Testimony of
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National Association of Wheat Growers
On Behalf of
National Association of Wheat Growers Association
National Barley Growers Association
USA Dry Pea & Lentil Council
and Elenbaas Company
Before the
Senate Committee on Commerce, Science and Transportation
Subcommittee on Surface Transportation and Merchant Marine
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Mr. Chairman and Members of the Committee, my name is Dale Schuler. I am a wheat farmer from Montana and am currently serving as president of the National Association of Wheat Growers. I am honored to be here representing the National Association of Wheat Growers (NAWG) and testifying on behalf of NAWG, the National Barley Growers Association (NBGA), the USA Dry Pea & Lentil Council (USDP&LC) and Elenbaas Company.

One of agriculture's top priorities continues to be working with Congress to find solutions to the problems caused by the massive concentration of the railroad industry, and specifically finding relief for our members who are captive shippers. I am very pleased to be here today to participate in this hearing on capacity, economics and service.

The agriculture industry believes that a viable railroad industry is necessary for its continued success. Since the passage of the Staggers Rail Act of 1980, however, the degree of captivity in many agriculture regions and industry areas has increased dramatically, and America's farmers continue to experience both unreliable service and higher rates. We have had, more-or-less, continuing rail equipment shortages since the railroads started aggressively consolidating and merging in the early 1990s.

Twenty years ago, there were multiple transcontinental railroads servicing the farming regions of the country. Today, however, whole states, whole regions and now whole industries have become completely captive to single railroads as a result of many railroad mergers. In the wheat industry alone there are substantial pockets of captivity in Texas, Oklahoma, Arizona, Colorado, Kansas, Nebraska, Wyoming, Idaho, South Dakota, Minnesota, North Dakota, Washington and Montana. These states make up the majority of the wheat, barley and pulse crop producing land in this country. As ethanol production continues to increase, corn producers are seeing continuing service and capacity problems with rail movements of dried distillers' grains and ethanol. The barley, dry peas, lentils and chickpea industries continue to see the railroad industry's efforts to minimize less than trainload shipments. In Idaho, pulse crop and barley marketers continue to see greater equipment shortages at less-than-shuttle loading facilities even when they are adjacent to shuttle loading facilities.

Farm producers know that increasing the breadth of crop production on farms can lead to greater efficiency and higher income, but this nation's railroad industry does not have the same goal; instead, it views efficient movement as moving larger and larger movements of a single grade crop from a single origin to a single destination. Rail investment in grain movement has been shifted to the grain merchandiser and farm producers while the service level for less-than-trainload movements continues to deteriorate. We see value added agriculture having to invest in rail rolling stock to ensure adequate equipment supply, yet when railroad service levels do not meet railroad supplied schedules, agriculture is being called upon to continually increasing investment in railroad rolling stock.

Because of these pockets of captivity, the cost of transporting grain can represent as much as 1/3 of the overall price a producer receives for his or her grain. This cost comes directly from a producer's bottom line. Producers, unlike other businesses, cannot pass their costs on; as price takers and not price makers, producers bear all transportation costs both to and from the farm and from the elevator to the processor or export terminal.

The effect of this rail captivity is that rail rates in the Northern plains have increased 40% faster than the Rail Cost Adjustment Factor including productivity unadjusted. Where I farm, rail rates as a percentage of the price of wheat have risen from 16% in 1980 to more than 30% today.

Rail rates in Montana and North Dakota are between 250-450% of variable cost - far above the Surface Transportation Board's "rate of unreasonableness," which is currently 180%. These are among the highest freight rates in the nation though agriculture rail rates in excess of 250% more than variable cost can be found in virtually all of the states that have captivity issues. Throughout the Corn Belt and pulse crop areas, rail rates have hit all time highs as the service continues to be sub par.

In addition to the high cost of rates, rail service has continued to deteriorate. Captive shippers continue to suffer car and service disruption. Shippers that order rail cars well in advance are still experiencing delays of three to four weeks after promised delivery dates. This can and does cause major problems during and after harvest.

The high rates and lack of service I have just described continue to be especially frustrating for producers in my region who need only look across the Northern border to see a much more effective system. Canadian freight rates on wheat westbound - right across the border - are only 2/3 of the rail rates we pay in Montana. We grow some the highest quality wheat in world, yet we are rendered residual suppliers against our Canadian counterparts and find ourselves at a significant competitive disadvantage in both domestic and foreign markets because of these shipping issues.

Agricultural producers all over the country, however, are concerned that there is currently no regulatory body to address our frustrations and complaints. The Surface Transportation Board does not balance the needs of shippers and the railroads. The STB has, in the opinion of those I represent here today, abandoned its lawfully designated role as a regulator of railroads.

The STB continues to allow the railroads to set rates and service practices for captive shippers that force them to subsidize all other rail shippers. In the 2004 car shortage on the Burlington Northern Santa Fe, by BNSF own numbers, more than 70% of all its past due cars were in North Dakota, Minnesota, South Dakota and Montana, which accounts for less than a quarter of the BNSF system. The STB, after repeated complaints from grain shippers in Montana and North Dakota, sided with BNSF, allowing them to continue to single out the areas of their system that are the most captive.

NAWG members believe that a healthy and competitive rail road industry is essential for our continued viability, however, poor service, a lack of available cars, increased rail rates and a regulatory agency that does not meet the needs of shippers are making it difficult for agriculture producers to remain competitive in a world marketplace.

We believe that the government needs to be the facilitator and the catalyst for increasing competition in this historically strong, 100-year-old industry. We believe the railroad industry can survive and prosper in a competitive environment and, indeed, we know from history that competition breeds innovation and efficiency. In light of the horrific situation U.S. grain producers are facing with major railroads unable to meet common carrier obligations all over the nation, it is time that public policy in this area needs to be reexamined.

Agricultural producers believe that both rail roads and shippers would be better off with more competition in the marketplace and many of them, including those organizations I am representing today, support provisions in S. 919 which calls for increasing competition without increasing regulation.

If enacted into law, we believe this legislation will improve rail transportation by providing fairness and openness in the negotiations between railroads and their customers over rates and service. By simply requiring railroads to provide rates to their customers between any two points on their system, many additional rail customers will gain access to rail transportation competition. In addition, providing for “final offer” arbitration and the removal of “paper barriers” will restore balance to the commercial relationship between the railroads and their customers.

I would like to thank you again for this opportunity. I am ready to answer any questions you may have.