APAC Agricultural Policy Analysis Center
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PolicyPennings by Daryll E. Ray & Harwood D. Schaffer

Railroad criticism is a long-standing refrain among farmers

The relationship between farmers and the railroads has been one fraught with difficulties since the days when Eastern farmers and immigrants followed the railroads west to seek out a better life for themselves and their families. When farmers faced low prices for their grain they often blamed the railroads. The earliest nationwide farmer's organization, the Grange, rode the wave of agrarian discontent giving voice to the complaints of farmers.

With railroads providing the only access to eastern markets for the grain they had to sell and equipment they purchased, farmers felt that the freight rates were too high. In addition farmers delivering grain to small rural elevators serviced by a single railroad were charged a higher per mile charge than shippers from larger towns serviced by more than one railroad. In many cases it cost more to ship grain a short distance than it did to ship it a longer distance.

Farmer discontent ultimately resulted in the passage of the Interstate Commerce Act of 1887, the first law allowing the regulation of a private industry. The result of the act was the establishment of the Interstate Commerce Commission (ICC) to bring about its implementation. Over the years other industries, including telegraphs, bridges, oil pipelines, and motor carriers came under the purview of the ICC.

With deregulation in the 1970s and 1980s, the powers of the ICC were slowly reduced until the ICC itself was eliminated in 1995. Those powers and responsibilities that the ICC was still charged with were transferred to the Surface Transportation Board.

On Thursday, September 4, 2014, the Surface Transportation Board met in Fargo, ND to hear the complaints of farmers. The complaint was one that the authors have heard for as long as they can remember: the harvest time shortage of railcars to carry grain to distant markets or storage terminals. This year the pinch is particularly acute in North Dakota.

Some local grain elevators have faced railcar shortages since last fall. The result is that they are full at the time when farmers want clear out their own grain bins to prepare for this year's coming bumper crop. But like with the Christmas story, there is no room in the inn—well the elevator.

Lance Peterson, a Director of the American Soybean Association, told the Surface Transportation Board, "on April 10th of this year I traveled to Washington and testified before your board. The message that I delivered was that inadequate rail service through delays and increased freight costs is not just a business challenge but creates massive losses which are passed directly on to the agricultural producer, the farmer."

He then cited a University of Minnesota study that put the income lost by Minnesota farmers between March and May of 2014 amounted to $100 million. Similar losses for North Dakota farmers have been documented by the North Dakota State University, he said.

Peterson went on to say, "at the April hearing the rail industry stressed that the coldest winter in 30 years was the major factor in the lack of car movement and that the problem would be corrected before the 2014 harvest. Actually the rail industry indicated that it should be taken care of by June. We are now part way into the wheat harvest and there is still a lot of crop from last year that has not been moved. I have heard numerous reports of grain bin companies that are literally so busy that they cannot take on any more business for this year. Farmers are in a difficult position of having to add storage because last year's crop is still in the bin and they want to avoid piling grain on the ground during this year's harvest."

Farmers and the elevators say the railroads are giving priority to traffic from the Bakken oil field in western North Dakota which has to ship oil via the railroad because of the lack of pipelines serving this new oil field. They also complain that US shippers are receiving lower priority from the Canadian Pacific Railroad (CP) as the result of a new Canadian law that fines the carrier for failing to meet a mandated level of service for Canadian agricultural products. Farmers also contend that the CP has not made sufficient investment in improving rail service.

At this hearing the CP and the Burlington Northern Santa Fe Railroad (BNSF) denied farmers' complaints. In addition to last winter's weather, the railroads testified that they are shipping more grain than last year and the problems farmers are experiencing are the result of the level of traffic on the railroads as well as congestion in terminal markets in Minneapolis and Chicago.

BNSF's chief marketing officer, Stevan Bobb, argued "any decision that forces more railcars onto our already congested system [a suggestion of the North Dakota Agricultural Commissioner] will not create more capacity. It will reduce capacity to some BNSF customers."

ASA's Peterson said, "my request to the Surface Transportation Board is to require the railroads to submit metrics showing past dues, average days late, turnaround times, etc. for agricultural shippers, the oil industry, and other customers. This information

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would help to give a clear picture of railroad service issues. Based on the size and scope of the rail shipment problems being faced in the upper Midwest this is not too much to ask."

In the meantime, farmers are investing in equipment to put the grain in bags and tubes so they can avoid putting grain on the ground—it is too late to put up new grain bins. They hope that when railcars come, the grain they have stored will be in good condition.

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