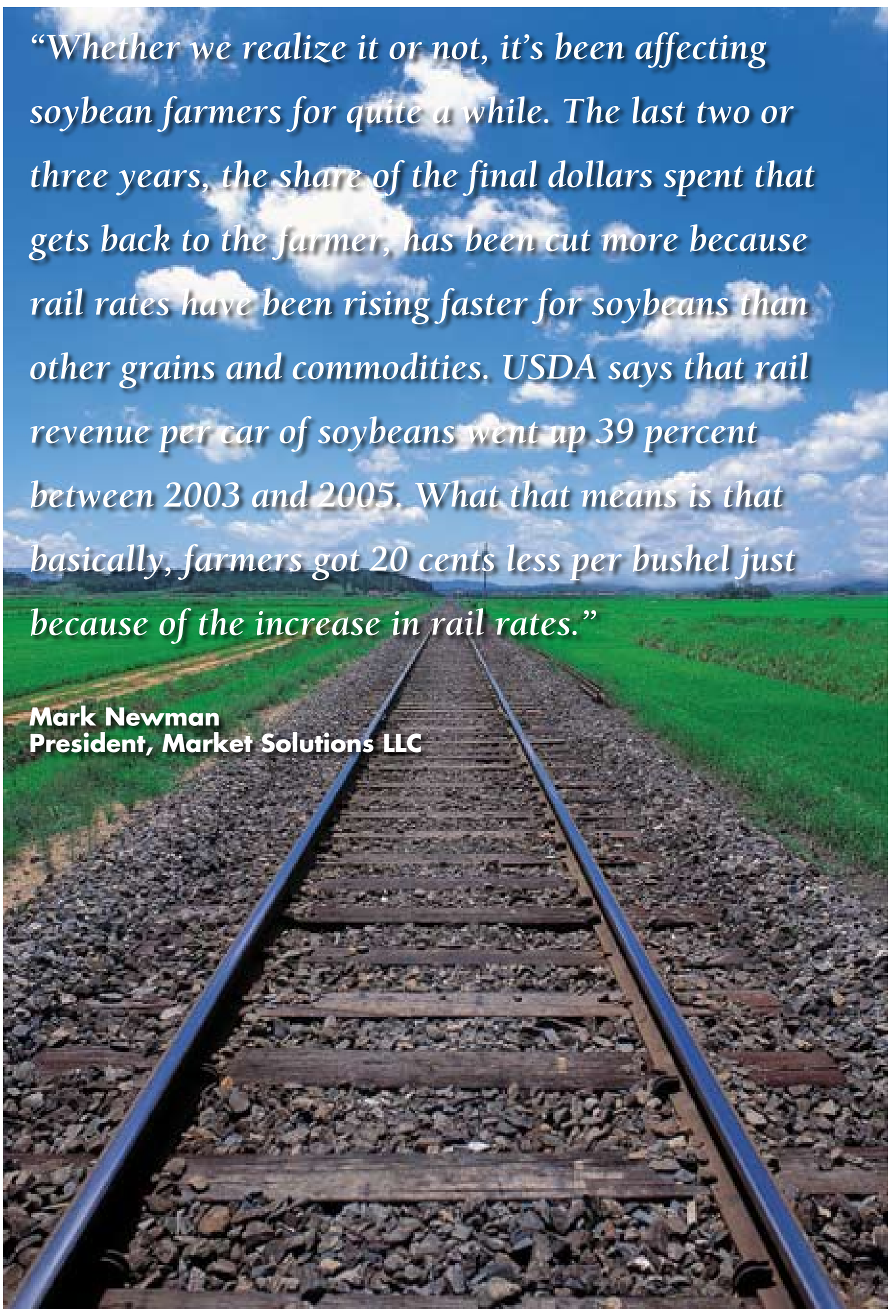
Railroad Woes

Exports Facing Challenges, Pinching Farmers' Pocketbooks

by Kelly Mescher



Trains are hauling soybeans and soybean meal across the great states, bringing goods to western seaboard ports for export.

But farmers are being shortchanged along the way. Grant Kimberley, director of market development for the Iowa Soybean Association (ISA), says it's because of the high freight costs of our U.S. railroad system.

"Agriculture doesn't seem to be as attractive to the railroad as other businesses, because it's inconsistent," Kimberley says. "You have busy times and you have slow times. That's a problem for U.S. agriculture. But if we want to compete internationally, we're going to have to make efforts. If you can't afford to get your product from the point of origin to an export terminal, we have problems. If it's so expensive that it makes you uncompetitive on a global level, then we're not going to compete as well."

It's a problem – especially when foreign competitors are moving forward and evolving their infrastructures – while we seem to be moving backwards, Kimberley adds.

"Brazil and Argentina are upgrading," Kimberley continues. "We tend to be consolidating and tearing railroad tracks out, and that translates into less money for farmers. In the end, the farmer pays for it when you translate the differences between futures and cash prices. This will also effect the growth of the biodiesel and ethanol industry as rail becomes a primary means to transport these biofuels across the country."

So what can be done? How can farmers become more competitive

in terms of exports and earning more money?

"The first thing is that we need to understand it better," Kimberley continues. "As producers, we have to pay more attention to the situation. Once we sell our product, we forget about everything else down the road. We don't really notice that it affects our bottom line. Farmers are not getting paid as well as they could be. The local cash price could have possibly been better."

As a result, the Soybean Transportation Coalition was formed to better understand the situation.

Mark Newman, president of Market Solutions LLC, a leading agribusiness consulting firm, says it is a complex situation.

"The economy is growing, and agricultural production is growing and exports are growing," Newman says. "The U.S. is also importing, not just ag commodities, but many things we use and buy at Wal-Mart and on main street. This is raising demand for rail transportation, so there is no excess capacity left and railroads are raising rates.

"In general, we're becoming a more globally-oriented country," Newman continues. "Second to water, rail is the most cost-effective way to move things. So, if people can move things by rail – they do. Rail demands are increasing. While taxpayers pay for our roads, and locks, and dams and ports, with railroads we've expected the stockholders to pay for it."

It's a competitive market, Newman adds. The grain elevator or crusher takes their share of the pie, and the board price farmers get for their crops reflect that customers pay less transportation and handling costs. Even though the farmer is not directly involved with paying the transportation costs, ultimately, he or she is the one who pays the bill.

"Iowa is expected to crush 404 million bushels out of a 503 million bushel crop," Newman says. "Then it will produce 9.6 million tons of soybean meal. It needs to get 51 million bushels of soybeans and 7.6 million tons of soybean meal to customers in other states or international markets. Illinois is expected to ship 181 million bushels of soybeans and 5.96 million tons of soybean meal to destinations outside the state."

The railroads have gone through regulatory changes over the years, which impacts everyone importing and exporting goods.

"When the railroads were deregulated, the idea was that the oversight board was supposed to look at both profitability of the railroads and service to shippers," Newman says. "When the Staggers Act was passed, the railroads were in terrible financial shape. The regulators have focused on trying to make sure the railroads are profitable. Now that excess capacity is all gone – there's a need for more balance between protecting the financial benefits of the railroad and ensuring competitive services to shippers."

The stakes are high for exporters, indeed. If changes are not made, it will continue to negatively affect not only farmers' income, but global competition as well.

"If we don't address rail transportation, I think we'll be less competitive," Newman concludes. "We have a stake in working with the railroads and the regulators so that everybody comes up with a solution that makes them better off. There is a need to address rail rates, service and infrastructure capacity, both to meet the needs of farmer profitability in the short term and keep farmers competitive for the long term."

Negative Affects on Foreign Customers

The costs of exporting our goods to West Coast ports is affecting our relationships with foreign buyers, says Grant Kimberley, director of market development at the Iowa Soybean Association.

"We were on a trade mission in the Philippines with some buyers – importers of soybean meal," Kimberley says. "We were trying to negotiate deals, and we were priced out of the market as much as the domestic transportation costs have increased over the years. Brazil was cheaper than us. The difference was really our ability to get the product to them. From the farmer to the processor to the actual export terminal – that's where the big difference is."

These extra costs have put Brazil and Argentina a step above the United States in terms of competition.

"The rate to shop a vessel from the United States or from South America is the same," Kimberley continues. "The difference was our costs and our ability to move our products within the U.S. to our export facilities. We need to find an equitable way to challenge rate complaints right now. There is no good structure in place."

Mark Newman, president of Market Solutions LLC, agrees.

"We did a number of studies with the U.S. Soybean Export Council, talking to customers internationally," Newman says. "They told us directly that when our domestic transportation costs to get to a port are high, it means they buy from South America earlier in the year, and so we're less competitive. We lose customers and farmers get less money for their soybeans."

For comments or questions, please e-mail kmescher@iasoybeans.com.