

“ I can tell if it was just a one-time problem or if it was ... something I need to keep an eye on. ” see page 25 >>


advantage

Two years ago, producers saw a bumper crop of grain ... that they often couldn't get to market. Will railroads' recent infrastructure improvements prevent a logjam?

BY DEBORAH R. HUSO



Commodities on the Line



MARK WATNE, ALONG WITH HIS FAMILY, produces a variety of crops on 6,000 acres near Velva, N.D. The land is on the edge of the Bakken Shale oil reserves, where hydraulic fracturing has made the state the second largest oil producer after Texas and helped give North Dakota the country's lowest unemployment rate.

But the news hasn't all been sunny for the region, where agricultural commodities have historically dominated transportation networks. Watne, who grows wheat, corn, soybeans, canola, barley and sunflowers, and owns two AGCO Gleaner® combines, is the current president of North Dakota Farmers Union and a partner in Watne Farms. He believes in the booming grain harvests of 2013, producers like himself got the short end of the stick when it came to rail transport. "During the harvest, we could not deliver product to the elevators because they were all full," he explains. "The rail lines weren't picking it up."

Stuck in Storage

Agricultural markets are growing, with a projected annual rate of 2.2%. To reach those markets requires transportation, which not only represents significant cost for producers, but often a logistical headache as well.

Overall, agricultural commodities dominate rail lines in many parts of the U.S., including from Midwest production areas to major metro regions like the Pacific Northwest and Los Angeles. Agricultural traffic also relies heavily on major lines to the Mississippi River, Chicago, Kansas City and Houston, according to a 2010 study by the USDA.

That's a good thing as long as rail can handle the capacity.

The United Soybean Board estimates that shipping soybeans via rail, as opposed to by truck, saves an average of 20 to 30 cents per bushel. But what happens when rail can't handle the traffic? That's a growing concern among, and recently a reality for, many producers.

A January 2015 preliminary USDA report, *Rail Service Challenges in the Upper Midwest*, showed Minnesota, Montana, North Dakota and South Dakota were the states most impacted by congestion in 2013–2014. "The farmers in that region," the report notes, "have limited local markets for their products, less access to barge or other transportation alternatives and more limited crop storage relative to the recent expansion of corn production."

As a result of the congestion of 2013, producers had to store grain on their farms. Watne took advantage of a grain-bagging tool, but noted that doing so drove up his costs. "The bags cost 6 to 7 cents a bushel, plus you have to buy the equipment," he says. His total investment in grain storage equipment alone in 2013 was \$50,000 to \$60,000.

In an effort to meet the demand of an overflowing commodities market, grain elevators often bought rail cars from the secondary market. But as Watne explains, that drives up cost. As a result, the elevators paid less for grain. "In 2013, we were at 30 cents to \$1 less per bushel," he adds.

Oil on the Lines

Watne claims railroads gave priority to oil transport in his region, which is served by two lines, BNSF and Canada Pacific Railway. "I feel like they gave preferential treatment to oil," Watne says. "They knew they would get the grain traffic regardless."

Zak Andersen, vice president of corporate relations for >>

BNSF, which, according to company statements, has invested \$11.5 billion in rail infrastructure improvements in the last two years, acknowledges 2013 was a tough year, particularly on the lines running between Chicago and Seattle. But oil was not the only cause.

In 2013, U.S. farmers had a record corn harvest, while Canadian grain production was up 50% from the previous year. Plus, the Northern Tier wheat crop exceeded \$1 billion in value for the fourth time in five years. Additionally, that larger-than-expected ag harvest was compressed by heavy rains, while coal and crude shipments spiked.

Andy Cummings, manager of media relations at Canadian Pacific Railway (CPR), says the sheer crop size followed by a drastically cold winter when temperatures were regularly below -25°C also resulted in capacity challenges. However, CPR, he says, still shipped a record amount of grain in 2013–2014, up 16% from the previous record year in 2008–2009.

“The grain supply chain was not designed to move the enormous 2013–2014 crop over a short period of time,” Cummings says of the delays. “A system designed that way would be massively underutilized. Even in a typical year with a normal crop, there is excess capacity for several months.”

Infrastructure Challenges

According to Andersen, BNSF learned from the congestion issues in 2013, and promptly began making investments in double track, crews and locomotives to prevent large future logjams. In 2014, the railway added more than 5,000 new cars, 600 new locomotives and hired an additional 6,000 to 7,000 employees. BNSF has focused most of its capacity expansion on the Northern Corridor between Fargo and the West Coast, which is a primary grain transport route.

It took well into the spring of 2014 to handle the backlog in trainloads from the prior fall and winter. Andersen says the new double track BNSF laid in North Dakota and Washington is moving smoothly, and now the railroad is working on expansion of its northern line from Minneapolis to Chicago, and on its southern line from the Windy City to L.A.

Watne says he’s been impressed with BNSF’s willingness to communicate with customers in the aftermath of the rail congestion issues of 2013 and 2014, and says the addition of double track has made a big difference to producers like himself. He acknowledges that no one, including the railroads, knew crude was going to take off so quickly, but also believes the rail industry prioritized oil because it was easier and quicker to ship.

“The oil industry used oil cars as a storage system,” Watne argues. “With oil cars, you can just grab and go with 100 or so oil cars instead of having to go to multiple elevators. I believe the rail industry was acting in the interest of their shareholders.”

Andersen says at no point did BNSF give priority to one type of carload over another. “Our job is to move everything from where it is to where it needs to be,” he says. “We’re not in



the business of giving priority to anyone over anyone else. When our velocity slowed down, coal, ag and crude were all impacted equally.”

Cummings also says CPR gave no preference to one commodity over another and has worked to improve infrastructure over the last two years, investing \$1.3 billion in capital projects in 2014 and another \$1.5 billion in 2015. He adds that CPR has shipped 2.8 million more metric tons of grain than the Canadian government’s minimum mandates established in 2014.

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Traffic Jams on the Horizon?

A U.S. Government Accountability Office report issued in 2014 suggests that even aside from any future bumper grain harvests, traffic on the nation’s rail lines will continue to increase with the growth of oil production in the Bakken Shale. The Energy Information Administration reports production there increased six-fold between 2007 and 2012, and will likely grow another 48% between 2012 and 2019, remaining above 2012 levels through 2040. Meanwhile, coal exportation is on the increase as well, meaning yet more absorption of natural resource transport by rail.

Watne says a viable transportation network is critical for the nation’s producers. He says the reason North American farmers still hold an advantage for exports in the Americas is because of their rail and highway systems. “Brazil may have the crops, but they don’t have this kind of infrastructure,” he explains.

“But that won’t last forever. We’re eventually going to see greater competition from countries who are developing their agricultural economies and infrastructure.” **FL**