As harvest gets underway, uncertainty persists amongst the agriculture community as to whether or not the railroad industry has done enough to prevent another year of delayed cars and lost income. Farmers wait tenuously to see if the trains will arrive on time, despite numerous hearings and hundreds of millions of dollars spent shoring up capital assets and workforces.

Farmers and elevators had a difficult and expensive time getting their 2013 crop to market due to rail delays. In April 2014, the Surface Transportation Board (STB) held a hearing in Washington D.C. where a multitude of commodities groups and other ag interests expressed concern with the backlogs and service delays. The delays had real financial impacts on farmers including; vastly higher shipping costs, delayed cars, and difficulty with banks unwilling to lend due to the uncertainty. Lance Peterson, an Underwood, Minnesota soybean farmer testifying on behalf of the American Soybean Growers Association at the hearing explained, "I was able to get part of my 2013 crop moved before this transportation issue largely developed, so I am looking at a loss on my 2013 crop of about $40,000 on the remaining bushels that I need to ship. Income lost on next year’s crop is projected to be much larger, far in excess of $100,000."

There have also been serious delays in getting cars. At a STB field hearing in Fargo, ND on September 4th, 2014, testifiers expressed frustration with delays of up to 13 weeks for Canadian Pacific customers. Processing plants have shut down, some as many as 25 times, according to testimony by government officials.

Indeed, the delays have cost U.S. agribusiness companies. According to Brock Lautenschlager, CHS, director of rail services for Ag Business North America, the delays have caused;

- reduced asset utilization at interior assets and export facilities
- negative impacts on the bids offered to buy grains, which reduces competitiveness
- increased volatility in managing market risk
- higher fleet procurement costs due to organic growth in the rail industry combined with reduced cycle times
- costs associated with vessel demurrage, increased transportation costs due to using alternative modes, and late shipment and/or contract penalties

These issues have had ripple effects all the way up the food chain resulting in lower earnings for agribusiness and farmers.

A Perfect Storm
Most industry experts will agree, or concede, that the rail issues currently impacting Minnesota’s farmers can be attributed to a handful of factors that, if isolated, may have been managed without service disruption. Among the factors the current rail backlog can be directly attributed to include a combination of;

- an exceptionally harsh winter
- a boom in Asian exports
- under-investment in capital assets by railroads
- the dramatic increase in extraction of oil from the Bakken Formation in Western North Dakota

...continued on Page 3
Annual Meeting Speaker Spotlight

The morning program at the Minnesota Agri-Growth Council 2014 Annual Meeting and Conference will feature Center for Food Integrity CEO Charlie Arnot. Charlie brings over 25 years of experience working in communications, public relations, and issues management in the food system. Charlie is the founder and president of CMA, an employee-owned consulting firm with offices in Missouri and Iowa.

Charlie also serves as CEO of the Center for Food Integrity (CFI), a national non-profit organization established in 2007 that is dedicated to building consumer trust and confidence in today’s food system. CFI’s members come from each link in the modern food chain, from individual farmers and ranchers to universities, retailers, restaurants, and food companies. CFI invests heavily in research to provide its members with up-to-date information on the latest trends and issues affecting the food industry. Agri-Growth became a member of CFI in July of 2014 and is proud to be able to offer its members access to a variety of CFI resources.

A Greater Minnesota Update

Toolkit Now Available
In an effort to drive interest in A Greater Minnesota (AGM), a toolkit has been made available to interested partners and companies to better help spread the word about A Greater Minnesota. The toolkit offers easy-to-use materials to distribute to vendors, employees, and other interested parties within the recipient’s network. You can find the latest toolkit available at:
http://agrigrowth.org/a-greater-minnesota-ally-kit-2/

Pledge Update
Our efforts to continue to drive answers to our 5-point pledge have continued to pay off with over eighty candidates responding from all corners of the state. We will continue to work on getting responses from all candidates, but in the meantime, please check out the current 5-point pledgers at http://www.farmandfoodmn.org/candidates/. If you have a moment, drop your candidate a line and ask them to take the pledge. If they’ve already done so, send them a note thanking them for indicating their support for farm and food issues in Minnesota.

Agri-Growth Hosts Reception at Big Iron in West Fargo

On September 9th, Agri-Growth co-hosted a networking reception with the National Agri-Marketing Association (NAMA) at the Big Iron Farm Show in West Fargo. Despite the weather, the turnout was excellent with several Agri-Growth members, potential members, NAMA and Agri-Growth staff in attendance. Agri-Growth executive director Perry Aasness was on hand to discuss the mission of Agri-Growth and the importance of A Greater Minnesota’s role in the election with attendees. The event was a fantastic opportunity for future ag industry leaders to connect with Agri-Growth member organizations.

AgCountry Farm Credit Services, was heavily involved in the planning and execution of the event. Thank you to Red River Farm Network for allowing Agri-Growth to use their space to host the reception and to the Red River Valley Sugarbeet Growers Association for providing financial support.

The Minnesota Agri-Growth Council is an advocate for the state’s food and agriculture industry. Founded in 1968, Agri-Growth is a nonprofit, nonpartisan organization that represents the shared interests of its 200-plus members, which include food and agriculture businesses, organizations and producers, as well as the service industries that support them.
Polar Vortex

“Polar Vortex” was the catchphrase of the season last winter, characterizing the weather pattern that resulted in an exceptionally brutal winter in the Midwest. States like Minnesota and Wisconsin had top-ten coldest average temperatures for the months from October 2013 to March 2014. The period from December 2013 to February 2014 was the 6th coldest on record in Minnesota. Extreme cold imposes severe limits on rail capacity by limiting the length of trains, negatively affecting terminal traffic causing train backups, and limiting the length of time that railroad workers can be outside in the cold.

Weather caused severe service disruptions at terminals in Chicago, causing rail traffic back-ups and redirection. Chicago is the world’s third largest intermodal port, after Singapore and Hong Kong. Last winter was the 3rd coldest and 3rd snowiest on record in the Windy City, forcing the rail carriers to stage or reroute trains to other terminals in Memphis and St. Louis. Roughly 40% of all of Canadian Pacific’s U.S. traffic touches Chicago, according to testimony to the STB in April. Delays in Chicago had a ripple effect that reverberated back west as carriers held trains as far back as Canada, including switching and holding trains in the Twin Cities, creating velocity issues across the entire northern rail network.

Demand in Asia

Coinciding with the terrible winter was a boom in demand for United States exports to Asian markets. Roughly half of the soybeans and a quarter of the corn grown in Minnesota head for Asian markets via rail. A precipitous climb in grain exports has added load on already-taxed midwest rail networks. For the near future, growth in exports to Asia is expected to continue. As indicated in its “World Agricultural Supply and Demand Estimate,” the USDA is predicting another year of record exports of soybeans and healthy exports for corn to China in 2014-2015.

The rise in exports exacerbates the problem with rail capacity, and will ultimately test the railroads’ ability to scale up their operation to meet the new demand.
**Investment in Capital Assets**

In a status letter sent to the Surface Transportation Board in September 2014, BNSF CEO Carl Ice wrote, “the reality is that as a common carrier, we have an imperfect gauge for knowing when and where growth will come, but it is our responsibility to take on this traffic as markets demand for it to be moved. BNSF is currently moving large volumes of many different commodities and our job is to continue building out the railroad to handle the growth as it comes...We are not ahead of growth yet and we will continue next year with another significant capital plan.”

BNSF has taken steps to alleviate the backlog; increasing the number of cars and locomotives available while also laying down more track. The company has pledged another five billion dollars in capital improvements for 2014, with $900 million earmarked for expansion and maintenance in the Northern Corridor, according to a company press release.

**Bakken Oil**

Western North Dakota has seen an explosion in oil extraction over the last decade. Since the extraction of Bakken oil began in earnest in 2005, the amount of oil produced has increased precipitously; from 90,000 barrels per day in January of 2005 to a new high of 1,093,000 barrels per day in June 2014, the latest period of time for which there is information available. Transporting the abundance of oil from western North Dakota and eastern Montana to refineries in the Midwest and gulf coast has, in the absence of other viable options, ultimately relied on rail, placing dramatically increased demand on an already-strained network.

As the data show, the growth was so dramatic that even the most clairvoyant of observers could not have anticipated the deluge of oil hitting the rails. According to a research document from the Association of American Railroads, “In 2008, U.S. Class I railroads originated 9,500 carloads of crude oil. In 2013, they originated 407,761 carloads.”

The visibility of the trains of tankers running through farm country has aided the perception that railroad companies are giving preference to oil companies, a charge the railroads vehemently deny. It’s not hard to fathom how frustration grows amongst farmers and elevator operators. Trains pass through their communities daily pulling hundreds of tanker cars, a poignant reminder of a new reality that their crops now compete with oil from Western North Dakota for transportation.

**Winter is Coming**

As harvest hits full stride, the question remains at the back of everyone’s mind; will farmers again be facing difficulty getting their crops to market? The railroads have indicated, with caveats, in letters sent to the Surface Transportation Board that the capacity will be there. However, that question can only truly be answered after seeing what the winter will bring. Ag industry observers are cautiously optimistic that, save for a repeat of the winter of 2013-2014, that the transportation issues will ease somewhat. However, if the Midwest, including the important Chicago hub, experiences record cold and snow again this year, it is almost certain the delays will continue.

At the STB field hearing in Fargo, ND on September 4th, 2014, STB Vice Chairman Deb Miller expressed frustration saying, “velocities continue to be slow and we are not seeing the improvement that is necessary.”

However, industry observers remain hopeful that rail service this fall will improve. Bob Zelenka, executive director of Minnesota Grain and Feed Association, wrote in an email, “The BNSF and, to a lesser degree, Canadian Pacific Railroad, have finally whittled away at the millions of bushels of lingering 2013 crop, but pockets remain of commercially and farm stored grain still wanting to move. System congestion remains a problem so further rail service delays in moving the remainder of old crop and new crop grain are expected.”

Lautenschlager at CHS is more optimistic, saying, “Our expectations are for somewhat better service this fall versus what we experienced last winter, primarily due to the employment of additional rail resources (locomotives, crews, rail cars) as well as utilization rail infrastructure improvements (siding expansions, construction of double track main lines, yard expansions) during the current rail construction season.”

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**Annual Meeting Links**

- Agenda
- Registration
- Location
- Reception
- Sponsorship Options
- Hotel Information
- Exhibitor Opportunities