

BEFORE THE  
SURFACE TRANSPORTATION BOARD

---



STB EX PARTE NO. 573  
RAIL SERVICE IN THE WESTERN UNITED STATES

---

REMARKS DURING OPEN HEARING  
BY THE  
ASSISTANT SECRETARY OF AGRICULTURE  
FOR MARKETING AND REGULATORY PROGRAMS

---

Michael V. Dunn  
Assistant Secretary  
Marketing and Regulatory Programs  
U.S. Department of Agriculture  
Washington, D.C. 20250

Due: December 1, 1997

### Authority and Interest

Thank you for the opportunity to participate in this forum examining rail service problems in the Western part of the United States. We intend to report on the status of railroad service to agricultural shippers in the Western United States, with specific emphasis on analysis of data collected thus far under the emergency service order requirement and additional data developed by the USDA which quantify the nature of the railroad service problems currently being experienced by agricultural shippers. We also have some specific suggestions as to future STB involvement with regard to the current railroad operating problems in the Western United States. The USDA has held listening sessions on post-merger railroad service to agricultural shippers in Marshall, Minnesota; Minot, North Dakota; Fargo, North Dakota; and Great Falls, Montana over the past several weeks which have provided us with direct shipper input on the current Western railroad operating problems.

I am presenting my remarks on behalf of the Secretary of Agriculture. The Secretary is charged with the responsibility under the Agricultural Adjustment Act of 1938 and the Agricultural Marketing Act of 1946 to represent the interests of agricultural shippers and producers in improving transportation services and facilities by, among other things, initiating and participating in Surface Transportation Board (STB) proceedings involving rates, charges, tariffs, practices, and services.

USDA filed comments in the first set of public hearings that STB held in this proceeding on October 23, 1997. Secretary Glickman supported emergency action which the STB subsequently took to relieve congestion in the South Texas area. USDA was also gratified that the

STB accepted our recommendation to require that the Union Pacific/Southern Pacific (UP/SP) submit data that would indicate whether service to agricultural shippers is actually improving.

### USDA's Experience as a Shipper

Over the past several months USDA has closely monitored the Western railroad service crisis. We were hoping to see the measurable progress that UP/SP promised would occur before the Thanksgiving Holiday. Unfortunately, our analysis of data submitted to the STB by the UP/SP, our daily contacts with agricultural shippers, input received in our five listening sessions held with agricultural shippers, and our experience as an actual shipper suggest that there has been little, if any, recent improvement in Western railroad service to agricultural shippers.

The Western railroad service crisis directly affects USDA. We must procure food products for several domestic and foreign food programs. USDA is also a shipper under these programs. Accordingly, USDA views of the Western railroad service crisis are offered in this proceeding not only as representative of the interests of agricultural shippers, but also pursuant to our role in procuring and shipping substantial volumes of food products for supply to domestic and foreign food programs.

USDA must purchase and deliver a variety of foods to domestic food assistance programs. These include the National School Lunch Program; the Women, Infant, and Children Special Feeding Program (WIC); the Food Distribution Program for Indian Reservations (FDPIR); and the Commodity Supplemental Feeding Program (CSFP). We also provide assistance to other needy persons and organizations in the U.S. USDA must also purchase and deliver commodities to foreign countries under the Food for Peace Program (Title II and III), Food for Progress

Program, Section 416 donations, and World Food Program. USDA uses rail transportation to move food products under all of these domestic and foreign feeding programs both to domestic destinations and to ports for subsequent export. USDA also ships dairy products purchased under our milk price support programs. USDA made total payments for food procurement, freight, storage and handling under these programs of \$1.55 billion during fiscal year FY97.

In administering these programs, it is USDA's experience that there has been little, if any, improvement in Western railroad service to agricultural shippers. In addition, the current rail service problems have forced many shippers to scramble to use highways as an alternative to rail. As a result, trucks are in short supply in the Western United States. This is interrupting shipments of raw materials to USDA shippers, and is resulting in delays of food shipments to USDA domestic food distribution programs. We have also had problems on overseas shipments; some shipments have not reached port in time to be lifted onto a vessel which has resulted in dead freight charges.<sup>1</sup>

#### USDA's Analysis of Service Recovery in the West

The STB, and in turn the UP/SP, have been responsive to USDA's request for additional information. We have carefully analyzed UP/SP's weekly service reports. While we believe that there has been "improvement" in some measures of UP/SP's operations, these have yet to be translated into actual service improvements. For example, the grain car loading and velocity time

---

<sup>1</sup>By dead freight charges, we mean the freight space on a liner vessel which is paid for but which cannot be utilized because of a lack of commodity to be shipped.

information reported to STB, per our request, give no clear indication of improvements in service to grain shippers.

The data reported by UP/SP as loadings in grain cars appears to include not only whole grains and oilseeds, but also grain and oilseed related products. This makes it difficult to compare the UP/SP data with the weekly carloading data from the Association of American Railroads (AAR). In the AAR's data, the only other publicly available source of carloading data, carloads of whole grains and oilseeds are reported in one category, while grain and oilseed related products fall into another.

Furthermore, analysis of the AAR data suggests that the January, 1997, benchmark provided by UP/SP in their weekly service reports may not be the most appropriate benchmark against which to judge the current level of service to UP/SP grain shippers. The weekly data reported by AAR indicate that average weekly loadings of grains and oilseeds during January, 1997, were 8 percent below the weekly averages for the entire first quarter of 1997. They were also 14 percent below the average weekly loadings for the first quarter of 1996. Even using what appears to be a somewhat "low" January, 1997, baseline, average weekly grain car loadings are off 20 percent in the 11 states for which UP/SP is reporting data. Moreover, on a combined basis, average loadings in the last three weeks ending November 21, are down 4 percent from the level that prevailed in the four weeks ending October 31.

Nor has there been any substantial improvement in car velocity times in the key grain corridors. UP/SP reports that the recent average weekly velocity times for Nebraska to the Pacific Northwest (PNW) and Kansas to the Texas Gulf are substantially longer than the January baseline numbers. When comparing the average velocity of the 5 weeks ending October 17, with

the 5 weeks ending November 21, the Kansas-to-Gulf time has improved from 15.8 to 13.8 days. However, the Nebraska-to-PNW velocity time has slowed from 13.1 to 14.6 days.

If anything, agricultural shippers seem to be disproportionately affected by UP/SP's service problems. For example, weekly carloading data from the Association of American Railroads (AAR) show that for the month ending November 15, 1997, intermodal traffic on the Western railroads was up, while shipments of grain declined 26 percent. AAR's figures show that UP's grain shipments were down 38 percent, while all other carload traffic was down 16 percent. And this is during the peak harvest season! Nor are we entirely satisfied with the level of service provided by UP/SP's principal competitor, the Burlington Northern Santa Fe Railroad (BNSF). As BNSF picks up much of the intermodal traffic formerly handled by UP/SP, its grain shipments have fallen substantially. BNSF's intermodal traffic is up 16 percent over the last month, while its grain movements have declined by 17 percent. It would seem that both major Western railroads are letting agricultural shippers bear the brunt of the service recovery in the West.

While agriculture shippers have not benefitted from any improvement in service by UP/SP, it is true, as we mentioned before, that some operational measures have improved. We are pleased, for example, that the number of sidings blocked and the number of trains held has declined. However, these improvements seem highly tenuous. At the current rate of progress it may take months for service to return to acceptable levels and this is simply intolerable. Nearly 100 million bushels of newly harvested grain lie on the ground, exposed to the elements, awaiting transportation to domestic and export markets. At the same time, our poultry, hog, and beef producers face increasing difficulties finding sources of feed for their animals.

### Status of Grain Storage

There has been a great deal of attention placed on the problems of grain storage, and rightly so. Quite simply, there is a substantial amount of grain on the ground that should have been hauled to market long ago. By UP/SP's own admission, there are more than 12,000 unfilled car orders from grain customers asking for more equipment to move newly harvested crops. Doubtless the unsatisfied demand is even higher; some shippers have turned instead to more expensive modes of transportation.

USDA challenges UP/SP's assertion in its November 14, 1997, submission to the STB that: "Ground storage is a viable long-term storage option if the ground piles are properly prepared." This is only partially true. In fact, USDA categorizes non-permanent storage as either *temporary* or *emergency* storage. Temporary storage is a viable long-term storage option and USDA's Farm Service Agency (FSA) approves requests for temporary storage on a case-by-case basis. Temporary storage facilities must meet the following requirements: (1) An asphalt or concrete floor, (2) rigid self-supporting sidewalls, (3) proper aeration, and (4) appropriate cover. UP/SP's statement on the viability of long-term storage can refer only to temporary storage.

It is the problem of *emergency* storage, not temporary storage, that concerns USDA. Emergency storage is not a viable long-term storage option, it is strictly, as the name implies, an "emergency" measure. Once ground-stored grain gets wet, the temperatures need to stay consistently cold to prevent fermentation. Most of the grain which is piled in Nebraska and Kansas has gotten wet from either rain or wet snow and, in addition, the fall and winter temperatures in those states fluctuate widely from day to day. The temperatures in Nebraska were in the 60 degree range on November 24-25, 1997, and temperatures were expected to be in the 50s

through the Thanksgiving Weekend. As a result, large quantities of corn in emergency storage (i.e., lacking aeration and possibly cover) are beginning to respire; the resulting heat and odor are adding to the storage problems.

As of November 26, FSA reports that federally-licensed warehousemen have requested permits for emergency storage totaling 93,681,000 bushels of grain, 92 percent of which is located in states served by the UP/SP. Had the UP/SP simply moved as many carloads from mid-October to mid-November as they had in 1996 (and demand for this level of activity did exist) an additional 64 million bushels of grain would have been moved. BNSF's shortfall accounted for another 30 million bushels of grain that should have been moved. Thus, the storage problem that exists is almost entirely related to the inability of the Western roads to provide an adequate level of service to agricultural producers. If anything, the emergency storage requests reported by FSA understate the true extent of the problem. These requests are from elevators requiring additional storage, but subject to Commodity Credit Corporation Agreement requirements. The total amount of grain stored on the ground is doubtless higher than the emergency storage requests indicate because those figures do not include all State-inspected warehouses. Naturally, with grain piled on the ground at many country elevators, local cash prices for farmers have fallen substantially. It is estimated that the handling charges alone for out-of-condition, ground-stored grain are as much as 6-18¢ a bushel.<sup>2</sup> In most instances, these costs come right out of the prices that farmers receive for their grain.

---

<sup>2</sup>Based upon survey of Nebraska Grain and Feed Association.



## USDA Proposals Regarding Western Rail Service

In our October 23, 1997 statement, USDA expressed its desire that rural agricultural shipments not be forced to bear the brunt of the service recovery on the UP/SP. As there has been no measurable improvement in service to agricultural shippers, we offer the following recommendations for STB consideration in addressing the current Western rail service crisis:

- The STB should extend for another 30 days the current, directed service order granting the Tex-Mex Railway access into Houston. USDA believes the order has eased some of the congestion problems in that region.
- The STB should consider granting access from Kansas City, MO through Herrington, KS to Scott City, KS and also to Salina, KS to a railroad capable of interchanging with the grain-gathering network of shortline railroads in Kansas.
- STB should ensure that any railroad that holds trackage rights on the UP/SP should also have the right to accept interchange traffic from third parties. So long as the current service crisis continues, there seems little sense in perpetuating artificial barriers to the flow of traffic.
- We have received reports that stranded UP/SP grain trains are clogging facilities where BNSF also has access. The STB should direct that all trains located at loading facilities served by two or more railroads should be moved immediately, enabling other carriers to provide service.
- Many agricultural shippers are located along UP/SP branch lines. USDA requests that STB direct service along these branch lines whenever shippers have identified

rail service providers who are able to serve them and need not traffic along UP/SP mainlines in order to do so.

- The data on grain-car loading by state that UP/SP provides in its Weekly Status Report should include similar information for the two previous years. Given the seasonality of grain movements, January, 1997, figures do not provide an adequate basis for comparison.
- BNSF should be required to provide comparable weekly data on its movement of grain to that currently required of the UP/SP. BNSF has increased its intermodal traffic significantly in the current service crisis, but in so doing it has downgraded its service to agricultural shippers.

#### Conclusion

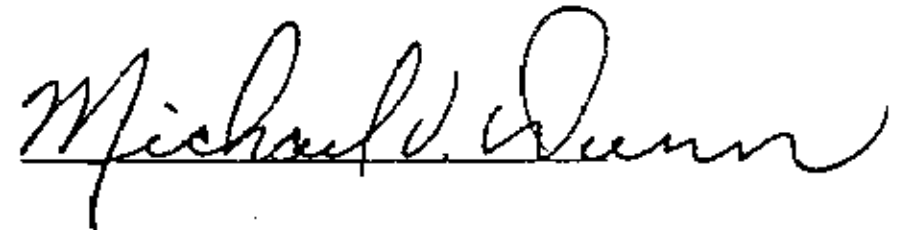
Rail service is critical to the economic well-being of this Nation's agricultural and rural economy. Our Western agricultural shippers generally have limited access to alternative providers of transportation services because they are located beyond effective trucking distances from their markets and far from available waterway transportation. In many instances, railroad service is the only viable transportation alternative for agricultural producers to market their products.

In recent months, farmers, shippers, and even shortline railroads, have deluged us with complaints about UP/SP's service problems and practices. The need for an efficient, responsive railroad industry has never been greater. Recent legislation has reduced the importance of traditional farm support programs and increased reliance on marketing opportunities in the determination of farm income, but in order to access those markets our agricultural sector needs a well-developed rail industry. By hindering their ability to access domestic and foreign markets,

well-developed rail industry. By hindering their ability to access domestic and foreign markets, the current service problems in the West are harming America's agricultural producers.

USDA wishes that our participation in today's hearing was unnecessary and that all shippers were beginning to see improvement in the quality of service provided by the UP/SP. Unfortunately, the progress promised by UP/SP has not yet materialized. Service to agricultural producers is still inadequate by any standard. USDA urges the STB, therefore, to more aggressively exercise the emergency powers Congress has conferred upon you, and to rectify the Nation's rail service crisis as quickly as possible.

Respectfully submitted,



Michael V. Dunn  
Assistant Secretary

Marketing and Regulatory Programs

U.S. Department of Agriculture  
Washington, D.C. 20250

CERTIFICATE OF SERVICE

I, Keith A. Klindworth, certify that on this 1st day of December, 1997, I caused a copy of the foregoing document to be served by first-class mail, postage prepaid, on all parties of record in STB Ex Parte No. 573, including counsel for UP/SP and counsel for BNSF



Keith A. Klindworth  
Program Manager  
Marketing and Transportation Analysis  
Agricultural Marketing Service  
U.S. Department of Agriculture