

UNION PACIFIC RAILROAD COMPANY

JOSEPH J. ADAMS JR.
ASSISTANT VICE PRESIDENT
LAW

1416 DODGE STREET
OMAHA, NEBRASKA 68179



March 10, 1998

NATIONAL GRAIN CAR COUNCIL MEMBERS:

Attached are the minutes of our February 5th meeting. Our next meeting is scheduled for July 15th in Minneapolis. Details as to starting time and place will be forthcoming.

Very truly yours,



Att.

NATIONAL GRAIN CAR COUNCIL

MEETING MINUTES

February 5, 1998

Opening Remarks

Vice Chairman Owen opened the meeting by reviewing the mission of the National Grain Car Council. Key points raised by Vice Chairman Owen were: The Council serves as a sounding board and is to address concerns from not only grain shippers, but car owners, shortline and large railroads. In airing problems and coming to solutions, members need to be forthright and honest with each other. Too often everything seems fine at Council sessions and then Congress receives complaints about the lack of cars or inefficiency. This Council was set up to raise issues and resolve them where possible, or at least adopt some form of policy guideline as to how industry might respond to a concern. America has the best educated farmers in the world, some of the most sophisticated technology and the best railroad system. Surely we can make progress. The last thing any of us need is for Congress to start legislating how businessmen and women are going to conduct their business.

Charter and Function of Council

Drew Collier noted there have been some questions about the charter and the function of the Council. Copies of the charter were distributed. Issues can be addressed through committees. There are no formal voting procedures. The chairmanship rotates. Members serve for a term of two years and may serve more than one term. Should a member no longer be in business, the replacement procedure is for nominees to be submitted to the Chairman of the STB and she approves them as such.

Funding issues will be discussed with the rotation of the chairmanship to occur at the end of the year. Drew will submit proposed Council by-laws at the next meeting. He will consult Kevin Kaufman to see if the procedures followed by the Shipper Advisory Committee can serve as a model.

Carrier Reports

CP Rail - Pete McNamee reported that spring wheat market is very soft. The spring wheat harvest was terribly weak and there was not a big peak with which to deal. CP kept reasonably current on cars throughout the harvest. They had no grain on the ground. CP made minimal payments on guaranteed freight instruments and,

throughout the period, general tariff cars were available. Looking forward, CP doesn't see anything in the market that is going to break open a lot of business in the near term so they don't anticipate car problems.

BNSF - Stevan Bobb was welcomed by the Council. Business is relatively soft with a lot of weakness in the export market. BNSF is getting ready to put cars in storage.

KCS - Dave Bastress commented that KCS's last quarter was one of the strongest in history. Grain loadings in 4th quarter were 8-1/2% better than 4th quarter 1996 and KCS was 15% better year-over-year. The 4th quarter was about 10% better than the 3rd quarter. Loadings were very strong because of a consistent domestic market and improved turn times. Looking forward to 1998, January was very strong. Dave stated that KCS's fleet is now at about 3,000 cars, up a little bit over last year. Cycle times are improving - from 1.2 trips a month to 1.4. Currently there are no KCS cars in storage. KCS is not behind on any car orders at this point. The domestic market looks fairly decent for 1998.

UP - Drew Collier reported that UP grain loadings were down for the year about 14% versus 1996. Every quarter in 1997 was down versus the previous year; the fourth quarter being the worst, down almost 28%. UP kept up with demand for cars through the first half of 1997 and by summer was storing almost 9,000 cars. 1997 was the second year in a row where UP stored a significant number of cars during the summer as demand fell considerably shorter than predicted. Looking ahead to 1998, UP expects the year to be up with the largest growth in the 4th quarter. The 1st quarter of 1998 will be down from 1997 due to lag in export demand. UP continues to operate about 32,000 cars in its grain fleet, is currently caught up on all car orders and has opened up general distribution.

Illinois Central - Grain was very soft in 1997 and 1998 doesn't look any better. Hunter Harrison stated that IC has 1,200 cars right now, with 30% in storage. Hunter stated it was a disappointing situation. The inability to match supply and demand ruins efficiencies. One bright spot has been the use of dedicated grain cycle trains that get 5-1/2 to 6 trips per month on 800-mile hauls.

Kyle Railroad - Rick Cecil stated that 1997 looked to be a pretty good year. July was one of the best in history and then August was probably the worst. Kyle Railroad is looking at 1998 to be soft. Kyle's fleet is about 800 cars and they still have a lot of grain (wheat and milo) on the ground.

Iowa Interstate Railroad - Fred Yocum stated 1997 was a very weak year and 1998 has not started out well either. Utilization has slowed down. At the peak last year, his railroad was running 7-2/3 trips a month from Iowa to Central Illinois and back.

Norfolk Southern - Debbie Butler stated that 4th quarter grain business was up. For the year 1997, business was weak compared to 1996. NS is looking at a stronger 1998 because of exports. During the peak periods, they utilized about 5,500 grain cars and 92 50-car and 100-car unit trains. NS averaged between 1.3 and 1.5 trips per month. Debbie sees car supply looking good for 1998. Right now NS has begun to supplement its fertilizer pool to get ready for spring planting season. They currently have about 100 surplus jumbo covered hoppers.

CSX - Cliff Arfman observed there was a significantly larger crop in the eastern corn belt in the past two years. CSX handled 15% more grain carloads in the 4th quarter 1997 versus prior years and had a very strong January 1998. CSX has a fleet size of 11,300 and supplemented peak demand with 1,800 cars through lease and pooling agreements. They ranged in the 75-80% area as far as order fulfillments. Right now CSX is using 30% of its fleet in fertilizer service and 70% is grain. CSX is averaging about 23 to 24 days per trip. Cliff anticipates a strong year and foresees high interest in CSX guarantee program in upcoming months.

Shipper Reports

AgProcessing - Mike Knobbe observed that grain forecasting is difficult at best. All indications of demand in the market are weak. There are 980 million bushels of corn under loan and farmers are not willing to let loose of it. Demand for transportation is going to pick up as the harvest comes in and storage space will remain at a premium.

Harvest States - Dennis Wendland stated exports this year are still supposed to be what they were last year, about 4 billion bushels when you look at all grains. That's down about 10% from two and three years ago. Domestic use of corn, about 7.6 billion bushels of use this year is up about 7% from last year. Soybean exports are up about 10% over last year. We're almost exporting a billion bushel of soybeans this year. A lot more grain is going down the river to the Gulf and being exported. Spring wheat production is down about 20% from last year. A year ago we had about 630 million bushels of production. We show only about 500 when you look at this year's spring wheat crop. Winter wheat was the opposite and grew about 40% over the year before. Spring wheat quality in Dakotas and Minnesota is poor as were yields. We're seeing ourselves having problems since mills have already switched over to a higher percentage of winter wheat. If we want to export low protein spring wheat against winter wheat, exporters have to drop prices about \$14 a ton. We're not competitive in the world market with our spring wheat values the way they are. Asia has been a problem the last three months, with the valuation of their currency being a huge issue.

Louis-Dreyfus - Robert Graham agreed with what Mike and Dennis had to say and noted that corn and wheat exports appear to be especially bad.

Kindred Farmers Elevator - Jerry Janz stated that North Dakota shippers had contacted their Senators and Congressmen about grain transportation problems because they did not know there was another forum in place. He wants to work with the Council, but information needs to be put out to state associations and others about the issues the Council is handling.

NIK Non-Stock - Bill Sebree stated 40% of Iowa corn and 50% of beans are shipped. Bill stated they are still having problems with turns. Iowa cycles are slow, about 3-4 days. Cars are sitting for 3 or 4 days after being loaded. He is concerned about what would be happening if demand were higher.

Tom Wade Companies - Ed Sims commented that they are awash in corn. He said soybeans were moving well with no major problems in that area.

Arkansas Industrial Traffic Assn. - Larrie Owen commented that they were experiencing service problems. He noted that although Union Pacific has been characterized as the heavy in all this, UP's service in some areas is excellent. He realizes that there are peaks and valleys but thinks the railroads should be able to level out their service. One way to do this is assigning equipment to a customer, such as dedicated shuttle trains. Overall, he has seen general railroad service get worse - all railroads, not just UP.

FritoLay - Pat Trotter stated that single car shippers are concerned over continuing service problems.

Car Owners

Thrall - Chris Schmalbruch stated backlog was strong. Orders are being placed now for delivery in 1st quarter 1999. 7,000 cars are on order.

Northbrook Rail Corp. - Tom Havey stated they had a very good year. They do have some lease terminations coming up this year which concerns them. Early spring and summer will be a tough time for them. The price spread between large capacity and regular cars was narrowing. Lessors have cars in storage but prices will drive them out.

Southern Illinois Railcar - All of their cars are in service. They are also concerned about the market and what could happen in several months.

GE Rail Car - Donald Bradley stated availability today is limited. GE doesn't anticipate a car shortage this year given the export outlook.

Better Planning to Meet Market Fluctuations

Chairman Davidson brought up before the Council the issue of how shippers, railroads and car owners might better plan to meet changes in the market. Dick observed that it was a huge challenge. At the end of the day the market is going to dictate what happens, but maybe there is a way to smooth things out and do a better job of planning. Chairman Davidson suggested that a small committee be set up to focus on this issue and make recommendations to the Council.

It was agreed that Denny Wendland would co-chair this effort along with Stevan Bobb. Bill Sebree, Dave Bastress, Terry Voss and Ed Kammerer will also be on the task force. Bill Sebree said that the Nebraska Grain & Feed Association is working on this issue and is asking the Council for information, state loading data, and car counts. Eugene Glock spoke about the concerns of Senator Kerrey that the two sides are not talking and communicating. Jerry Norton of the Department of Agriculture will work on task force. Fred Yocum will consult with the task force given his efforts on the Measurement Subcommittee. Alice Saylor will be on task force also. She noted that we need to make sure we don't leave small shippers and shortlines behind.

Measurement Task Force

Fred Yocum commented that it is very difficult to come up with good car utilization data. He observed that it is constructive to look at success stories where shippers commit to utilizing cars year-round.

Jerry Norton also observed consistent and reliable carload data is hard to maintain. It is difficult to come up with aggregate loadings, particularly for shortlines and regionals. He is still working with the AAR to gauge national grain car fleet capacity. While the number of cars has increased, utilization has fallen off. As a result of the efforts of the Measurement Task Force, national fleet statistics will be published in the NGFA newsletter and in weekly USDA reports.

Anticipated Changes in Carrier Car Pooling Policy

Terry Voss wanted to know from those carriers which have car pools, whether they were going to increase or reduce their pool this year?

Drew Collier stated the next opportunity that UP will have to change its car pool rules is October of 1999. While UP cannot actually make a change in the pools, it doesn't mean UP won't adjust its fleet size. Of the cars that are in the fleet, UP would like to keep 60% of those cars available for general distribution and 40% for contract trains.

Stevan Bobb said that BNSF is adding over 2,000 large cars with smaller cube cars being moved out of its fleet. They are still working through what they might offer as a new pool program. He anticipates that they will offer something less than the past in their swap and COTS programs, with more cars in tariff service and less in pools with shippers.

Cliff Arfman, CSXT - No change in carrier fleet size is anticipated at this point. However, they have seen mix changes as far as private ownership is concerned and they're encouraging pooling agreements to increase available fleet size.

Dave Bastress, KCS - They're very new in working with a car pool. They're going to be looking at the situation this summer. They have several shippers that aren't in the pool at this time, and hope to get a few of these on board.

Debbie Butler, NS - They're looking at establishing a car pool program.

Mike Mohan, IC - IC does not have a car pooling program.

New Shortlines: Service and Ownership Commitment

Bill Sebree discussed a problem where a branch line was sold by a Class I carrier to a salvage dealer. It was identified as a BNSF issue. Stevan Bobb said that BNSF tries to find buyers who will operate lines as a going concern. He indicated that some lines simply are not viable. In response to a question, Stevan noted that BNSF doesn't presently operate shuttles over shortlines but would look at doing so.

General Shipper Concerns

Demurrage

Larrie Owen discussed carrier policy on demurrage charges. Cars do not come in a steady daily flow but are placed in bunches for loading or unloading. It seems the railroads are penalizing the only guy who can't do anything about it. While there was some general discussion of the issue, it was recognized that demurrage policy is fundamentally a carrier specific matter.

Penalty charges for shipper-canceled orders contrasted with penalties for carrier failure to provide ordered cars.

Dennis Wendland discussed the situation on penalties. As an example, he noted that of all the pool cars that Harvest States ordered for October and November, they only received a third of them and BNSF and UP paid penalties on 2/3 of them. In October and November they wanted all those cars, not the penalty dollars. They

invested in private cars to assure a good car supply. By December, of course, the market had switched around. By January they didn't want cars. There are a lot of frustrations coming out of this type of system. Terry Voss observed that while shippers make the best decisions they can far out, the rules can change as to how railroads provide incentives to use carrier equipment as opposed to shipper equipment.

Ability of smaller co-ops to secure car supply available to larger co-ops.

Chairman Davidson acknowledged that this issue would fit best in any discussions about the carrier obligation to provide service.

Safety and blocked crossing issues related to 100-car unit trains.

Discussion concerning this issue covered what to do in these situations and how to avoid having the FRA out there. Small communities cannot afford to build an over-pass. Eugene Glock brought up that an issue that was raised to Senator Kerrey when emergency equipment had to go three miles longer to get around to the other side of the tracks. Shippers and carriers need to work together to close crossings, properly spot trains and load quickly. It is clear that many small communities have too many crossings.

Carrier obligation to provide service to shippers.

Terry Voss lead a discussion on placing and moving cars. AGP has got to load a set number of cars every month for the next two years. There is absolutely no reason why those cars shouldn't be spotted and pulled on time. The participants in the pools know what your obligations are. Shippers don't want the penalty; fines; they want equipment in place when needed. There ought to be a way to put some teeth into the process so everybody will live up to their obligations in a timely fashion. He is concerned that 1998 not be duplicated, and not become a pattern.

Following discussion, Chairman Davidson asked Terry Voss and Dave Bastress to co-chair a task force to look into this issue. Also agreeing to be on this task force were Alice Saylor, Rick Cecil, Debbie Butler, Bill Sebree, Denny Wendland and Drew Collier.

Chairman Davidson asked the task force to review all relevant issues and report to the Council at the next meeting.

Additional Issues

Chairman Davidson shared his concern that there would be a large amount of grain to move with the 1998 harvest. It would be helpful to be able to gauge requirements with on-going estimates of what is in storage and what will come in from harvest.

Jerry Janz stated the export enhancement is needed because commodities need to move in an orderly fashion below the cost of production. If we continue to try to move grain only at or above the cost of production, there will continually be peaks and valleys and we will continue to face shortages of rail cars.

* * * * *

To try to better anticipate and react to concerns about the harvest, it was agreed to schedule the next National Grain Car Council meeting in July in Minneapolis.