

SURFACE TRANSPORTATION BOARD

Ex Parte 755

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Final Offer Rate Review Summary of Telephone Conference Meeting between U.S. Wheat
Associates and Surface Transportation Board Vice Chairman Marty Oberman

July 7, 2020

U.S. Wheat Associates Attendees: Justin Gilpin, CEO, Kansas Wheat, Jim Peterson, Director of Marketing, North Dakota Wheat Commission, Brad Erker, Executive Director, Colorado Wheat, Taylor Williamson, Director of Government Affairs, Kansas Wheat, Claire Hutchins, Marketing Analyst, U.S. Wheat Associates, Dalton Henry, Vice President of Policy, U.S. Wheat Associates, Daniel Elliott, Daniel Elliott PLLC.

STB Attendees: Marty Oberman, Vice Chairman; Ellen Erichsen, Attorney-Advisor.

Daniel Elliott began the meeting by introducing the U.S. Wheat Associates (USW) attendees. Vice Chairman Oberman then introduced himself and provided his background.

Justin Gilpin then introduced USW and how it operates. USW is the export market development organization for the U.S. wheat industry. USW promotes the reliability, quality and value of all six U.S. wheat classes to wheat buyers, millers, bakers, food processors and government officials in more than 100 countries around the world. Its mission is to "Develop, maintain, and expand international markets to enhance wheat's profitability for U.S. wheat producers and its value for their customers." Funding is made possible through checkoff dollars, goods and services from 17 state wheat commissions and cost-share grants from the USDA's Foreign Agricultural Service.

Claire Hutchins then went through the USW STB Slides that addressed various wheat rail rate issues. These slides are attached hereto.

USW and Vice Chairman Oberman spent the remainder of the time discussing Final Offer Rate Review (FORR). USW commended the Surface Transportation Board for its efforts to improve the rate review process and expressed its support for FORR. Vice Chairman Oberman asked if USW had a position on voluntary arbitration as an alternative to FORR. USW did not have a specific position at this point but stated it would review this option.

Dalton Henry thanked Vice Chairman Oberman for his time and efforts on FORR. Also, attached hereto are the North Dakota Wheat Transportation slides. While these slides were not discussed during the meeting, they were provided to Vice Chairman Oberman before the meeting.

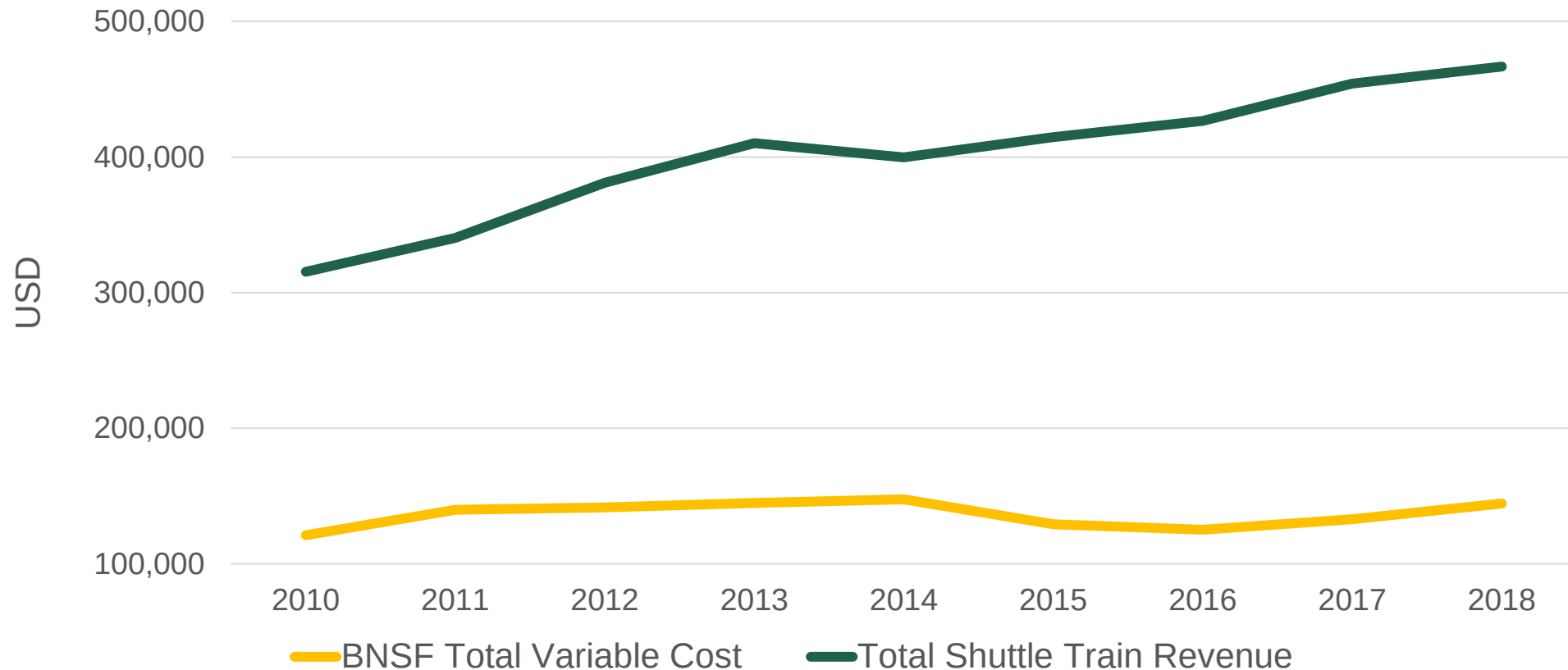


U.S. WHEAT
ASSOCIATES

*July 2020 Meeting with the
Surface Transportation Board*

Wheat Shuttle Rates: Wichita, KS to Galveston, TX

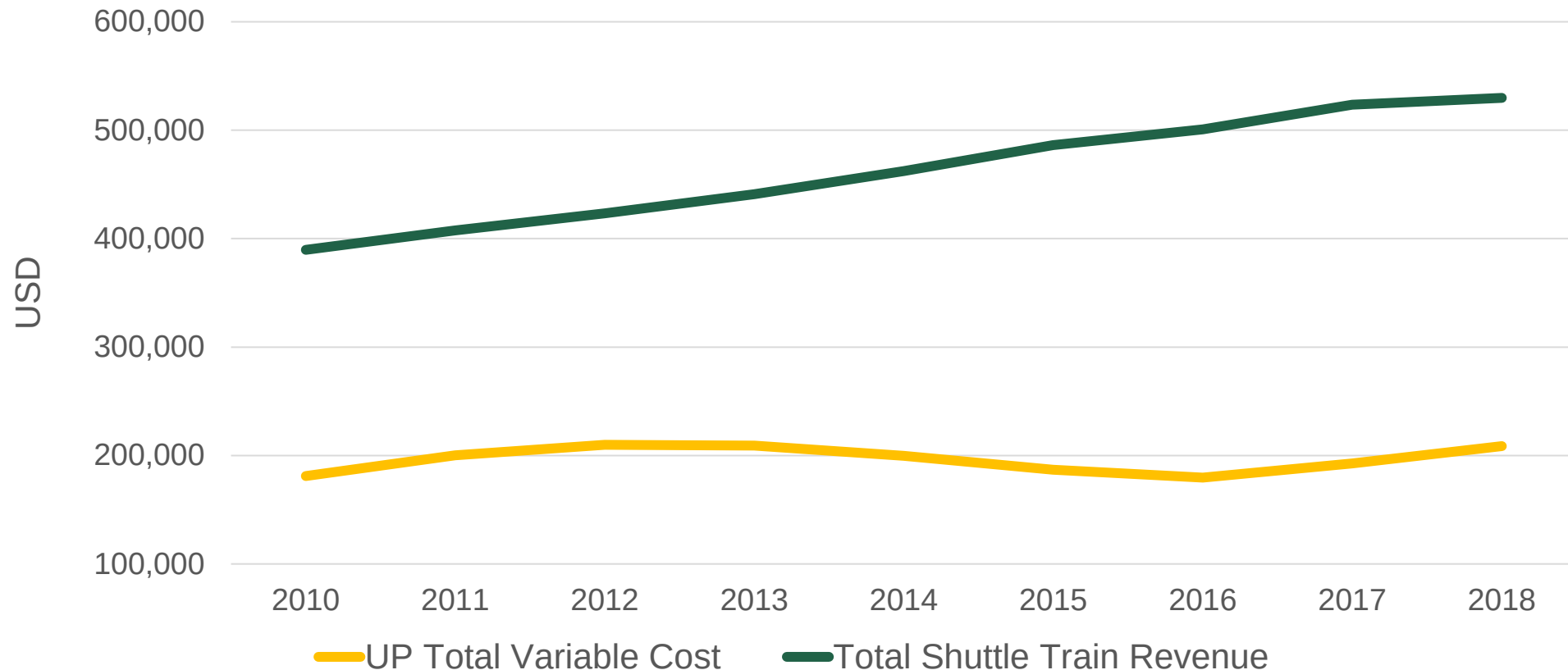
- Wheat rates have climbed substantially over the last decade, irrespective of other factors, including railroad's variable costs



Source: STB Railroad Cost Program and USDA AMS

Wheat Shuttle Rates: Colby, KS to Galveston, TX

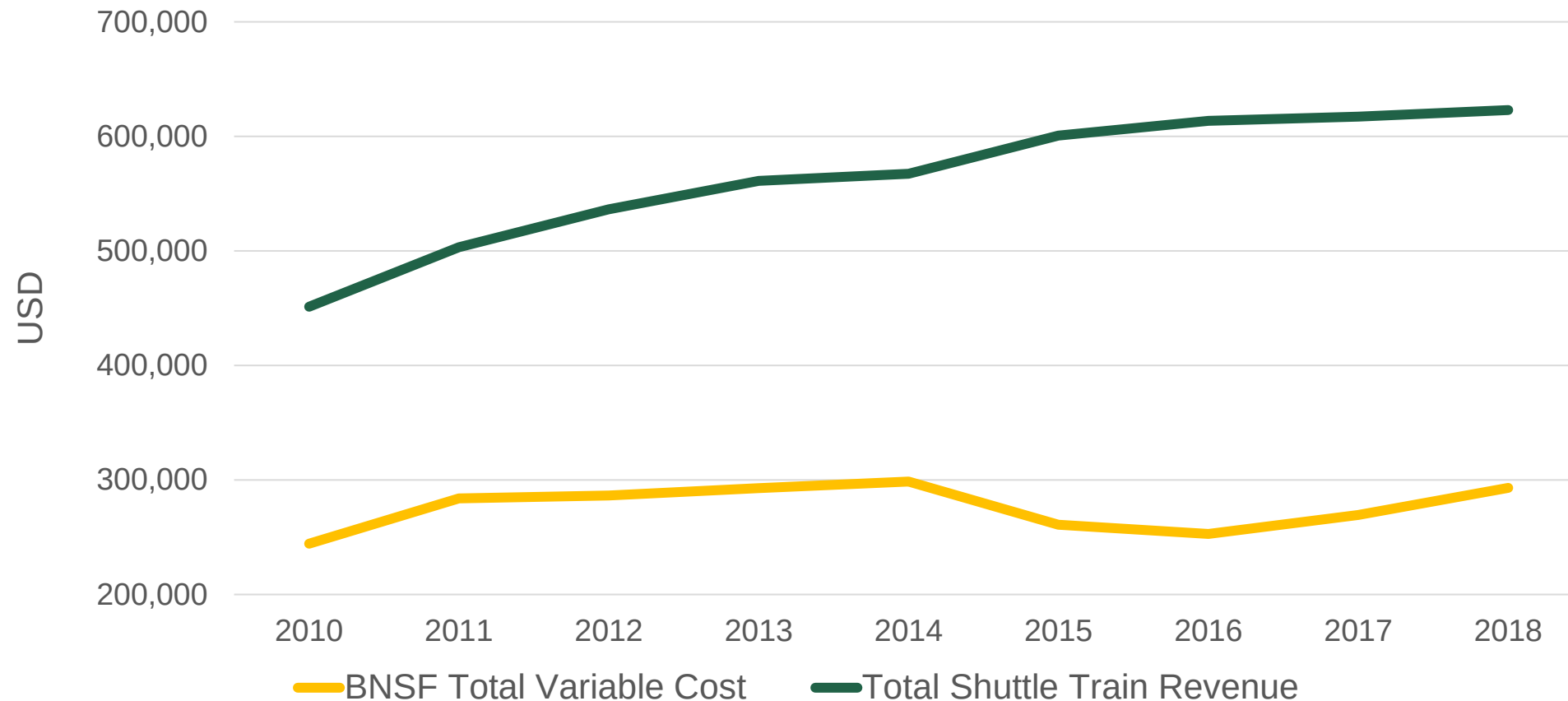
- Wheat rates have climbed substantially over the last decade, irrespective of other factors, including railroad's variable costs



Source: STB Railroad Cost Program and USDA AMS

Wheat Shuttle Rates: Grand Forks, ND to Portland, OR

- Wheat rates have climbed substantially over the last decade, irrespective of other factors, including railroad's variable costs



Source: STB Railroad Cost Program and USDA AMS

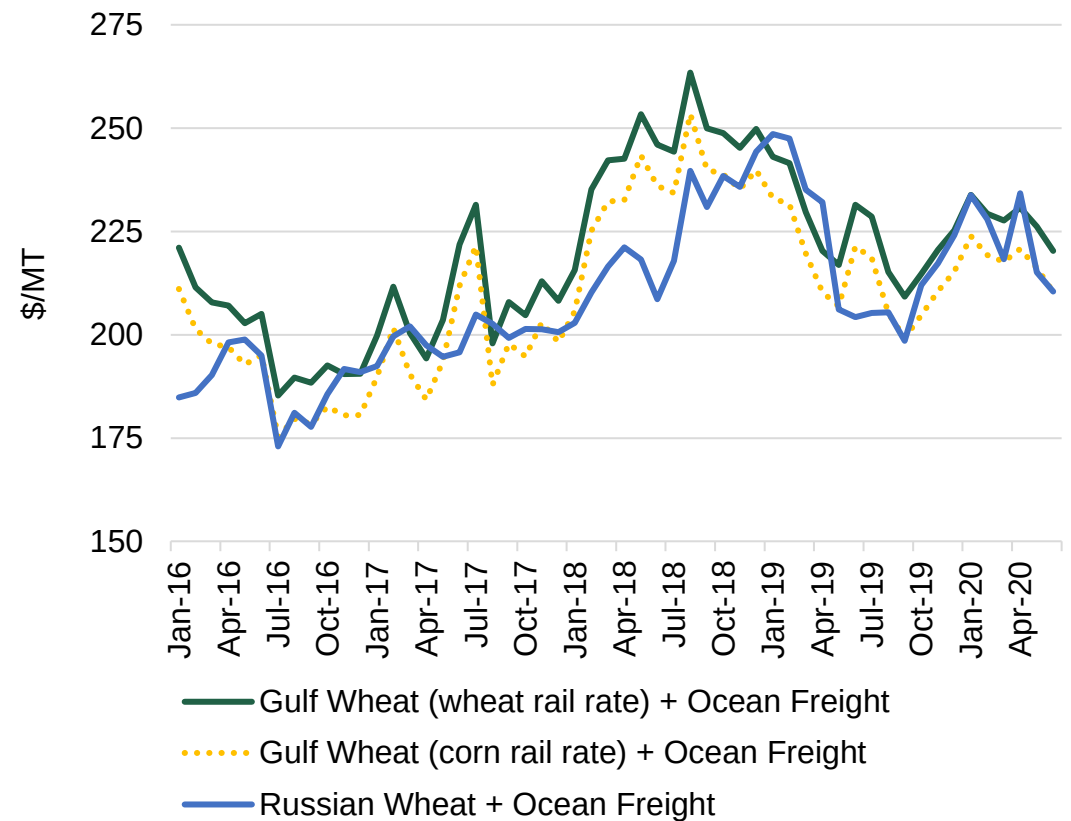
Tariff Rate by Commodity and Route (\$/Car)

	Wheat	Corn
South Central KS to TX Gulf	4,423	3,430 (-22%)
Eastern Colorado to TX Gulf	5,217	3,346 (-36%)
Eastern NE to Center Gulf	5,577	3,480 (-38%)
Eastern ND to Portland, OR	5,144	3,149 (-39%)

- Rates pulled from grain handlers in early July 2020 for corn and wheat with the same origin and destination. As the chart shows, wheat faces substantially higher rates than corn despite the similarities in commodity and being on the same route.
- Higher wheat rates are often attributed to a lack of market and transportation alternatives outside traditional export channels.

Estimated Wheat Landed Price to Mexico

- The higher rail rates charged to wheat have an impact on US competitiveness, even in markets of close proximity to the US.
- In a USW case study looking at market share losses in Mexico in 2017 and 2018, if US wheat were shipped to the Gulf at same rate as corn, the US would have had a stronger competitive advantage over our primary competitor, Russia, when shipping into Mexico **42% of the time**, compared to **13% of the time** when shipped at the wheat rate.



Rate difference has been noticed by other federal government agencies.

Quotes from the June 2017 USDA AMS Wheat Rate Study:

- “Wheat shippers in particular have found it difficult to compete in export markets, as they face higher rail rates than other grain shippers over similar corridors and rates that have not declined in response to changes in world wheat markets.”
- “While wheat prices have declined significantly in recent years, wheat rail rates have continued to increase. The puzzle is why rail rates for wheat have not declined as wheat prices have fallen.”
- “The factors driving wheat rates is still an open question. A better understanding would benefit wheat and other grain producers and shippers, who rely on transportation to reach end markets.”

Conclusion

- Wheat tariff rates have increased nearly continually over time, irrespective of railroad variable costs and diminishing wheat farm gate prices
- Wheat shippers face increasing rail rates, especially compared to rates to ship similar grains over the same routes, but do not have an effective and affordable mechanism in place to challenge rates
- Creative, timely, cost-effective and efficient regulatory reform for reviewing and challenging unreasonable rates is needed



U.S. WHEAT
ASSOCIATES

Thank you!

North Dakota Rail Transportation



Challenges of High Rail Rates to Wheat Producers



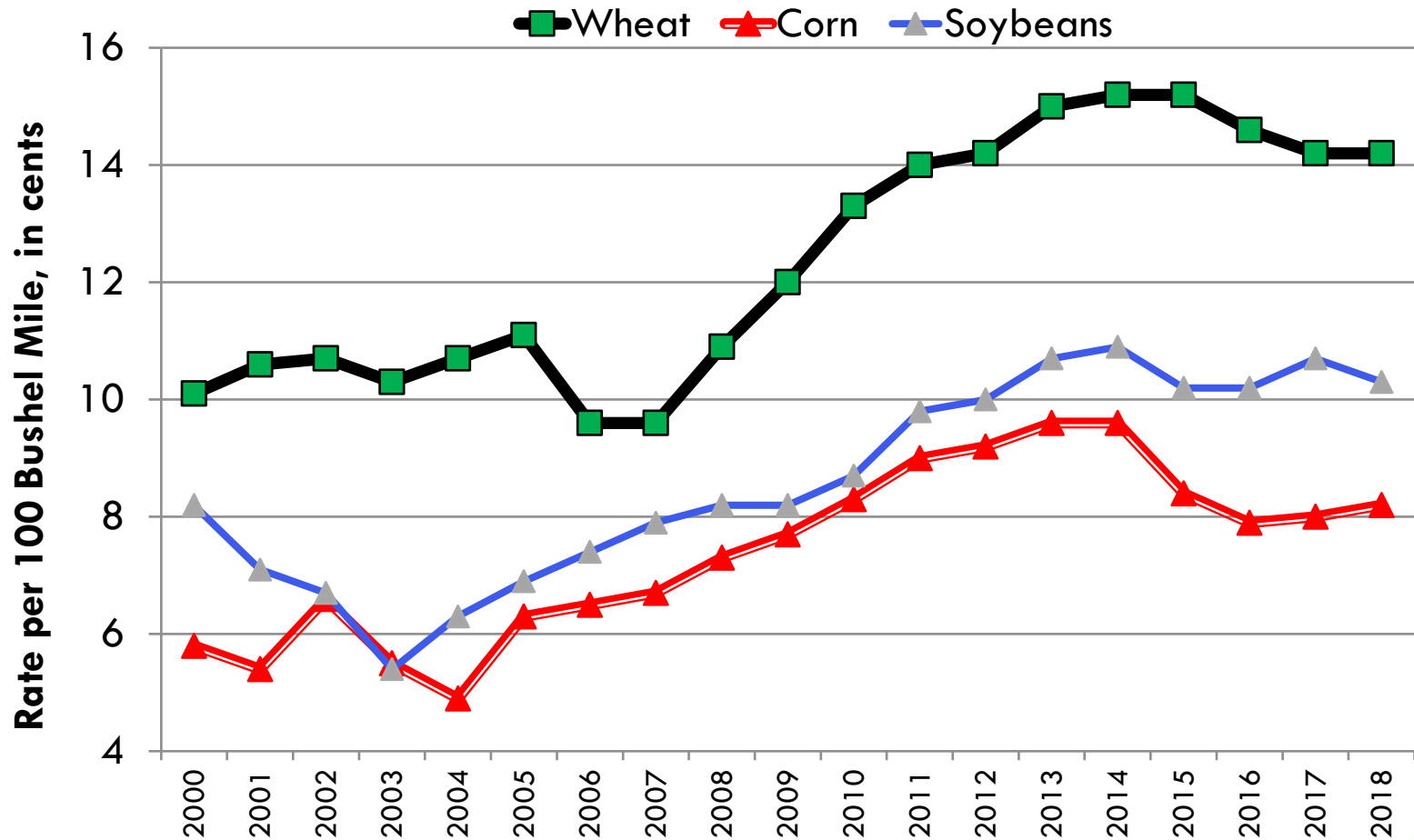
EXCESSIVE RAIL RATES FOR WHEAT REDUCES ITS ABILITY TO COMPETE WITH OTHER CROPS



- **AVERAGE RAIL COSTS FOR WHEAT, ARE SIGNIFICANTLY HIGHER THAN CORN AND SOYBEANS, AND HAVE INCREASED AT A SHARPER INCLINE THE PAST TEN YEARS.**
- **THIS IMPACTS THE PROFITABILITY OF WHEAT RELATIVE TO OTHER CROPS AT THE LOCAL LEVEL BY REDUCING THE BASIS VALUE AT ORIGIN.**
- **IN OUR REGION THERE IS INTENSE COMPETITION BETWEEN CORN, SOYBEANS AND WHEAT FOR ACRES.**
- **THERE ARE MANY VARIABLES THAT IMPACT LOCAL WHEAT BASIS VALUES, BUT RAIL FREIGHT TARIFFS ARE OFTEN THE LARGEST, AND THE ONE WHICH REACTS LEAST TO WHEAT MARKET PRICE TRENDS.**



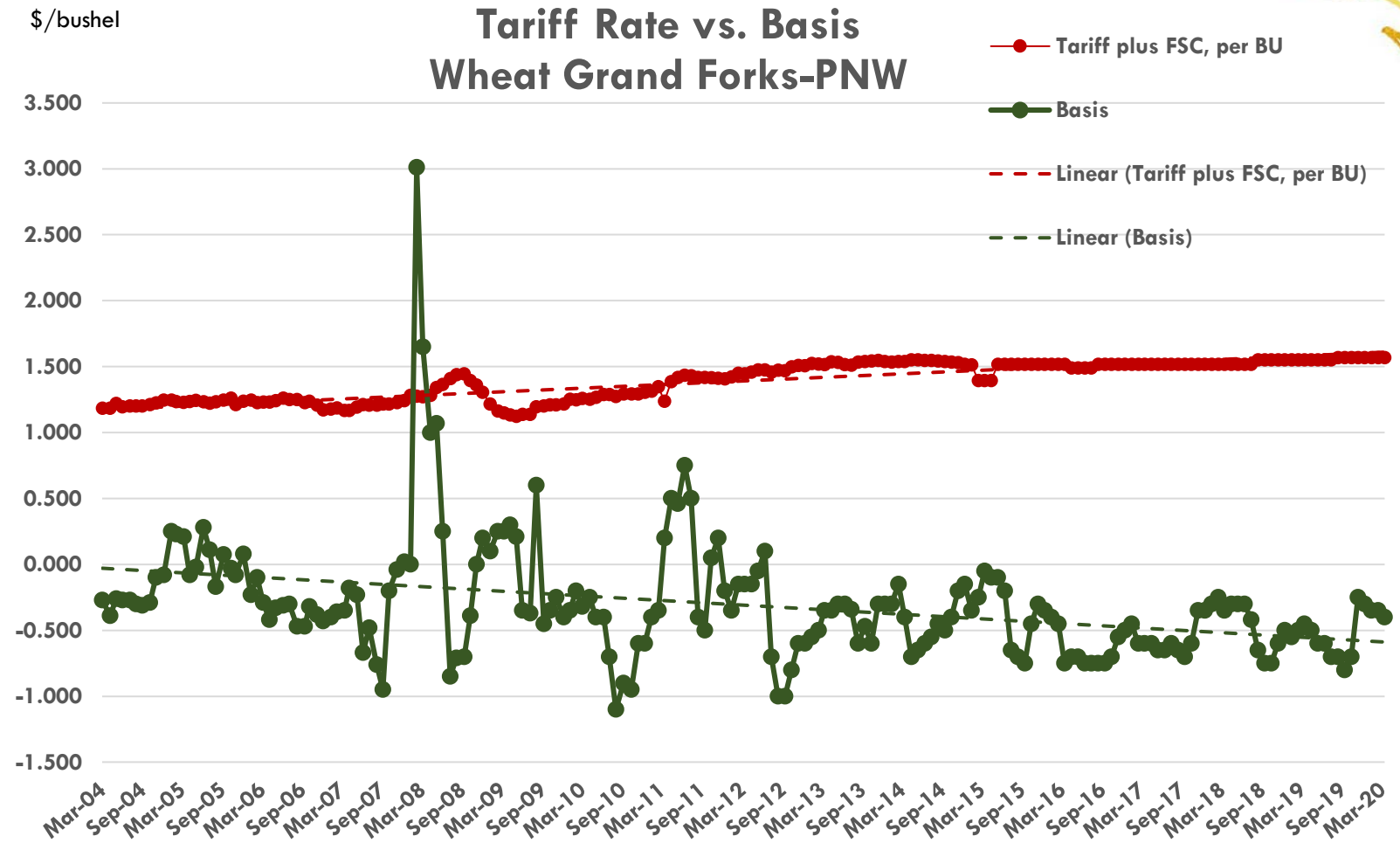
North Dakota Average Rail Costs by Commodity



Source: US Public Use Waybill

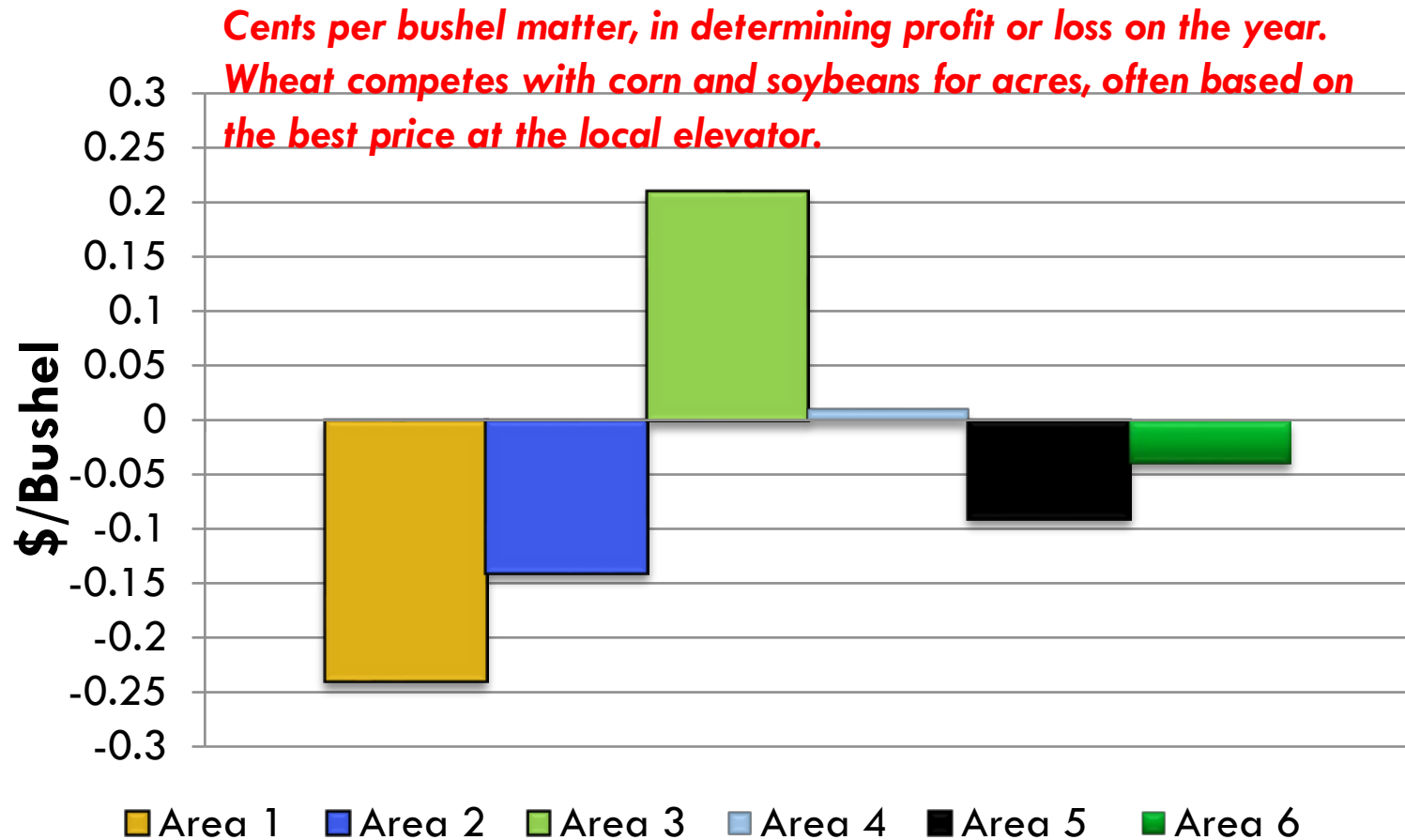


Basis vs. Tariff



North Dakota Wheat -- Per Bushel

**Profit / Loss Across the State



**** 3-Yr Average Market Price for Hard Red Spring wheat, at local elevator, less
Production Breakeven price (total production costs per acre / average yield)**



EXCESSIVE RAIL RATES FOR WHEAT IMPACTS OUR ABILITY TO COMPETE FOR CUSTOMERS

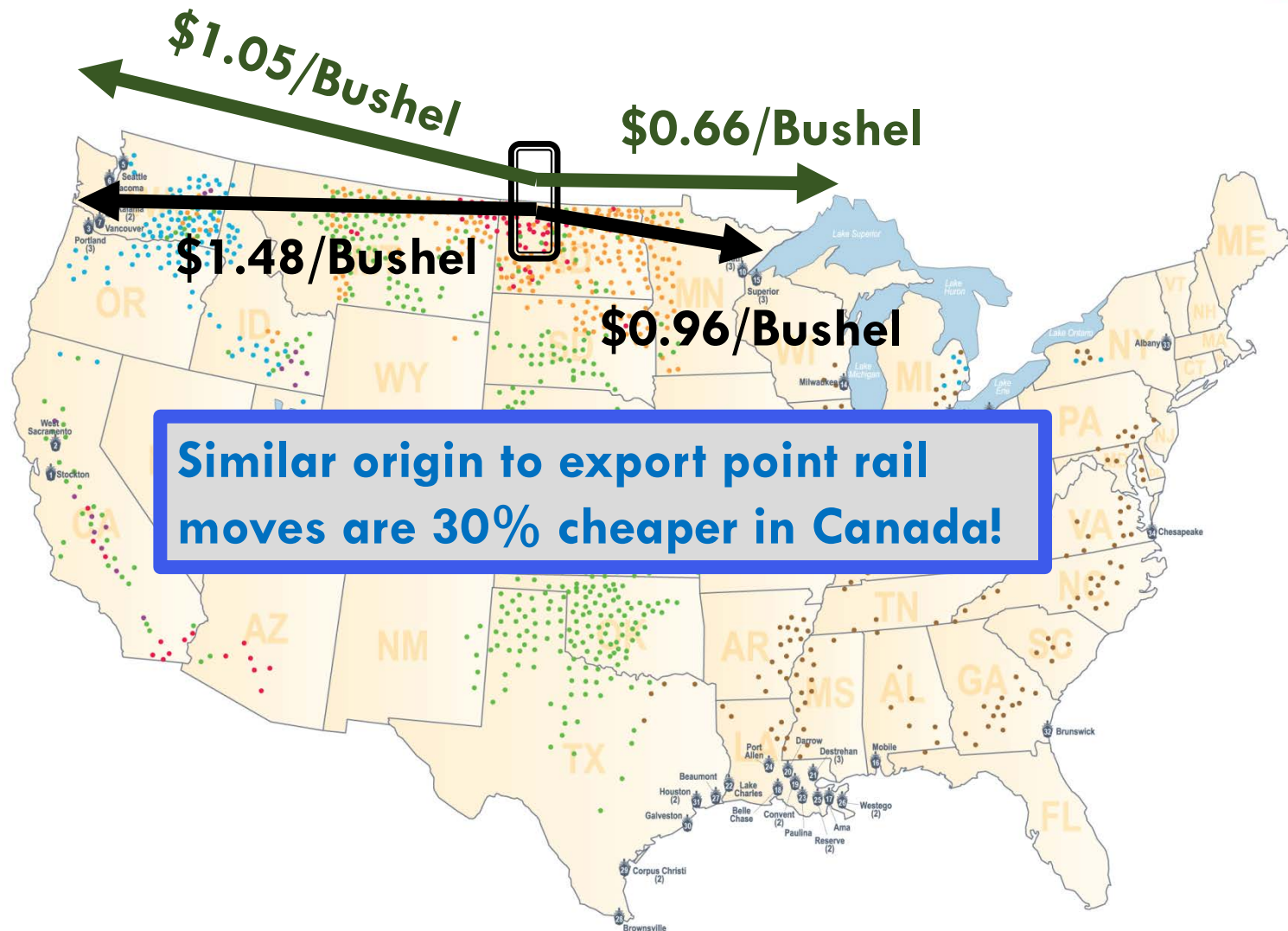


- EXCESSIVE RAIL RATES RAISE THE “ORIGINATION” COST OF NORTH DAKOTA WHEAT TO U.S. AND INTERNATIONAL CUSTOMERS.
- THE HIGHER ORIGINATION COST BECOMES MOST ACUTE FOR U.S. HARD RED SPRING AND DURUM WHEAT WHEN COMPETING WITH CANADA.
- LOCAL SHIPPERS AND U.S. EXPORT COMPANIES OFTEN CITE THE HIGHER RAIL COSTS WITHIN THE U.S. MARKET AS THE PRIMARY REASON FOR LOST SALES IN ASIA, CENTRAL AMERICA AND THE CARIBBEAN, FOR SIMILAR QUALITIES AND CLASSES OF WHEAT.



U.S. versus Canadian Rail Cost

(112 Car Shipment - CP Rail -2019)



THANK YOU

