



Checkoff Strives to Get Transportation of U.S. Soy Back on Track

Widening negative soybean basis, the difference between the local cash price of soybeans and the nearby futures price set by the Chicago Board of Trade (CBOT), proved to be as common early this spring as snow and cold weather in many parts of the U.S. Soybean Belt.

“Our soybean basis here in central Iowa typically has been around \$.40-\$.50/ bushel in mid-April,” said USB Director Roy Bardole, who farms with his wife and two sons near the central Iowa town of Rippey. “This year we’re seeing it at around \$.80-\$.90/bushel, and there are parts of the Dakotas and Nebraska where farmers see basis as high as \$1.25-\$1.50/ bushel,” he said. “That’s significant money that will never land in our pockets.”

Examining the ever-widening soybean basis in many parts of key U.S. soybean regions represents one important issue



Photo: Soy Transportation Coalition

USB’s Transportation Initiative also supports efforts to raise understanding of complex transportation issues among U.S. soybean farmers. Here, a group of Iowa farmers visited the locomotive shop of the Cedar Rapids & Iowa City Railway Company (CRANDIC) last November. CRANDIC is a short-line railroad in eastern Iowa.

under scrutiny as part of the United Soybean Board’s (USB) Transportation Initiative. The national soybean checkoff organization established the initiative in late 2006 after identifying transportation, which impacts basis, as a short-term emerging issue. USB has created special initiatives since 2002 to address rapidly developing opportunities that could help or challenges that could hinder profit opportunities for U.S. soybean farmers.

USB special initiatives typically last one to three years and have been deemed by the soybean farmers who serve on USB important enough to merit immediate, special attention by the soybean checkoff. Five USB Directors, appointed by the USB Chairman, make up the Transportation Initiative Leadership Team that is responsible for guiding the effort.

USB FARMER-DIRECTORS APPOINTED TO SERVE ON THE USB TRANSPORTATION INITIATIVE

Roy Bardole, Iowa, Team Lead

Richard Fordyce, Missouri

Larry Lewis, Illinois

Joe Meyer, Indiana

John Wray, Kansas

TRANSPORTATION'S LOCAL AND GLOBAL IMPACT

The most recent USB Producer Attitudes Survey, conducted in February, shows 42 percent of all soybean farmers travel less than 10 miles to deliver their soybeans to a point of sale. Thirty-three percent travel 10-25 miles, 14 percent travel 25-50 miles and 11 percent travel over 50 miles. For Bardole, who serves as Team Lead for the USB Transportation Initiative, transportation challenges really hit home this year when his county government tried to restrict vehicles from carrying or hauling anything in excess of 30,000 pounds on local gravel roads. That potentially could have caused his soybeans and other commodities to be landlocked on his farm. While transporting them to a local elevator, processor or other local customers represents an important route, what transpires beyond those points could prove to be just as or more important — and costly — to his and other soybean farmers' bottom line.

"As I looked around, everything we depend on to move our products, whether it is gravel roads, the main lines of railroads or the locks on some of our rivers, seemed to be aging and crumbling," said Bardole. "Yet these are the things we also depend on to move our crop."

In its fiscal year 2008 Action Plan, USB identified several transportation issues that merit attention. Why?

- U.S. Department of Agriculture (USDA) figures showed a \$1.00-\$2.00/bushel transportation impact on soybean prices, reducing U.S. soybean farmers' revenue and reducing

U.S. soy's competitiveness in domestic and international markets.

- USDA reports also show that in recent years, rail rates for shipping soybeans have risen faster than for corn or wheat.
- The U.S. Government Accountability Office (GAO) determined that the benefits of railroad deregulation nearly 30 years ago have been distributed unequally.
- GAO found rates for shipping such goods as coal by rail has decreased 35 percent since the mid-1980s, yet increased for grain and oilseeds.
- Transportation problems have grown due to such things as increased competition from non-agricultural goods, natural disasters and improvements needed to locks and dams on major rivers.

For one of Bardole's fellow farmer-leaders who also serves on the initiative's leadership team, a trip to the Far East opened his eyes to some of the transportation challenges facing U.S. soybean farmers and the rest of the soybean industry.

"When a buyer in Taiwan tells us they can get a shipload of soybeans from the Amazon region of Brazil cheaper than it can be shipped from the port of New Orleans, there's going to be an impact," said USB Director Joe Meyer, a soybean farmer from Williamsburg, Ind. "Most farmers don't think about what happens to their beans beyond the elevator," he said. "The reality is we export almost 50 percent of what we produce, and how we deliver it there really affects the local price we receive for our soybeans."

USB's Transportation Initiative, through its Competitiveness program, currently

partners with the American Soybean Association and a group of Qualified State Soybean Boards (QSSBs) in the Soy Transportation Coalition to focus on three primary areas:

- Coordinating research to explore specific U.S. soy transportation problems, possible options for resolving them and processes that could offer solutions.
- Funding the STC to work with QSSBs and other organizations on soy transportation problems.
- Raising knowledge and awareness of the importance of transportation among U.S. soybean farmers.

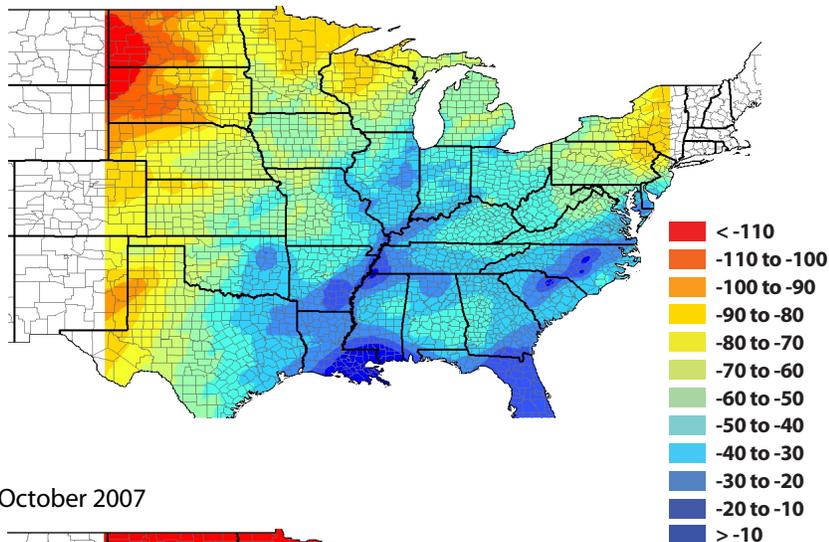
FIRST STEP EXAMINES SOY BASIS

At its most recent meeting, the farmers who serve on the initiative's Leadership Team reviewed results of a checkoff-funded study of transportation's impact on widening soybean basis. It found that rail shipping costs, service and capacity to transport U.S. soy prove to be the major reasons soy basis has widened in some parts of the United States. It concluded that those factors multiply costs, since most U.S. soy first has to be transported as whole soybeans, then as soybean meal and oil. The study, conducted by Market Solutions LLC, a Maryland-based firm, found that soybean basis has widened in recent years, resulting in many U.S. soybean farmers receiving a smaller share of the futures price of soybeans on the CBOT.

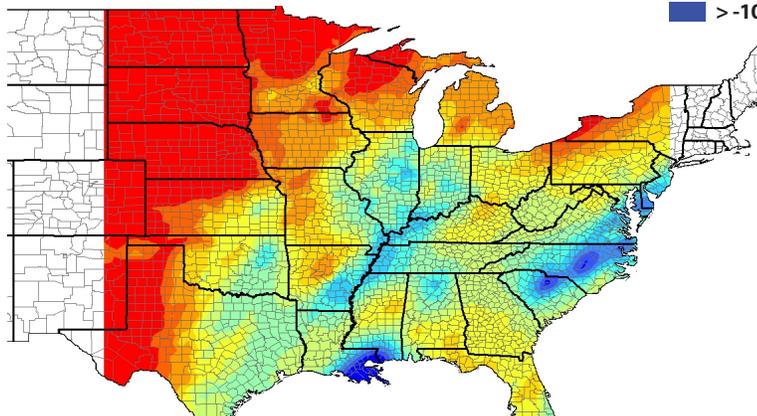
"Taking October 2007 as an example, widening basis costs U.S. soybean farmers selling at harvest \$12/acre on average," said Mark Newman, president of Market Solutions, and author of the study. "For one out of four farmers, the cost was \$16-\$26/acre last year."

BASIS LEVELS STRETCHED FURTHER DURING LAST YEAR'S HARVEST

October Five-Year Average (2002-2006)



October 2007



Note: Darker red indicates wider and more negative soybean price basis, with cash prices further below the nearby futures price. Dark blue indicates narrower basis with cash prices closer to or above futures. Source: Cash Grain Bids Inc./Market Solutions LLC

The study's findings suggest that transportation often accounts for 30 percent to 60 percent of soybean basis and that it won't narrow if and when soybean prices decline unless U.S. transportation challenges are addressed.

"It can cost more to ship soybeans from Des Moines to ports in the Pacific Northwest than it does to ship them from there to Southeast Asia," said Bardole.

"Every penny that is taken out because of freight you take out of farmers' pockets."

The study also found that rail rates to ship soy have increased more than rates for

other commodities. It also concluded that a lack of options to transport soy, and rail bottlenecks in getting it to shippers, also are factors in widening soybean basis. The result: a \$.25-\$.78/bushel impact on soybean basis for some U.S. soybean farmers not within close proximity to a processor, river or a coastal port.

TAPPING FARMER KNOWLEDGE, INTEREST AND EXPERIENCE

Transportation issues especially interest Joe Meyer, a USB Director and Transportation Initiative Leadership team member. In addition to farming,

Meyer worked 45 years for a company near his Indiana farm that manufactures railway track equipment.

"I was starved off the farm," said Meyer, who took charge of the family operation at age 16 after his father's death. "I needed to raise a family."

Juggling a dual career, Meyer said he acquired four patents along the way for rail devices that help prevent derailments. He retired from the railway equipment company in 2004 but still farms with his two sons in the east-central part of his state. He also serves as one of four farmer-directors from Indiana on USB.

"The average farmer can't discern what's happening," said Meyer, referencing rail and other transportation problems and their impact on soybean basis, which, in turn, impacts soybean farmer profitability. "We need to address this issue in a responsible way. The factors that affect shipping rates are complex."

In addition to examining soybean basis trends at a sample of country elevators, river and coastal export facilities, and soy processors, the checkoff-funded study also included a summary of elevator and processor interviews that documented the transportation challenges they face. The study found freight revenue to railroads has been rising faster for soybeans and other agricultural commodities than for other goods transported by rail such as coal.

"Rail rates have been increasing at the same time that soybean basis has been widening," said Newman. "Soybean farmers have a special interest in being concerned because rates have risen faster

for soybeans than for other grain shippers and for shippers in general.”

The six major transportation challenges identified by Market Solutions LLC’s interviews with elevators, processors and other customers of U.S. soy include:

1. Overall rail rate levels and increases
2. Rail fuel surcharges and other increases in associated costs
3. Overall poor rail service
4. Short-line railroad bottlenecks and switching costs to other lines
5. Loss of rail service or no competitive service
6. Costs of expanding facilities to handle larger units of trains.

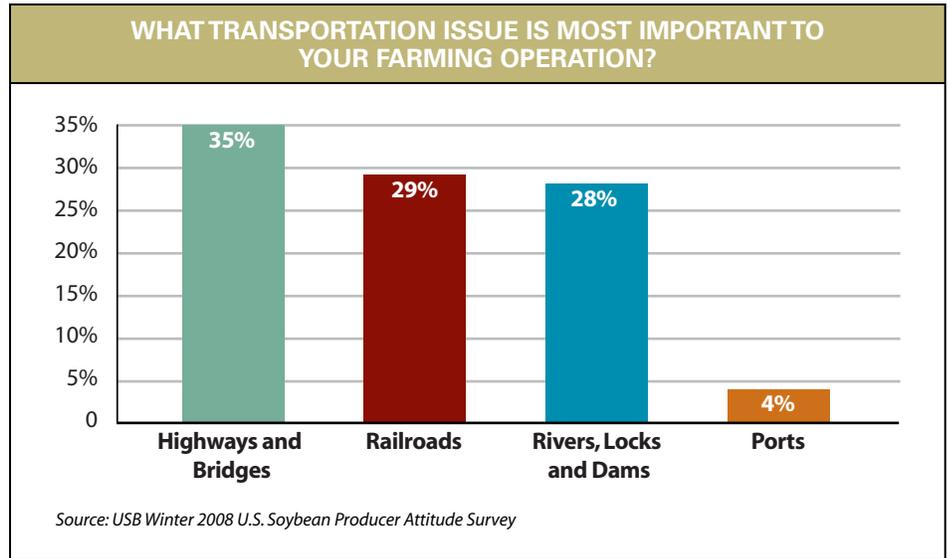
TAKING COLLECTIVE ACTION

Along with USB, seven QSSBs have pooled resources to collectively examine some of the major transportation issues impacting U.S. soybean farmers (see chart on this page).

SOYBEAN CHECKOFF ORGANIZATIONS TAKING PART IN THE SOY TRANSPORTATION COALITION



Qualified State Soybean Boards (QSSBs)
Illinois
Indiana
Iowa
Nebraska
North Dakota
Ohio
South Dakota
United Soybean Board (USB)
USB Transportation Initiative



“There are areas where we can shed some light and explore and promote solutions, whether they be for rail, road or river transportation issues,” said Mike Steenhoek, executive director of the STC. “We’ll see improvements as a result.”

In addition to helping coordinate the soybean basis study, the short-term agenda for the STC includes such things as analyzing further the impact of rail fuel surcharges, exploring ways to improve the process of shipping U.S. soybeans in empty containers returning to countries of origin, and examining new methods to load and unload soybean meal more efficiently from railcars. All USB Transportation Initiative farmer-leaders serve as members of the STC board, along with soybean farmers representing seven QSSBs and the American Soybean Association.

NEXT STEPS

Bardole said the initial study conducted with soybean checkoff dollars will be followed up by additional research funded by USB on widening basis and other soy transportation issues.

“We need to fully grasp how much we’re losing as a result of basis and the impact this is having on our local communities,” said Bardole. “Some shippers have shown a reluctance to challenge these issues, but we’re seeing that change.”

The initial checkoff-funded basis study recommended digging more deeply into rail rate data to better understand how different shippers are being affected and setting priorities for action. The initial study noted that while soybean prices are currently relatively high, many farmers may not notice the money they are losing to increased soybean basis, caused in part by an inability to get U.S. soy where it needs to be for a reasonable cost and within a reasonable amount of time.

This report was compiled with contributions from each program area and/or primary contractor.

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