

# NATIONAL GRAIN CAR COUNCIL

Minneapolis, Minnesota  
July 15, 1998

## MEETING MINUTES

### Opening Remarks

Chairman Davidson welcomed the members of the Council and asked Vice Chairman Owen to provide his insights. The Vice Chairman noted that, as envisioned by former Senator Exon and former Commissioner Simmons, the role of the Council was primarily to be a sounding board. It is a way to get together and air problems. In raising issues and trying to come to some resolution, the members have to be honest and forthright. Vice Chairman Owen noted that he has come to too many Council meetings to find that everything seemed to be okay and then when he goes out into the field, he finds that someone is complaining to his Senator or Congressman about the lack of cars or some inefficiency. That's the wrong approach. This Council was set up primarily to address issues and try to resolve them where possible, or at least adopt some form of guideline. There's going to be quite a bit of grain out there coming on line, and we're going to hear about it. The Vice Chairman is anxious to hear about what the group has to say.

### The Charter and Function of the Council

Chairman Davidson asked Drew Collier to lead a discussion of issues that were raised at the last session with regard to how the Council should operate and what changes should be suggested to the STB. Drew reviewed the language of the charter as issued by the STB and noted that a couple of clarifications seem in order. Drew went through a list that had been distributed to the members.

The first item was replacing "Interstate Commerce Commission" and "Commission" in the charter with "Surface Transportation Board" and "Board." The second issue was membership. The current language states that membership is to rotate every two years. The chairmanship and vice chairmanship are to rotate every two years and change by class. In other words, a shipper representative would be chairman for two years and a railroad representative would serve as vice chairman and then the leadership would rotate. The language being proposed would clarify this point.

The charter which currently refers to not less than ten Class I railroads needs to be changed to seven, given the current composition of the industry. Up until now there has been nothing in the charter about covering the expenses for the meetings. There needs to be a procedure so the chairman has the ability to prorate expenses in a reasonable fashion.

Finally, there is no provision in the charter on voting procedures to resolve issues, including recommendations to be made to the STB. Drew proposed that votes could be taken by a majority of each of the classes of members or by a simple majority of the entire Council. There followed a discussion of which way to proceed and whether the Class I and small railroads should be considered different groups.

Chairman Davidson observed that the Council had headed off the most contentious questions by forming small committees to work through the thorny issues and come to a consensus before setting the matter in front of the group.

Terry Voss moved that the Council resolve issues by a simple majority vote of members present. Alice Saylor seconded the motion and it passed unanimously.

The discussion turned to the need to select a new chairman for a two year term. Vice Chairman Owen expressed his support for the work of the Council. He noted that a number of people around the table had fully participated and contributed to the overall dialog. He indicated that he was looking forward to the Council continuing for another two years and being very productive.

Chairman Davidson called for nominations for a new chairman. Drew Collier stated that he had been giving the question a lot of thought and that somebody with broad influence in the industry, a broad perspective about the issues and experience with processing, with grain origination and exporting was Denny Wendland of Harvest States. Alice Saylor indicated that the small railroads would fully support Mr. Wendland. Mr. Davidson asked if there were any other nominations. Mr. Wendland was elected unanimously.

Mr. Davidson then asked the Council to consider nominees for vice chairman from either the car owners and lessors or the railroad groups. Drew Collier was nominated but raised the point that, technically, according to the charter and STB procedures, the CEO's of the railroads were members of the Council, and he was not actually a member.

Vice Chairman Owen said that the charter would be clarified and that Drew Collier, Steve Bobb or a similarly situated representative of the railroads could serve. Mr. Davidson asked for any additional nominations for vice chairman and there were none. Thereupon, Mr. Collier was unanimously elected vice chairman.

There was discussion about the need for a third officer to serve as secretary/treasurer. Vice Chairman Muir suggested getting a secretary to handle the bookkeeping and housekeeping chores.

Vice Chairman Owen observed that in the beginning the National Grain Car Council was viewed as something that might last for two years and that was how the charter was designed. Given its continuing mission, it is appropriate for the charter to be updated. One issue is to define how someone is nominated for membership. Currently, there is a nominee proposed by one Senator and people generally aren't aware that there are a couple of vacancies. The Council should set up a process so that a number of candidates are reviewed. It was suggested that language be proposed in the charter which established a formal nomination process.

Jerry Birmingham was next proposed as Secretary/Treasurer. He was the only candidate nominated and elected unanimously.

### Status of Grain Transportation

The Chairman asked the Railroads, shippers and car owners to report on developments during the first half of 1998 and the outlook for the remainder of the year.

Stevan Bobb - BNSF -- Stevan reported that lack of export demand impacted BNSF during the first half. While other commodities were strong, with coal up 13%, intermodal up 10% and merchandise traffic up 7-1/2%, grain was essentially flat. Given the traffic increases, there is not a lot of capacity on BNSF's network at present. The only significant export movements are to the Texas Gulf. The wheat harvests have been large and earlier than usual in Texas, Oklahoma and Kansas. There is some wheat on the ground in Kansas. At some locations there is a problem getting empties back to shortline operators. The corn crop looks good.

BNSF has 2,000 new grain cars on its system. 82 cars were destroyed in a recent tornado. BNSF will be auctioning shuttle capacity and that will provide an indication of what the market wants.

Drew Collier - UP -- UP loadings are down a little more than BNSF's for the first half, and it faces a similar situation. UP has gotten through the wheat harvest in reasonable fashion and is keeping up with it. Drew doesn't know what's going to happen this fall when producers try to dump a big grain crop on top of a tight storage situation. Unless we have some market outlets that show up, we're headed for a problem. We, as an industry, have done a much better job of communicating our concerns about the harvest and market situation and that has helped everyone better understand what the railroads will be facing this fall.

Mark Bazan - Canadian Pacific -- CP experienced a similar situation in the first half. Whole grains have been down considerably and processed grains up slightly. CP car supply has been excellent and we are currently filling orders. CP has not paid any penalties on its two guaranteed freight programs, the opposite of last year. We're anticipating a '98 plan similar to '97. There will be some tightness in October and November car supply. CP's power, crew and infrastructure improvements in the upper Midwest will produce improved performance. Communications with customers have been excellent. CP has started a new communications program with shipper forums in North Dakota and Minnesota.

Phil Richardson - Canadian National -- CN equipment was fully utilized last year. CN presently has 4,500 cars idle. We will have an average wheat crop with a big increase in specialty plantings such as durum. CN has implemented an advanced car ordering system.

Rick Cecil - Kyle Railroad -- Because Kyle handles mostly grain that goes into processing, our first half was pretty good. Elevators are moving grain out in anticipation of the new crop. Typically that only happens about two days before the new crop. We are happy about this change and the crop is a couple of weeks early. Kyle has gotten some outlet cars for the summer, so things are going well now. We're a little concerned about the fall crops because of lack of moisture.

Dennis McLeod - Red River Valley -- It's been an unusual year. We've called our customers and tried to get them to take cars and they don't want them. The next week, they'll call and they're ready to load. Demand moves with the amount of rainfall. Rainfalls have been good and bad in places. We really don't know what to expect this fall. We anticipate more grain than in the last couple of years. We are hopeful that the last ten days of hot weather is going to raise wheat production. We've had a very cool, wet year in a lot of places. Crops are looking excellent where the rain is not affecting them.

Steve Gehrt/Gordon Trafton - IC -- During the first half of the year, IC has been equal on whole grains with 1997. On processed grain moves, we're up 14% over last year. We expect that to continue into the second half. On whole grains, we expect to be above last year's levels. We're anticipating a draw of grain exports to the central Gulf. On the equipment side, yesterday IC had 52 cars stored. Last year, IC probably had 500 to 600 cars stored at this time. We have several new movements planned and we're looking at bringing on some additional covered hoppers.

Dave Bastress - KCS -- As far as grain is concerned, we're up about 4% from last year for the first 6 months. Domestic loads have been up around 6% from last year, however our exports are down by 18%. On the equipment side, we are meeting all our needs and have no surplus cars. We will increase our fleet by about 500 cars this fall up to a total of 3,500. KCS looks for domestic business to continue to be strong.

Debbie Butler - Norfolk Southern -- For the first half, overall grain was down 1-1/2%. Corn was up 4%. Wheat down 4% and beans down 7%. We expect the remainder of the year to be flat with little or no export demand. In the Midwest, the corn crop looks good and we expect movements into the southeast which has been very dry. It looks like we'll have about 6,000 cars in grain service. About one third of those will be leased. NS is currently running a total of 64 unit trains. Most of them are 50 cars, with some 100s. We will have about 100 total grain trains operating at peak. Last year our peak was 97. These break down usually at about 50% private and 50% railroad-owned cars. On our system, we have an additional 242 locomotives running. NS has taken delivery of 116 new locomotives this year and has been hiring crews. NS does not have surplus capacity in our covered hopper car fleet.

Tom Owen - CSX -- Our first half loadings were well below last year. One factor that drove us down was river movements of wheat. We are currently moving low protein wheat that is not of milling quality into the Southeast for food. We are upbeat about the third and fourth quarters. The Southeast is getting scorched and a high percentage of the local crop is rated fair to very poor -- 97% of the corn in Alabama, 91% in South Carolina, 84% in Georgia. Soybeans are looking a little better but they're still dealing with "fair to poor" numbers in the 80-90% range. This, of course, presents an opportunity to move grain in. We're already seeing some of that demand materializing. Elevator capacity in Ohio and Indiana is high. We expect that in September we'll have a large number of the grain trains up and running early. We are already 60% sold out for October in our car ordering program. We are converting to a bid system and details will be coming out. We are anticipating robust fertilizer moves but plan to stop our fertilizer advanced placement program well before harvest.

Alice Saylor - American Short Line Railroad -- Alice Saylor reported that merger of the American Short Line and the Regional Railroad Association was moving ahead.

Jerry Birmingham - GE Railcar (representing RPI & NAFCA) -- Our industry is hurting itself again from the freight car supply standpoint. It seems like 1980 again. We need to react faster to changes in the market place and improve utilization. We are trying to reposition cars for our customers. New car availability is 9 to 12 months out. What we have to come to grips with is the fact that we are being asked to provide surge capacity and still haven't figured out how to do that yet. As a personal note, Jerry has great concern over truck size and weight increases and losing market share. With

some railroads having difficulty in meeting customer needs and truck size and weight proponents wanting to move to 90 or 97,000 lbs. weight limits, this could mean a loss of rail traffic.

Fred Parsons - Southern Illinois Railcar -- All of our hopper cars are being utilized but we're not making money. Consolidation continues in the leasing business. Conditions will be very difficult next summer.

Jeff Hudson - First Union Rail -- Utilization has not decreased over the last two or three months, but we have excess equipment. Our major concern is that there are too many cars ordered in the pipeline. Where's all this equipment going to go? We're sitting back waiting for the fall harvest and trying to figure out where all this stored grain is going to go.

Fred Sasser - Chicago Freight Car Leasing -- Not much to add. Grain cars available in all different sizes and many new ones are coming on line.

Tim Johnson - Thrall Car -- Tim has the ARCI numbers to put some framework around the new car orders that people are talking about. Through the first half of this year, there are slightly over 13,000 large covered hoppers on order. In addition, a little over 9,000 cars were delivered in the first half. Five thousand were larger than 5500 cubic feet and just under 4,000 were in the 3500-5500 cubic foot range.

Jerry Norton - USDA -- USDA has been working with the STB under a Memorandum of Understanding that the Secretary signed with Linda Morgan. Through a task force, we are trying to identify the kinds of information that might be useful to the grain trade, what is already available and what else can be distributed about types of cars and types of service. Mr. Norton then circulated a copy of the MOU. Four people from the USDA and four people from the STB first met this past week. We're primed to provide more information to the marketplace.

Tom Jackson - Iowa DOT -- The Iowa harvest is not quite as big as a year ago. The railroads, particularly Union Pacific, made strong efforts to address the tight storage situation. There is growing acceptance that problems this fall will not be the fault of the railroads.

Ian Muir - Bunge -- Soybean crush volumes have been steady and strong. Rail participation in inbound movements has slipped because of the low level of barge rates. We're experiencing depressed margins and expect that those will continue through the summer months. We're optimistic about the 12 months starting in September, and expect to run full out at most of our plants. Outbound products will be very, very strong. Much of our business is dependent on poultry production which looks good. Our grain car fleet size is probably going to remain pretty much as it is.

Denny Wendland - Harvest States -- We see nothing changing on the domestic side which will remain strong and that is still how most of the rail cars move in the U.S. On the export side, PNW freight spreads do not look good at all, running at \$4 to \$5. Combined with the Asian problems, Denny is not optimistic about PNW exports for any of this year, especially for corn. We will have an awfully good crop this fall the way it looks right now. We've advised our shippers that the western railroads are basically at capacity. We're telling them to use the programs that are available, such as shuttles, guaranteed freight programs and vouchers. We're telling them not to rely on tariff orders. By using vouchers or another guarantee program, an elevator should be able to have cars on a timely basis and shouldn't have grain on the ground.

Overall stocks a year ago in the U.S. (corn, beans, wheat, everything we carried over) were approximately 1.6 billion bushels in September 1997. This year we've ended at about 2.4 billion bushels right now and they are predicting a year from now we'll be at 3.2 billion bushels. We are growing crops and are building inventories. A normal export year is 3.5 to 4.2 billion bushels. We're almost going to have enough inventory a year from now to cover all exports.

Jerry Janz - Kindred Farmers Elevator -- Movement of grain out of the upper Great Plains has been relatively light. Crop conditions vary greatly. Western Minnesota and eastern North and South Dakota, have experienced heavy rains throughout June and July. This has hurt crops and caused disease. The central and western Dakotas have had better than average crops.

Rail car supply has been adequate throughout the summer. Truck rates are very competitive. Jerry doesn't think we'll have to worry about moving two crops in one year as was speculated earlier. There still, however, will be a high demand for rail cars. Farmers are heavily leveraged but holding on to their crop. There is lots of concern about financial collapse. The nation needs a better export program.

Steve Colthurst - Land O'Lakes -- Livestock use looks relatively stable. The beef industry is suffering a setback. The 1997 calf crop was the lowest since 1945. On the other hand, the dairy segment is good. Lots of wheat is going to feed use. There has been a 1% decline in feed grain consumption versus last year. That is the first decline we've had since 1986. Quality of rail service varies depending on the week. We need consistency in transit times.

Bill Sebree - NIK Non-Stock Mktg. -- We've been moving grain pretty steadily. For the first six months, we're roughly 5,500 cars below the same period last year. In Iowa, 20 to 25% of their grain from the last harvest is stored. In Nebraska, the figure is 30 to 35%. The crops are looking fantastic. Fertilizer prices are still pretty high and the economics are tough on some of these farmers. Two dollar corn is a big concern. There will be a financial shake out.

In the panhandle of Nebraska, the wheat harvest is getting started. We're running a little late given the rains we've had. Protein levels are below last year.

Bill asked the railroads' help on putting together shuttle opportunities.

Vice Chairman Owen commented on his visit to Mr. Sebree's facility. The MOU between the Department of Agriculture and STB resulted from this visit and observing the DOA staff sampling and monitoring grain cars. If information contemplated in the MOU, such as DOA field reports, had been available to the STB when the UP/SP started having some of its problems, the STB might have been able to identify them at an early phase and take action earlier.

Terry Voss - AgProcessing -- Our shipments have been pretty steady for the first six months of the year. We don't have an export demand and much of this crop isn't going to find a home because there's more supply than there is demand. We're going to have corn, beans and wheat on the ground. We're going to have bankruptcies and farmers going under. But that's got to happen at times.

Jon Roy - ADM -- How things change! A couple of years ago we were wondering how high prices could go. The Illinois and Indiana corn crop is good but not excellent. Iowa, Nebraska and the Dakotas should have excellent harvests. Jon hasn't seen a year where there was such a difference in maturity from field to field. Export demand is slack and favors the Gulf. We are barging corn up river to Decatur.

Ed Sims - Tom Wade Companies -- The Tennessee and Mississippi basin area is dry and we're coming up a little short. In the northwest part of Tennessee, we've got an ordinary corn crop. Everything south of us is poor. Our biggest rail related concern is how the NS and the CSX will be impacted by the Conrail consolidation when it finally occurs. We just want to make sure in the southeast that everything works.

Larrie Owen - Arkansas Industrial Traffic Assoc. -- With the hot weather, chickens are eating less. We will need grain from the north this year. Many animal nutritionists have taken milo off of the menu. We are seeking additional high speed shuttle trains. The problem is not car supply but inadequate cycle trains.

Kevin Kaufman - LouisDreyfus -- We expect broiler production to increase. The sorghum crop is burned up down south and more corn will move south. Total grain carloads will be higher next year than this year. We will be skewed more toward the third and fourth quarter this year because of market conditions. With lower prices there will be fewer seeded acres in the southern hemisphere next season. There are going to be plenty of cars, Larry is absolutely right. The problem is not the number of cars as everyone was claiming last year; the problem is utilization rates. They still aren't expected to go up very much because of capacity issues and the difficulty the railroads



have moving cars. We also need to be sure that people understand that when grain is piled on the ground, the blame isn't placed on a lack of cars. The problem is the market place. The markets are going to be so cheap in the near term that farmers are going to store on farm. That's the only way the marketplace can deal with too many bushels and it's not going to improve any time soon.

Mr. Davidson noted that the railroads were working diligently to improve capacity. He cited the new locomotives being brought on line by all the Class I carriers. Union Pacific has hired 1,200 new train and engine employees and its crew situation should be much better. Each of the Class I's have quite a number of infrastructure projects underway, such as the CSX upgrade of the B&O Chicago line. If we could get all of that assimilated in some fashion to show the rail industry's efforts to increase capacity before this next harvest, it would show huge capital expenditures. People need to remember the need to attract capital when they consider open access and reregulation.

#### Common Carrier Obligation Task Force

Chairman Davidson called on Dave Bastress and Terry Voss to report on the recommendations of the Common Carrier Obligation Task Force.

Mr. Voss reported that the Task Force met three or four times and there was good cooperation between the Railroads and the grain industry. Agreement was reached on a statement of principles which was distributed to the members of the Council (copy attached). Mr. Voss cited examples of issues which were resolved amicably. One shipper wanted to tighten the "make a reasonable effort" language in the first principle to say the railroads "will" but was dissuaded. The Task Force agreed to use a rolling three year average on a month-to-month basis, e.g. comparing data for August of '95, '96 and '97.

Mr. Voss believes that performance reports should be subdivided by car type so some realistic comparisons can be made. He also feels that the railroads should include an index for grain car cycle times. This would make the fleet size numbers more meaningful and will bring the railroad locomotive allocators on board. Shippers want locomotives allocated to grain in the same fashion as to intermodal or coal traffic.

Mr. Collier pointed out that those issues were part of the discussion at negotiations between the National Grain and Feed group and the railroads. He observed that the railroads had stepped up and have agreed to measures of not only how many cars are available in their fleets but also how effectively those cars are being used.

Mr. Voss indicated that he didn't have any problem with what the railroads had put together. Mr. Voss stated that everyone had agreed to the proposal as presented after a lot of give and take. Mr. Wendland observed that the more information the railroads give shippers, the better planning they can undertake and in turn, hopefully, the railroads can plan off the shippers' plans. Mr. Voss pointed out that the grain industry does a terrible job of sharing information. A shipper doesn't want to share too much information with a particular railroad because the railroad marketing official might tell it to a competing shipper who is trying to sell a train in the same market.

Mr. Voss and Mr. Wendland noted that they were part of the NGFA committee and they spent many hours to get to this point. From the grain shipper and receiver side, they tried to get "predictable and reliable" service standards as a railroad obligation. It doesn't mean enough cars for Easter Sunday or to take care of the fall harvest, but if a railroad says it has available a guarantee program, it should live by it within reasonable standards. UP, BNSF and CP only use about 15 or 16 days late before they're in a penalty situation. That's very acceptable. Looking at the reports that the different railroads have proposed, if they follow these formats on availability and performance, they will have a lot fewer complaints from shippers. There won't be a lot of tariff trains available when demand is strong, so predictable and reliable guarantee programs are an essential tool for shippers. Beyond that, the fifth agreed upon principle is the most significant.

Mr. Collier noted that the task force members came to the realization that the need for good information is a key issue with which we're going to have to find a way to deal. USDA shares a lot of data and they're talking about trying to develop more data that would help from an overall demand perspective. Mr. Voss observed that the railroads with which he has agreements know today for the next year how many cars he's got to load every month. It's a minimum for which they can gear up and it's fairly substantial on some carriers.

Stevan Bobb noted that BNSF tries to forecast supply out four months in advance after discussions with producers and suppliers. BNSF tries to evaluate its cycle times based on market dynamics and on how much of its fleet will be available for general distribution. The process has been pretty effective over the last 18 months. While you can do it by individual railroad, you can also do this in an open forum. It depends on how much information each group wants to share. Mr. Bobb observed that to do better planning, railroads and shippers need a better flow of information, particularly as to smaller elevators and producers.

Mr. Davidson observed that the task force proposal was the result of a masterful job of give and take by all the players. He suggested that unless someone had real heartburn, it should be endorsed. Mr. Davidson had received one comment from a counterpart in the rail industry that the recommendation not be known as "common

carrier obligation reporting.” The proposal was adopted without objection with a new title, as suggested by Mr. Bobb, of “Service Performance Reports.”

#### Additional Items

Mr. Davidson remarked that Tom Owen of CSX suggested tying together information about dollars being spent by the railroads on capacity improvement. Mr. Collier noted that an AAR report was being developed dealing with the rail industry’s role in grain transportation and exports. Mr. Davidson asked Tom Owen and Drew Collier to work together and assemble information about railroad investments for the next Council meeting.

Jerry Norton noted that USDA was holding a transportation summit in Kansas City at the end of August. He circulated a copy of the agenda. The rail shipper statement of principles and the NGFA agreement would be highlighted in the discussions.

Thereupon, the meeting was adjourned, with the next meeting to be called by Mr. Wendland as the new Chairman.

The National Grain Car Council Common Carrier Obligation Task Force has agreed to the following:

**OBJECTIVE: To clarify Railroad Grain Car supply obligation**

**STATEMENT OF PRINCIPLES:**

1. Each Railroad will make a reasonable effort to arrange for a grain fleet to meet expected average annual consumptive demand.
2. Each Railroad will make publicly available its grain car distribution policies and/or rules.
3. Each Railroad will make publicly available its procedures for dispute resolutions, if any.
4. Distribution shall be in a manner consistent with statutory requirements and each individual Railroad's rules and/or policies.
5. Each Railroad will make publicly available information about status, availability and performance of its grain fleet.

Attached are examples of information that will be made available from BNSF, CSXT, CPRS, IC, KCS, and UP required by principle number 5.

g/mkg/common/ngc4