriculture Committee have played a leadership role in urging prompt passage of a Senate bill. We respectfully request that the Senate redouble its efforts to pass this bill before the end of this session. Even if authorizing legislation were passed today, we are likely decades away from completing the construction projects that are most needed for Midwestern agriculture. While there are some critics of waterway project development, there really is no viable long-term alternative to investing in structural improvements. It is extremely important to agriculture, and many other sectors of the economy, including fertilizer, rock, coal, cement, steel and salt. Many locks on the Upper Miss and Illinois Rivers are very old and are subject to lengthy breakdowns that could disrupt movements for weeks or months. The U.S. government also needs to invest more in river maintenance. Because of low water conditions in portions of the Mississippi, traffic is being delayed for several days while dredging is being done, and barges are being loaded at less than capacity to navigate the shallow channels. As we try to compete for export markets, it is vital to have a smoothly functioning river system, because it simply is the most economically efficient transportation mode. Fuel costs are likely going to be permanently higher as the price of crude oil appears to have landed on a new plateau, and barges are highly efficient with fuel. For every gallon of fuel, one ton of cargo can be carried 514 miles on an inland barge versus 202 miles by rail and 59 miles by truck. Historically, in periods where traffic is moving smoothly on the river system, a bushel of corn or soybeans can move from northern Illinois to New Orleans for 35 to 50 cents per bushel. The river system gives the U.S. farmer the most economical access to the global marketplace, and that means the farmer receives more for the grain being produced and marketed. A well-functioning river system that facilitates commercial navigation has other benefits as well. It provides added capacity to provide timely service to export and other markets. This is important if we are to build our volumes and successfully compete, because there is seasonal variation in export demand due to buying patterns of customers and seasonal availability of crops from the U.S. and competing exporters. There is little question that as South American countries expand their soybean acres, the "window" of time the U.S. has to market its soybeans to global customers will become more limited. The U.S. needs the ability to expand exports in the near term to take advantage of the trade opportunities that we have on a seasonal basis -opportunities that we are losing at this moment because we have had the disruption of hurricanes in 2005. If we don't have some surplus capacity to expand movements in the near term, we will lose even more market share in some of the oil seeds and grain

markets.

## Rail Industry Capacity

The robust economy, increasing volume of intermodal business carried by carriers, the hurricanes and other factors have created huge demands for rail service, thus testing the capacity of the U.S. rail system like never before. Further, the predictability of service has become a huge issue. Determining when rail equipment will arrive at origin for loading, when it will be furnished locomotive power to pull the train, and when it may reach destination have all become more uncertain. These factors combine to make the real cost of freight to rail customers even more expensive, and undermines the efficient marketing of grains and oilseeds. Unfortunately, just adding cars to the existing rail system will not solve the capacity problem. In some cases, adding more engines and more crews could make the existing systems more fluid and improve cycle times somewhat. Some of the railroads are trying to hire more people, but it is a challenging environment to hire new personnel for jobs that require considerable time away from home. But beyond new engines and more crews to run rail equipment, railroads need to build double track in some areas, build passing lanes, and make structural changes to some key rail yards to make them more efficient. Those kinds of investments and construction projects will take years, and if overall rail business continues to expand at its present rate, rail capacity problems may get worse, possibly for several years, before service begins to improve.

If railroads do encounter serious capacity shortages over the next few years, will agricultural shippers be able to compete effectively against other industries for the available capacity? There will be some rail-served industries that will no doubt receive priority over others. And within the agricultural sector, some classes of rail service could be affected differently.

While most rail-served industries are receiving declining service from railroads, grain shippers are probably among the most affected because grain and grain products are not high priority in the current environment. Coal is getting a high priority today partly because of the temporary energy shortage. Intermodal freight is getting priority, because if railroads don't provide reasonably predictable service to that sector, they will lose the business, and it is a part of their business viewed as having significant growth potential. Among grain shippers, shuttle train shippers (dedicated rail equipment cycling between shipping and receiving points) may continue to receive a higher priority because more grain can be moved efficiently with that class of rail service. But the problem is that not all grain and grain products can be moved by shuttle shipments because either the volumes will not justify it or the shipping and receiving infrastructure is inadequate. Given the statutory common-carrier obligation for railroads, the NGF A has urged the carriers to continue to serve all types of agricultural shippers, providing reasonable service on reasonable request. In this regard, we believe it is important that the federal Surface Transportation Board provide more balanced regulatory oversight of the rail.

industry in the future by providing rail customers with balanced, transparent and cost-effective recourse to challenge unreasonable rail practices and rates. The NGF A believes that if there is a legitimate risk and/or cost for both parties -the shipper and the carrier - for bringing a case to the STB, there will be some degree of market discipline even in the absence of true or

traditional market competition. But even then, there will be some economic pain in a market that is short of capacity. Over a period of years, if the carriers invest in infrastructure, some of this capacity challenge can be resolved. But because of the growth in other types of rail business, some types of grain and grain product shippers may face a chronic struggle to obtain predictable rail service. Rail Rates. Car Premiums and Fuel Surcharges With the tightness in rail freight transportation markets, rail freight has become increasingly expensive. The western rail carriers auction the "guaranteed freight" service to the highest bidder, and premiums above tariff in the last few months typically have run in the \$200 to \$800 range per rail car. In the secondary rail market through which rail users can buy and sell freight to meet immediate market needs, rail car premiums have recently ranged from \$400 to \$2,000 per car, with some market spikes driving premiums above \$3,000 per car. As a modern rail car can hold about 3,800 bushels, a \$1,000 premium equates to about 26 cents per bushel, and that is above and beyond regular tariff and any fuel surcharge. Rail fuel surcharges have risen to the 15% to 20% range with the jump in fuel and crude oil prices. This percentage is currently being applied to the base freight rate. While we do not dispute the carriers' right to try to recover unanticipated fuel increases, the N OF A and other shipper organizations have analyzed the surcharges and have concluded that those assessed by some railroads are not equitable among rail customers and in some cases are excessive relative to the actual market increases in fuel prices. We have met with most of the major Class I railroads and noted our concerns. Thus far, we have had two positive responses. The BNSF Railway announced it would shift to a mileage-based surcharge that should be more equitable among agricultural shippers. The Canadian National has announced two reductions in its fuel surcharge assessment since April 2005. These carriers are to be commended for making initial attempts to address customers' expressions of concern. Given the increases in tariffs, the premiums paid for cars and the fuel surcharges now being applied to shipments, it is not uncommon to see total freight bills that are 30% to 50% higher (or even more with spikes in car premiums) than the same period in the previous year. This, of course, is translated in local markets through substantially lower prices to producers and higher loan deficiency payments being made by the U.S. government to cushion the adverse direct economic impact on the producer. To the extent that marketing loans may be at risk in future revisions of farm legislation, the farmer will be confronting considerably more market risk in the years ahead unless these transportation capacity problems can be successfully resolved.

#### Time to Revisit the Jones Act?

The Jones Act requires goods being transported entirely or partly by water between U.S. points to travel in U.S.-flagged, U.S.-built, U.S.-crewed and U.S.-owned vessels.

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law has created a situation where, because of their higher cost of service, there are very few Jones Act-qualifying vessels even available today. Those Jones Act vessels that are available remain very expensive to use. While shipping rates vary between years and seasons, it is not unusual to see Jones Act vessels quoting rates for bulk commodities that are roughly double that of commercial foreign flag vessels, making them prohibitively expensive to use.

Within agriculture, if competitive water freight existed between U.S. points that have access to

the inland waterway system, intercoastal waterways and the Great Lakes, it would expand U.S. transportation capacity for some movements. And this expansion would free up transportation resources that would ease the congestion in other movements and likely improve both cost and service in the overall freight market.

While we know there is strong resistance from protected industries to any change in the Jones Act, the increasing congestion of cars and commercial trucks on the nation's highways, the rail capacity shortage, and the need for more inland waterway capacity may eventually force a reconsideration of this law and a real-world assessment as to whether it has outlived its usefulness.

### Conclusion

It certainly appears that the era of cheap fuel is behind us, and that only reaffirms the fact that the U.S. needs to get serious about modernizing and expanding U.S. transportation capacity. Agriculture is highly dependent on transportation, because points of production and consumption often are separated by long distances. We need cost-effective, but also highly dependable and responsive transportation services to respond to customers' needs when they want to make purchases. We must be able to reliably supply domestic and international customers, livestock operations, grain processors and other users on the west and east coasts with grain and oilseed supplies from the Midwest. For too long, the United States probably has taken an efficient transportation system for granted. Katrina and the difficulties we have confronted this year certainly affirm that now is the time to reassess our strategy for transportation investments going forward.

The NGF A and NAEGA appreciate this opportunity to share our views, and I would be pleased to respond to any questions you may have.