BEFORE THE

SURFACE TRANSPORTATION BOARD

Docket No. EP 770

URGENT ISSUES IN FREIGHT SERVICE

U.S. WHEAT ASSOCIATES, NATIONAL ASSOCIATION OF WHEAT GROWERS AND NORTH AMERICAN MILLERS' ASSOCIATION COMMENTS

Thank you for your leadership and the opportunity to submit comments regarding rail service challenges experienced by shippers in the wheat supply chain. The severe rail service challenges over the past 6 months have had negative impacts on many rail customers. These impacts are particularly significant for U.S. wheat producers, exporters, and flour millers, as U.S. wheat production is generally located great distances from export facilities and population centers while a majority of U.S. flour mill capacity is located in urban areas. Those distances mean wheat shippers have few alternative transportation options and no options that are cost competitive with transportation by rail.

Due to their largely captive nature, and the distance to primary users of their product, wheat shippers have long been subject to less than favorable treatment by class one railroads. In the past, this has primarily been seen in the disparate rates offered to grain elevators to ship wheat when compared with commodities with identical handling characteristics and on identical hauls. Those disparate rates have been well-documented in work published by the U.S. Department of Agriculture and in work previously shared with the STB by U.S. Wheat Associates showing the disparity both in tariff rates and in actual freight rail quotes to shippers. Those higher rates have contributed to a gradual erosion of U.S. wheat export competitiveness vis-a-vis other world wheat suppliers, in lower prices received by U.S. farmers, and in higher prices paid by flour millers and their customers.

With record high U.S. food inflation and global wheat supply challenges increasing food insecurity now, more than ever, U.S. wheat farmers need a reliable and cost-efficient transportation system. The long-term effects of less than favorable railroad treatment has meant that U.S. farmers have responded to lower wheat prices over time, with U.S. wheat plantings just barely off century lows and exports projected to near 50-year lows. These dynamics are particularly problematic as U.S. food inflation sets record highs and global wheat prices push millions into risk of hunger due to the conflict in Ukraine. At a time when our country and the world need U.S. wheat production more than ever, U.S. rail rates and service issues are increasing costs and decreasing access to wheat. U.S. wheat is also being supplied at dramatic premiums especially when compared to prices paid to U.S. growers.

We have seen this dynamic play out in the domestic wheat market with prices reported from flour millers for delivered wheat. Referred to as "basis," it is the difference between cash prices paid to farmers and what flour mills must pay to receive wheat at their mills. Basis is assumed to include elevation and transportation costs, as well as reflect some regional differences in wheat supply and demand. Those basis levels are at previously unseen levels with uncertain freight availability the single most relevant factor in those wide spreads reported by millers and grain elevators. One U.S. flour miller estimated that due to increased transportation costs and service issues alone, prices for wheat delivered to their mills are $1 per bushel over actual values. Another mill trucked wheat produced in Kansas to the Southern California mill market – a financially expensive step to take but cited it as the only way to keep mills from running out of wheat because of delays in moving railcars.

These delays are not uncommon and have been seen throughout the milling industry. Flour mills have had to completely shut down operations due to the railroads' failure to deliver empty railcars. This type of service disruption is followed with no accountability from the railroads on why the disruption occurred. In other cases, there are railcars available in the railyard, but the railroad companies have no crews to bring the railcars to the mill. Because of poor service, millers are forced to ship bigger volumes to try and compensate for the lack of railroad performance. As a result, milling companies are exhausting their leased railcar supply, which is compounded by the increasing costs and limited availability of additional railcars.

Even when cars are delivered, rail service remains extremely unreliable, resulting in unplanned overtime for millers to address backlogs of cars that need to be unloaded. In order to avoid down time at certain facilities, millers have had to pay extra for special switches. These issues result in unnecessary demurrage and other charges levied by the railroads and significant amounts of time spent by companies disputing the charges. Further, this unreliability and poor service has resulted in millers having to add trucks to cover in-bound grain and flour shipments and adjust schedules, which can disrupt customer shipments and customer production schedules.

Increased rail service issues leading to increased costs is also being seen in export sales and humanitarian donations. With approximately half of U.S. wheat exported each year, access to reliable rail transportation is critical for exporters making wheat sales and for customers counting on receiving wheat when needed. One exporter reported that shuttle trains have consistently been 45 to 60 days late and that surcharges have nearly doubled in recent months. Those service issues prevent exporters from making competitive offers when they have no certainty when, or if, trains will arrive to carry wheat from inland storage facilities to export destinations and waiting ocean vessels. One Midwest wheat originator reported a dramatic increase in dwell times for loaded grain trains bound for the U.S. Pacific Northwest sitting for 7 to 10 days after being loaded. When speaking with industry organizations, one exporter pleaded that if the U.S. government plans to solicit wheat for large scale humanitarian donations in the near future to please let the grain handling industry know as soon as possible, because rail service issues mean exporters need more time than ever before to get wheat to export positions. That plea comes as the world likely looks to the United States to provide humanitarian assistance at a scale that no other country can. Those impacts have already manifested in much higher prices paid for humanitarian supplies. Recent premiums paid by USAID for wheat donations when compared to U.S. Wheat Associates' estimated wheat export prices equaled nearly $1 million dollars per shipment – those are higher costs paid by U.S. taxpayers and fewer dollars available to provide food to hungry people across the globe.

These rail service-related impacts on food availability and price would potentially be excusable if the driving factor were related to the pandemic or other factors outside the railroads' control. However, in looking at recent reporting from BNSF and UP (the two largest wheat shipping railroads) on financial performance, we see clearly that the railroads are not suffering alongside shippers. In fact, both companies reported solid financial performance in the fourth quarter of 2021, even while seeing decreases year over year in grain and grain product volumes. The UP reported earning 11% more revenue on 1% fewer cars in the fourth quarter of 2021, and the BNSF reported 3% greater revenue on 2% less traffic. That U.S. railroads have found ways to provide stellar returns to shareholders by cutting costs and increasing rates rather than by working with shippers to ship increased volumes should be of major concern for the STB. Those cost reductions have likely come through formal Precision Scheduled Railroading (PSR) programs or through similar efforts, without the formal name, which have reduced staffing, mothballed locomotives, and attempted to force shippers to adopt schedules most beneficial for railroads' bottom lines.

Meanwhile, the impacts of these service interruptions further disrupt an already backlogged supply chain of vital crop inputs for producers, chiefly fertilizer. Just this week, news reports have circulated about UP's notification that they will be limiting fertilizer shipments to the Midwest. These disruptions will make it more expensive for farmers to implement the necessary practices needed to ensure a robust domestic and humanitarian food supply.

PSR and similar policies are particularly harmful for the U.S. wheat supply chain, despite the often-stated objective of such programs to optimize rail traffic on predictable schedules. A laudable goal, and one that works well when products and volumes being shipped are consistent throughout the year and run between similar origination/destination points. But that has a serious negative impact for agricultural products where price volatility and the seasonal nature of production run contrary to other transportation users such as factories or importers of consumer goods. Wheat production is cyclical by nature, with the U.S. harvest occurring in different parts of the country from May to September – creating large seasonal variations in demand for shipping capacity. Wheat production also varies widely between regions from year to year both in quantity and quality produced. Individual mills and exporters change sourcing patterns to meet end-user specifications on a constant basis. Further, wheat exports are dependent not just on prices and supply in the U.S., but also in wheat producing countries around the world. All of these variables demand a U.S. rail system that is efficient, but that also can be dynamic – with enough capacity to respond to inter-year changes in demand.

It is especially telling that both BNSF and UP have announced rate increases to take effect for wheat before the 2022 harvest while underperforming on current service commitments. That both railroads are making these rate changes at this time clearly shows that they are not taking the current service disruptions seriously and continue to place bottom-line enhancing policies ahead of service-enhancing policies.

While U.S. agriculture has no doubt benefited from increased rail efficiency over time, we need the STB's oversight now more than ever to restore U.S. railroads to their commitments to shippers, rather than strictly to shareholders. The impacts of railroads' cuts to operational budgets are now reaching beyond just wheat shippers, but to the literal kitchen tables of American and global consumers.

Respectfully submitted,

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