REVIEW THE CURRENT IMPACT OF MISSISSIPPI RIVER TRANSPORTATION ON AGRICULTURAL MARKETS

HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE HOUSE OF REPRESENTATIVES

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REVIEW THE CURRENT IMPACT OF MISSISSIPPI RIVER TRANSPORTATION ON AGRICULTURAL MARKETS

WEDNESDAY, OCTOBER 26, 2005

HOUSE OF REPRESENTATIVES,
COMMITTEE ON AGRICULTURE,
Washington, DC.

The committee met, pursuant to call, at 10:00 a.m., in room 1300, Longworth House Office Building, Hon. Bob Goodlatte (chairman of the committee) presiding.

Present: Representatives Lucas, Moran, Jenkins, Gutknecht, Hayes, Johnson, Osborne, Schwarz, Kuhl, Conaway, Fortenberry, Schmidt, Peterson, Holden, McIntyre, Etheridge, Baca, Scott, Herseth, Butterfield, Cuellar, Salazar, Barrow, Pomeroy, Davis, and Chandler.

Staff present: William E. O'Conner, Jr., staff director; Bryan Dierlam, Kevin Kramp, Tyler Wegmeyer, Ben Anderson, Callista Gingrich, clerk; Lindsey Correa, Chandler Goule, and Anne Simmons.

OPENING STATEMENT OF HON. BOB GOODLATTE, A REPRESENTATIVE IN CONGRESS FROM THE COMMONWEALTH OF VIRGINIA

The CHAIRMAN. Good morning. This hearing of the House Committee on Agriculture to review the current impact of Mississippi River transportation on agricultural markets will come to order.

I have called this hearing to discuss the transportation system situation on the Mississippi River and the impact it is having on current agricultural markets. The Mississippi River is a vital part of our Nation's agricultural infrastructure. Annually, almost 1 billion bushels of grain, 60 percent of our grain exports, travel its waters. It is hard to overstate the value of this waterway when 80 to 90 percent of the corn exported from Mississippi River ports moves by barge from the Midwest.

The current transportation difficulties on the Mississippi River have many causes. Ten days ago, I led a delegation of committee members to New Orleans and southwest Louisiana to see the impact of Katrina firsthand. Hurricane Katrina disrupted barge operations and port facilities, contaminated barges with rain and storm water, and caused the transportation system to be out of sync. At the port facility we visited, I was told that export facilities are operating at about two-thirds capacity due to difficulties with the

barge logistics system and the difficulty of dealing with nearly 500 barges containing damaged grain.

Here is a sample of grain from that facility, showing the damage done to corn when it gets wet and then cooks in a barge under the hot gulf coast sun.

But the challenges on the Mississippi River system are not limited to hurricane damage. Drought in the upper Midwest reduced water levels in the Illinois and upper Mississippi that led to navigation advisories in St. Louis earlier this year. Limited flows on the Missouri River are reducing that river's contribution to the Mississippi River, potentially endangering navigation between St. Louis and Cairo, Illinois.

This confluence of events on the Mississippi River is straining our transportation capacity at a time when we are about to harvest our second largest corn crop in history, projected at 10.9 billion bushels and a record carryover of 2.125 billion bushels.

With barge capacity constrained, freight rates have risen appreciably. The USDA's October 20 Grain Transportation Report showed barge rates at almost three times the historic 3-year average. High freight rates mean lower cash bids in interior markets. As cash prices have fallen, loan deficiency payments are on the increase.

From the Corps of Engineers I would like to know what the outlook is for navigation up and down the Mississippi River and its tributaries. Specifically, what is your assessment on the availability of the water resources needed to move grain to market?

From the USDA, I would like your assessment of the impact of high transportation costs on your administration of farm programs, the steps you have taken to alleviate transportation bottlenecks, and the success you have seen in the steps taken thus far.

From the industry panel, I would like to know how this situation is impacting your operations, how you and the industry are dealing with it, and how any changes, if any, are occurring to traditional marketing patterns.

I appreciate the attendance of our witnesses today, and I look forward to your testimony.

It is now my pleasure to recognize the gentleman from Minnesota, the ranking member, Mr. Peterson.

OPENING STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. PETERSON. Thank you, Mr. Chairman. I want to thank you for calling this hearing today.

The status of the Mississippi River system's ability to serve agriculture and the other sectors of our economy dependent on barge traffic was a topic of a great deal of discussion even before Hurricane Katrina hit. The impacts of Katrina came on top of a situation where producers faced a good deal of the 2004 corn crops still in storage, a near record crop, as you said, in 2005, despite the drought in some areas of the country where they grow corn, and soybeans have added to that.

Skyrocketing energy prices are impacting all modes of agriculture commodity transport, and all of these factors are leading to

storage problems. We have, my district, large piles of corn getting bigger every day. As I fly around, I can testify to that. We always have some corn on the ground, but this year it looks like it is going to be a record. From Minnesota to the devastated gulf region, our farmers are captive to ability of the Nation's transportation system, whether its barge, rail or truck, to get their products to market in an efficient manner.

I look forward to the testimony of today's witnesses and the discussion to follow.

The CHAIRMAN. The gentleman from California.

OPENING STATEMENT OF HON. JOE BACA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. BACA. Thank you, Mr. Chairman. Thank you for hosting this hearing; and thank you, Mr. Peterson.

I think this is a important hearing since the Port of New Orleans, south Louisiana, accounts for 60 percent of all grain exported from the United States. We need to address the grain transportation. The diminished workforce issue is another issue and other problems caused by the Hurricane Katrina so that we can continue on the road to recovery.

Nevertheless, I must point out that this committee has not passed any disaster assistance for Katrina or other hurricane victims. This committee has not passed any legislation at this time in any kind of assistance.

This committee has not taken up consideration of legislation by Ranking Member Peterson to allow disaster assistance payment for farmers affected by the hurricane or improved access to food stamp benefits for Katrina victims.

Furthermore, we need to ensure that this rich agricultural region maintains a stable agricultural workforce. That is why we must look at assisting many farmers who no longer have housing and only receive limited Federal disaster assistance. We care about the industry and the green market, but I am also concerned that we are failing to address the human problems left behind by Katrina, the farmers and farm workers who are out of work and families who may not be able to receive food stamps beyond the short term of emergency food assistance.

I urge the chairman to mark up the bill by Ranking Member Peterson and allow for relief not just for the green market but also for the real human beings who are still recovering from that devastating hurricane.

I yield back the balance of my time.

The CHAIRMAN. I thank the gentleman.

Any other Members wish to make an opening statement?

[The prepared statement of Mr. Salazar follows:]

PREPARED STATEMENT OF HON. JOHN T. SALAZAR, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF COLORADO

• Thank you Chairman Goodlatte and Ranking Member Peterson for holding this important hearing today.

• Agriculture is the backbone of our economy

• Our agriculture products are dependent upon the transportation sector to deliver the commodities to markets.

• The most recent hurricanes have shown just how important the Mississippi River is for transporting America's commodities.

• That is one of the reasons why I have supported legislation like the Water Resources Development Act.
• The Water Resources Development Act would assist in updating the lock system on the Mississippi and major tributaries that carry barge traffic.
• We need to update our transportation system so that our goods can efficiently make it to market and keep our agriculture producers globally competitive.
• I look forward to hearing the testimony of the two panels
• I thank the panel participants, Chairman Goodlatte and Ranking Member Peterson for bringing this issue to the committee.

The CHAIRMAN. We will now proceed to our first panel of witnesses.

I would like to welcome the Honorable John Paul Woodley, Jr., Assistant Secretary of the Army for Civil Works of the Office of the Assistant Secretary of the Army, Washington, DC; Major General Don Riley, Director of Civil Works for the U.S. Army Corps of Engineers, also Washington DC; and Mr. Floyd Gaibler, Deputy Under Secretary for Farm and Foreign Agricultural Service of the U.S. Department of Agriculture also of Washington, DC.

Mr. Assistant Secretary, welcome. You are always welcome in my committee as a former fellow classmate at Washington and Lee Law School. It is good to have you back with us today.

STATEMENT OF JOHN PAUL WOODLEY, JR., ASSISTANT SECRETARY OF THE ARMY (CIVIL WORKS), OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY, WASHINGTON, DC

Mr. WOODLEY. Thank you very much, Mr. Chairman. It is a real privilege for me to appear before this very distinguished committee which you lead.

I am John Paul Woodley, Jr., Assistant Secretary of the Army for Civil Works. I am pleased to appear today with Major General Don Riley, Director of Civil Works for the U.S. Army Corps of Engineers, and prior to serving in that capacity, commander of the Mississippi Valley Division of the U.S. Army Corps of Engineers headquartered in Vicksburg, Mississippi.

We are here, of course, as you say, to discuss the status of the Mississippi River transportation system and the role that the Department of the Army and the Corps of Engineers plays in ensuring the viability of this critical transportation artery.

The Corps has had a navigation mission since the Survey Act of 1824. Since that time, the Corps of Engineers has established a tradition of fulfilling the vital navigation needs of the Nation through construction and maintenance of ports and waterways across the country. Surely the premier such waterway is the Mississippi River corridor. The goal of the Corps' navigation mission is to help facilitate commercial navigation by providing safe, reliable, highly cost-effective and environmentally sustainable waterborne transportation systems.

Water resources management infrastructure has improved the quality of our citizens' lives and supported the economic growth and develop of this country. Our systems for navigation flood and storm damage reduction projects and efforts to restore aquatic ecosystems all contribute to the national welfare.

The Mississippi River serves as a major transportation artery for the movement of bulk commodities such as agricultural products and petroleum products. After Hurricane Katrina struck Louisiana

and the Mississippi gulf coast, numerous barges and tow boats were impacted, many of which contained agricultural products intended for offloading at one of the many grain facilities in the New Orleans, Louisiana, area. At the same time, all shipping into and out of New Orleans was halted. This had a major impact in the short term on the ability to move petroleum products and grain.

I should mention at the same time that we also experienced a short-term closure of the gulf intercoastal waterway.

Immediately after Hurricane Katrina passed, Federal agencies, including, NOAA, the U.S. Navy, U.S. Coast Guard and the Corps of Engineers began to assess the condition of the Mississippi River, as well as all other impacted ports and waterways. This monumental task was completed much sooner than projected. Thanks to the coordinated Federal effort, outstanding support from our waterway users and partners, the Mississippi River has been successfully restored to full deep-draft operation; and many of the barges and vessels that were struck have been retrieved and placed back into service.

Mr. Chairman, this concludes my statement. I call on Major General Riley to address the current conditions and future projections for navigation of this critical waterborne transportation system; and, of course, we would each be delighted to respond to any questions from the committee.

The CHAIRMAN. Thank you, Secretary Woodley.

General Riley, welcome.

STATEMENT OF MAJOR GENERAL DON T. RILEY, DIRECTOR, CIVIL WORKS, U.S. ARMY CORPS OF ENGINEERS, WASHINGTON, DC

General RILEY. Thank you, Mr. Chairman and distinguished members of the committee.

I am General Don Riley, Director of Civil Works; and I am honored to be testifying before you today as long well as Assistant Secretary to the Army on Civil Works, General John Paul Woodley, on the status of the Mississippi River transportation system.

The latest long-range forecast prepared by NOAA for both precipitation and temperatures suggest that the upper midwestern States have a greater-than-average chance of experiencing dry weather conditions during the upcoming winter season and project warmer-than-normal conditions.

From evaluations of river stage information, it is reasonable to anticipate some fairly low stages during the next few months. Forecasting impacts on river traffic is difficult, because river stages do not directly relate to allowable drafts and tow sizes. There are many factors that are taken into consideration when deciding what prudent restrictions should be in place. For example, on the middle Mississippi, drafts are historically unrestricted as long as the Saint Louis gage is above zero feet. In August of this year, we experienced an unusually low stage of minus 1½ feet. During this period. During this period, the industry adjusted their tows by placing heavier barges in the center and larger barges on the outside.

It is unlikely to occur this winter, but once stage is reached or forecasts are reached, the minus 2 to minus 3 foot stages, drafts have usually been reduced to less than 10 feet. Provided the stages

fall at a reasonable rate and there is not a grounding which disturbs the bottom of the river, drafts of 9 feet or better can be accommodated with dredging.

In addition to draft restrictions, tow sizes are reduced as stages fall. Unrestricted tows on the middle Mississippi are usually in the 36 to 40 barge range, with stages approaching zero industry typically reduces their tows to 30 barges or less.

In the 2 to 3 foot minus stage, tows would be made up of 24 barges or less. Now, with extreme low stages, tow sizes would typically be reduced to 12 to 15 barges. All these decisions, however, are very much dependent on the actual channel conditions. Decisions regarding restrictions on tow sizes and drafts are made through a collaborative effort of the Corps, the Coast Guard, the National Weather Service and the towing industry.

The Corps' primary role is monitoring channel conditions, assisting the Coast Guard in locating and marking channels and dredging as required. There are three dredges currently working on the shallow draft channels of the Mississippi River, and the Corps has the ability to bring additional Government and contract dredges into the area when required.

Now, during the winter, ice results in suspension of commercial navigation on the upper Mississippi above St. Louis from mid-December until mid-March. During ice closures this winter, we plan to close Locks 11 and 19 for major rehabilitation work. Historically, ice on the middle Mississippi does not result in a complete closure, although some years it leads to traffic delays and short-term stoppages, typically in January and February.

In sum, it is unlikely that there will be any long-term disruptions or closures to barge movements due to inadequate channel conditions. The Corps is committed to maintaining this vital waterway in the best possible condition. We will remain diligent in monitoring channel conditions through surveys and communications with towing companies to assure that potential problems are recognized early and addressed appropriately.

Again, I appreciate the opportunity to testify today and thank you for all that you do as we work together to ensure safe, reliable and efficient navigation for our Nation; and I would be pleased to answer any questions you have. Thank you.

[The prepared statement of Mr. Woodley and General Riley appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you, General.

Secretary Gaibler, welcome.

STATEMENT OF FLOYD GAIBLER, DEPUTY UNDER SECRETARY, FARM AND FOREIGN AGRICULTURAL SERVICES, U.S. DEPARTMENT OF AGRICULTURE

Mr. GAIBLER. Thank you, Mr. Chairman and members of the committee, for the opportunity to come before you today and discuss the impacts of the recent hurricanes on our transportation infrastructure in the gulf region. The devastation and damage left in the aftermath obviously had ripple effects upstream, affecting all modes of transportation, which in turn has exacerbated the fall grain harvests and storage concerns.

I would like to focus my remarks on the impacts of the events on agriculture and, specifically, the grain industry and transportation sector's ability to move grain during this difficult period. In addition, I would like to review with you the actions taken by the Department to reduce the stress placed on the transportation and handling system and, finally, provide our perspective on the outlook for navigation as we move forward with the harvest in full swing.

In a typical year, 50 to 65 percent of U.S. grain exports move down the Mississippi and through the gulf to their final destinations around the globe. The immediate impact of the hurricanes was devastating. Although the river was opened quickly, oil spills, debris and nearly a complete loss of navigational aids rendered the river impossible for navigation.

The pace of vessel loading at ports fell considerably the week following Hurricane Katrina. In addition to the bulk grain facilities and ports along the Mississippi River, the Ports of New Orleans, Gulfport, and Pascagoula, Mississippi, sustained severe damage.

Grain elevators on the Texas gulf generally escaped damage when Rita hit. In the Mississippi and Texas gulf regions, the hurricanes affected both rail and waterway transportation negatively. Alternative ports to the Mississippi/center gulf region were already running at near or full capacity when the hurricane struck, limiting the ability to divert products to these ports.

Leading up to the Hurricane Katrina, some of the advantages of the barge rates over rail were already eroding because of the severe drought in the cornbelt States and lower water levels in the upper Mississippi River system.

USDA responded quickly to this situation and implemented several emergency provisions to reduce the stress on the grain transportation system and help improve the situation for farmers and ranchers immediately.

First, USDA provided a temporary incentive to assist movement of 145 barges of damaged corn, nearly 180,000 tons, out of New Orleans to up-river locations. Once unloaded, the empty barges will continue up the river and begin to move new crop commodities.

The Department also paid incentives for alternative storage of up to 50 million bushels of grain. To date, we have accepted proposals for more than 41 million bushels. This will further ease pressure on producers marketing commodities under adverse conditions.

USDA also provided a transportation differential to cover the costs of moving grains from other transportation modes, handling methods and locations. We have accepted six offers to move nearly 295,000 tons of corn, wheat and soybeans through the Great Lakes and Pacific Northwest ports.

The Department also made immediate changes to our 2005 crop year marketing loan assistance program to allow producers to obtain loans on farm grain storage in addition to storage in grain bins and other approved structures.

To further alleviate grain movement pressure, the Department, on a State-by-State basis, allowed producers with 2004 corn, soybeans and rice loans that matured in September and this October to—and wish to forfeit that loan collateral—the opportunity to hold those commodities for 60 days. During that 60-day period, they

have the option to purchase those commodities at the rate CCC uses in allowing marketing assisted loans to be paid.

With respect to the recovery at the Port of New Orleans, normally 1,500 to 3,000 people are employed as dock workers, truckers and crane operators. Currently, 1,000 of the workers have returned to work and are living on temporary MARAD ships provided by the Department of Transportation. There is continued high demand for truck drivers at the port, and truck capacity is running at 40 percent of pre-storm levels.

The Mississippi gulf grain inspections have increased significantly, and Texas gulf inspections have returned nearly to normal, with the exception of the Beaumont facility. Vessel loadings in the Mississippi and Texas gulf are recovering and progressing; and rail deliveries, while they remain low, they have begun to rebound in the Mississippi. Real grain deliveries have begun to rebound significantly in the Texas Gulf.

Barge operators, from our intelligence, say a lack of adequate labor to unload barges and turn them around is still resulting in a huge bottleneck of barges in the South; and there is a critical shortage of lodging facilities for barge crews in the southern area.

Barge shipments to the Mississippi gulf were running behind the 4-year average before Hurricane Katrina; and while they continue to lag for the week ending October 15, grain shipments, barge grain shipments rose over 160 percent of the preceding 4 weeks. Shippers are bidding against each other for barge and rail capacity; and some shippers are paying as much as 93 cents per bushel to ship corn on barges, 200 percent more than last year.

Grain storage capacity remains a serious problem, complicated by the carryover of soybeans and corn from the bumper crops as well the ongoing harvest of what will likely be the second largest crop on record.

Longer term, we are optimistic, but cautiously so. We think the pace of recovery and status of the grain and barge industry today are remarkable, given the damage inflicted by the hurricanes; and where we are today we believe is in no small measure to the cooperation of many people—the individuals in the grain and barge industry, the Army Corps of Engineers, Coast Guard and the Department.

We are optimistic that the river system will handle the grain, even though it will be a more expensive year to move grain.

Obviously, grain transportation, storage and energy costs are the three critical issues facing Midwest farmers along the river today. While the situation is steadily improving, an intense focus will be continued by Federal, State and local governments along with private efforts over the short term, particularly in the next 3 to 6 months.

So, with that, Mr. Chairman, I will conclude my remarks; and I appreciate the opportunity to answer any questions.

[The prepared statement of Mr. Gaibler appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you, Secretary Gaibler.

My first question for you relates to the capacity of the grain handling facilities. When we were down in New Orleans 9 days ago, myself and 10 other members of this committee, we were informed

that the estimate was between 65 and 70 percent capacity. They were not complaining. They said they were short of labor, but their biggest problem was the availability of grain coming into them because of the number of barges that had this kind of damaged grain on it and they were not being offloaded. They were not being diverted to some other purpose, and therefore the barges were not being freed up to get back up-river and bring more grain down.

I wonder if you might comment on that observation we received from the industry folks that we spoke to.

Mr. GAIBLER. Well, there is no doubt, when the hurricane first hit, we reached out to the industry and asked them to determine for us what the critical issues were that they were facing after the hurricane; and the damaged corn in barges was the primary issue that was raised. So that was the first thing that we did as far as the three major initiatives that we undertook. We agreed to move up to 110,000 tons almost immediately within a short time frame after the hurricane hit. We kept getting proposals in after the fact, so we felt we had to evaluate those proposals and address them. So we issued a Federal Register notice and we have accepted proposals for another 45 barges.

The argument could be made that we could always do more because of continued grain down there, but we have had to balance that against the costs of moving that product. They are very high to move grain because it is a out of position move, not a normal movement. You have to find a place for this damaged grain, and that is a conflicting and a complicating factor.

The CHAIRMAN. Let me interrupt you, Mr. Secretary. Do you have an estimate of how many barges remain loaded with damaged grain in the New Orleans area?

Mr. GAIBLER. Well, we don't have a firm estimate. The best we have come up with is 250 barges that could be possibly loaded with grain. In looking at some of their proposals that also included some that were upstream such as St. Louis.

The CHAIRMAN. Let me ask you this. Have you exhausted the funds available for this program that you have put in place to free up barges, and are you considering any additional funds for that purpose?

Mr. GAIBLER. We have basically exhausted the funds that were targeted towards the barge movement. We do have some remaining funds left over from the transportation differential and the alternative storage. We would have to go back to OMB, frankly, and seek approval if we were to do that.

The CHAIRMAN. Have you done that?

Mr. GAIBLER. We have had conversations—personally, I have had a preliminary conversation with staff at the Office of Management and Budget about that possibility.

The CHAIRMAN. Has anybody in the Department determined the impact of these 250 barges being unavailable to transport grain down the river and the cost to the taxpayers of higher loan deficiency payments because of the fact that grain prices are so low when they are sitting on the ground, as the gentleman from Minnesota noted was the case in his district and I know in many other districts up and down the Mississippi River valley?

Mr. GAIBLER. Well, we haven't done any explicit analysis on it, but we believe that undertaking these initiatives would have a positive impact and result in trying to help keep prices up at a level higher than they would otherwise be.

As a rule of thumb, for corn, when the price is below the loan rate, a penny moved up or down is equivalent to $90 million based on this year's crop. So we felt that whatever we did in terms of the cost was going to be beneficial, but we don't have any specific analysis in terms of what impact that has had.

The CHAIRMAN. But you think that getting these barges freed up would definitely have a positive impact on the payments under our farm programs?

Mr. GAIBLER. Yes. Yes, we do. In fact, I would note as early as yesterday we received a briefing on current corn prices. One of the factors that kept prices from—particularly the futures prices from moving down more than anticipated was the fact that the barge rates had actually decreased 15 cents a bushel for corn over the preceding week. So we think there are some positive impacts here.

But, obviously, we do have a critical situation with the ability to deal with this damaged grain. The elevators have to find a way to take that grain off the barges and blend it and condition it in with other grain; and that slows up the process and the ability to move grain out of the elevator.

The CHAIRMAN. But some of the grain can be moved back upriver and used for other purposes like livestock feed and so on that might not be suitable for the export purposes served by many of those terminals in the New Orleans area?

Mr. GAIBLER. That is a possibility. One of the things that we looked at, though, was that we did not want to see these movements go back up and displace what uses that could have been otherwise fulfilled by old crop or new crop harvest corn. So we were very careful about trying to make sure that we don't displace grain that would otherwise say go to an ethanol plant or a livestock feed that would have otherwise came in from old or new crop.

The CHAIRMAN. I understand, Mr. Secretary, but it is also true that if you remove the grain from those barges you free them up to restore the entire transportation flow. One of the problems we have right now is we are losing international markets because of the fact that we cannot transport enough grain through New Orleans to meet the demand; and foreign competitors are stepping in with higher grain prices on the international market, ironically, to meet some of these needs. So restoring the normal flow of grain through our system as rapidly as possible has serious long-term implications. Not only will we save money on the payments under our farm programs, we will also restore the international markets as quickly as possible and keep the price of grain higher than it is.

So I hope you will join us in pushing the Office of Management and Budget to act on this and act on it rapidly. Time is really of the essence in terms of getting the system back to normal. It is going to take a while under any circumstance, but if we have 250 barges that are idled and nothing being done to free them up, we have a problem that concerns me greatly.

Thank you very much, and I will now yield to the gentleman from Minnesota.

Mr. PETERSON. Thank you, Mr. Chairman.

Mr. Gaibler, I think you said in your testimony that the barge loadings were running behind the 4-year average prior to Katrina? Is that correct?

Mr. GAIBLER. That is correct.

Mr. PETERSON. Maybe I missed it, but do you know why that is?

Mr. GAIBLER. Well, I think a lot of it was driven by the fact that we had the low-water-level problem in the upper Mississippi that we have been dealing with all summer primarily because of drought. And we have continued escalation of energy prices; and that has increased costs and competition across the board for either barge, rail or shipping. As it relates to corn export demand has been somewhat muted lately for a number of reasons.

So I think it is a combination of those things, we already were in a situation where barge rates were already high preceding the hurricane. Then, with the impact of the hurricane, the totality of that, simply exacerbated it; and that is when we really saw the barge rates spike.

Mr. PETERSON. Maybe it is completely unrelated, but up in my area and all around my district, they are building more and more ethanol plants. I think there is 10 or 12 of them that are under construction now. We just added four in the last 6 months in my district. They are using a lot of corn and I think this thing is really at the infant stage of really taking off.

We have been working on this for 30 years. We finally have the car companies now even advertising E–85 on television. A year and a half ago, north of Alexandria, which is 250 miles from the Canadian border, we didn't have an E–85 pump; and now we have one in just about every town. We have been out trying to promote it.

So, long term, I wonder if you are going to have as much corn moving down the Mississippi. The more we build these plants, the less corn that is going to be needed to moved out. Have you looked at that?

Mr. GAIBLER. Well, we have looked at that from a number of viewpoints. Corn for ethanol has become such a large amount of it, it is now a single-line item in our supply/demand estimates; and we know the growth of ethanol plants is increasing dramatically. The energy legislation with the increase of the minimum renewable fuel standard will obviously incentivize the expansion in that area, and we note that it has become a situation that we have to deal with in trying to calculate our posted county prices and try and relate to changes in local supply and demand conditions. We notice that the influence of ethanol, along with large livestock markets, is making our ability to manage these PCPs more difficult.

So, yes, we think that there is, and I think in some areas of the country the local conditions with respect to ethanol plants and livestock feeding and other uses have lessened the impact that some other areas have had with storage and transportation problems.

Mr. PETERSON. What would happen if we made all of the corn that is now exported into ethanol? What would happen to the transportation system on the Mississippi?

Mr. GAIBLER. Well, we haven't looked at that. We export roughly about 2 billion bushels of corn a year and a significant amount of soybeans and other products; and we continue to believe that exports are going to continue to to expand. That is part of the reason why the administration has put so much effort on the Doha round to try and gain market access, because we think that is, long term, the best way to expand our ability to remain competitive in the long run.

So I think our export markets, value-added markets are going to continue to be there and to continue to grow; and we will need to have the Mississippi River barges and other transportation modes to move our products.

Mr. PETERSON. Well, you are probably right, but I just would advise you, given the price that people are getting today for their commodities, you have a growing number of people out there that are questioning whether we should be exporting at a loss like they are doing this year. A lot of people talking about let's try to switch this ethanol, get the livestock in there to eat the byproducts and shift the whole structure. So it is going on, and it is maybe growing faster than a lot of people realize. I think you ought to at least think about that long term in terms of what impact this might have on the whole situation.

The CHAIRMAN. I thank the gentleman.

The gentleman from Michigan, Mr. Schwarz, is recognized.

Mr. SCHWARZ. I know neither of any of you are rail experts per se or represent the rail industry, but I would like to know what, at least as far as your knowledge is concerned, the capacity of the rail industry is to make up for the shortfall in barge capacity in moving grain south to the Port of New Orleans.

ICCM's Main Line goes right down to Mississippi into New Orleans. Kansas City Southern does as well. Union Pacific has trackage into New Orleans. Is there any help there? Is there any help forthcoming? Or do they simply not have the capacity in grain-carrying hopper cars.

It would seem to me this would be a time for the U.S. rail industry to step up and try to close some of the gap that has been created by the unavailability either of the river itself for navigation or of barges.

Mr. GAIBLER. I will try to respond.

I do not know the current capacity of the rail system.However, they have made investments over the last few years in the infrastructure and hopper cars and locomotives and that they are very much operating at full capacity. The fact that part of their interchange systems particularly in the Texas gulf are still going through reconstruction.

But we do know, at least from our transportation differential initiative, that we were able to see some of those movements that would have otherwise gone down to the gulf being diverted primarily through the Pacific Northwest. So there is some capacity there, and I do think it will begin to even out as we get through the critical harvest period. But the nonagriculture traffic is in demand, is very strong at this time right now as well.

So I can't speak any more definitively about their capacity, but we certainly would be willing to provide you more information.

Mr. SCHWARZ. I think possibly on the next panel there may be some folks that can answer those questions a little more specifically, but just for anybody who might be listening it seems to me that this is a great opportunity for the rail industry in the United States to step up to the plate and do the job.

We have heard complaints from the rail industry over the last couple of decades that they are underutilized; and then they do things, mergers, undermaintenance of right of way, where they really can step up to the plate. This would be an absolutely superb example of where they could, because of the rail lines that parallel the river coming out of the Midwest down to Port of New Orleans and other gulf coast ports. I think it is a valid point, and I hope it is a point made with someone.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

The gentleman from North Carolina, Mr. Etheridge, is recognized.

Mr. ETHERIDGE. Thank you, Mr. Chairman.

Mr. Secretary, question for you. When we were in New Orleans, a little over a week ago now, one of the issues was personnel to help the elevators and, obviously, the barges. But my first question deals with personnel. They had indicated to us—and you may have talked about this earlier, before I got here. But my question is this, that there is a shortage of personnel, and there are some temporary lodging or trailers that have been moved in to help. But my question is, along the whole range of the Mississippi now with all the ports—and then I will come back to the barges—has that been looked at by the Department to help that, in addition to FEMA? Because there are people who are outside the New Orleans area that probably could help there, but we just don't have the people and facilities to help run some of the equipment they already have, even if we wanted to move the grain through. Is that correct?

Mr. GAIBLER. Yes. Well, to answer your first question, yes, there is a shortage of labor, and there is a shortage of housing, lodging facilities. I know that the Department's Rural Development Agency has worked closely with FEMA to try and provide alternative housing for people that have lost their homes as a result of both Hurricanes Rita and Katrina and are now working on Hurricane Wilma.

Mr. ETHERIDGE. Mr. Secretary, do we have a timeline for that? if we don't have a timeline, we don't know what we are going to get to. I understand your dilemma, but has anyone done the timeline?

Mr. GAIBLER. I will have to get that for you. I simply don't know. I know that Rural Development is working with FEMA to provide housing, and I assume that part of that would encompass employees in the New Orleans Louisiana Gulf area.

As I mentioned in my testimony, there has been assistance through MARAD and the Department of Transportation in terms of those issues as well.

Mr. ETHERIDGE. If you would provide that, we would appreciate it. Along with that and the challenges we face there, because it has an impact, as has already been seen in some of the questions you have shared with us, the amount of damaged grain to 250 idle barges—my question is, prior to the hurricanes, it created a prob-

lem, or some of the problem. Do you know what the cost of a barge was, usage of a barge, and then how much that has escalated through, let's say, last week?

Mr. GAIBLER. I don't have specific information. I have read some of the testimony of the other witnesses that could give you precise or more specific numbers, but we can provide that for the record. In addition, we have provided a whole set of charts to give you an overview of barge shipments and barge rates, but I can't give you the specifics of what we have.

Mr. ETHERIDGE. Do either of our other witnesses have that number?

General RILEY. No, sir. I don't have good specifics on that for you.

Mr. ETHERIDGE. If you could provide that, I would appreciate it. Because that I think that, along with the other stuff, has a real impact on our competitiveness as our farmers try to deal in the world market. As the chairman said earlier, this puts us in a very big disadvantage not only competitively but forces through payments to increase those numbers.

Now let me ask one other question, Mr. Secretary, before my time runs out, as it relates to the barges that idle in and the amount of damaged grain. There has been talk of the Commodity Credit Corporation receiving proposals to move some of that damaged grain, of course, out; and you alluded to that earlier.

The key is, the sooner we get it moved—however we do it—it seems to me would be an advantage to the farmers up-river and, No. 2, to all taxpayers. Because one way or the other we are going to pay that price. It may be more expensive keeping those barges inactive than it would be if that was disposed of and we could make them active. Comment on that?

Mr. GAIBLER. We are willing to look further into more barge movements of damaged grain. We were trying to weigh that particular issue against the ability to divert shipments from going down the Mississippi River system as well. I have heard the concerns raised here by the committee and the chairman and others, and we will certainly go back and consider providing more alternative assistance in that regard.

Mr. ETHERIDGE. Thank you.

Thank you, Mr. Chairman. I yield back.

The CHAIRMAN. Thank you.

Gentlemen from California, Mr. Baca.

Mr. BACA. Thank you, Mr. Chairman.

Mr. Woodley and General Riley, if weather conditions were to allow it, is it possible that the barge movement could continue on the upper Mississippi beyond the normal mid-December shutdown?

Mr. WOODLEY. Yes. I believe that the limiting factor is the ice that closes the upper Mississippi navigation.

Mr. BACA. General Riley.

General RILEY. Yes, sir. That is correct. We watch that very closely, and it is purely related to the ice condition in the upper Mississippi and the locks and how we can operate them safely.

Mr. BACA. Question to both Mr. Woodley and General Riley. In your testimony, you said that construction is set on begin on December 15 on Lock, I believe, either 11 through 19 or Lock 15 and

19. Is there any chance that this construction could be pushed back if there continues to be demand for barge movement into and out of this area and weather conditions were to make it possible?

General RILEY. Absolutely, Congressman. We would do that. We will only begin that construction upon the ice conditions allowing that to begin.

Mr. BACA. This question is for the Under Secretary. There has been discussion among farmers over the years about the ability to lock in loan deficiency payments on the date of their choosing. Does the administration have the authority to allow producers to do this?

Mr. GAIBLER. To lock in? No. You are saying to try and lock in LDPs at a later date?

Mr. BACA. Yes, that is correct.

Mr. GAIBLER. No, we don't have the authority to do that; and we would have concerns about doing that. That relates to this issue of beneficial interest. The beneficial interests are there to protect the producers by preventing grain elevators from taking possession of grain before producers lock in loan repayment rates, and we think that relaxing beneficial interests requirements creates a potential for fraud and abuse and then thus increases potential budget exposure.

Mr. BACA. Thank you.

The chairman asked an important question when you talked about the international market and competitiveness and the high cost. Have any studies been done based on us passing CAFTA not too long ago and the impact it could have on us now and it could have on the future not only with what is happening right now? Have any studies been done? Because this could also impact us internationally in terms of our competition, our market.

Mr. GAIBLER. Well, as I recall——

Mr. BACA. Of course, we should have voted no, but we voted yes.

Mr. GAIBLER. I forget the numbers. I think that the current exports that we had to the CAFTA countries was in the neighborhood of—I think it was—I am going to have to correct this—but in the neighborhood of some $5 million. But the estimates were that, because of the new CAFTA implementation and the fact that the tariffs were going to go down immediately or be eliminated completely in some cases, that our exports could double almost immediately. So we think that it is important to increase trade, particularly within our own hemisphere. We have a lot of competitive advantages to do that. So we think that CAFTA will have a very positive impact for the agriculture industry in total.

Mr. BACA. But yet it could impact our farmers, especially when we talk about the corn and ethanol plants that are being built where, because of CAFTA, they could actually obtain—and it was stated here by the Under Secretary, in the past, that they could obtain that corn a lot cheaper from foreign countries or other countries. Is that correct?

Mr. GAIBLER. I don't know what statement you are referencing. But, I believe that the United States has the ability to compete very competitively with most countries in terms of corn and particularly because of the transportation infrastructure that we have in place. That is another reason why we need to continue to focus

on modernizing and improving it, so that we can retain that competitive capacity.

Mr. BACA. I hope we continue to do a study and get a report back to look at any impact CAFTA may have on us and our farmers now and in the future as well as we continue to grow and continue to deal with the international market.

Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman.

The gentleman from Nebraska, Mr. Fortenberry, is recognized.

Mr. FORTENBERRY. Thank you, Mr. Chairman. I will keep my comments short, since they were very capably covered by you as well as Mr. Etheridge.

I wanted to go back to the issue of barge transportation. I was privileged to join the chairman and other Members on the trip to New Orleans in the gulf coast region. You had mentioned 93 cents a bushel you had heard as one peak of the transportation costs. We had actually heard $1.10 over previous highs of 60 cents.

Again, not to repeat everything that has already been said, but anything you can do if this testimony helps give momentum to the initiative to untie the knot quickly by your offloading program or others. I think, as one industry official estimated—and this is very rough and only anecdotal—but that could result in a 25 to 30 cents price movement on grain. Again, if LDP payments roughly equate to 100 million percent, that is a lot of money that we can save the taxpayers. So in the interests of restoring export markets, increasing prices, saving money, this may be a very wise investment if you could increase your priority in this regard.

Thank you.

Mr. GAIBLER. That you very much, Congressman. We will take that into consideration.

The CHAIRMAN. I thank the gentleman.

The gentlemen from Georgia, Mr. Scott, is recognized.

Mr. SCOTT. Thank you very much, Mr. Chairman.

I think there is a fundamental question that certainly needs to be raised in light of the very tragic hurricane season that we have had and that is that, in terms of our own U.S. farm prices of grain, it is basically determined by the international market price minus the cost of moving that grain from the farm to the market in this country. Given the damage that this hurricane season has done in the gulf region, particularly vis-a-vis the Mississippi River where 60 percent of our grain products are moved, what are we doing in anticipation of the future?

My thinking is that if this happened and we had these kinds of storms this time, given the trend, given what many of the experts are saying, that because of global warming that this is something that we can somewhat look forward to in the future, heavy, damaging hurricanes season after season, until and unless we can do something about global warning. Of course, that debate goes back and forth, but it certainly is there.

With that in mind, I am wondering if there is any thought being given in terms of preparation in view of these hurricanes coming and the proximity of them coming again and again, with greater regularity and more devastation, what alternative modes of transportation do we have? Would we not be wise to begin to look at

maybe train routes or looking at how we can get products moved to Mexico or back and forward, without the heavy dependence on the Mississippi River? If we do that, what impact would that have on pricing and what would that do to the economy, especially within the Mississippi River basin?

Each of you might comment on that.

Mr. WOODLEY. I would just like to say a couple words on that, Congressman, that our experience was that in the current event, in the series of hurricanes that struck, that we were able to get our infrastructure in terms of the channels and waterways back into service very rapidly. And so I think that we do need a lot of work certainly on the levee systems that support the other infrastructure, that protect port infrastructure, that protect shoreside infrastructure, and allow it to get back into service just as rapidly. But I think we had a very good record and can continue to anticipate a good capacity to return the channels themselves and the waterways to 100 percent active service, including restoration of the aids to navigation.

That does not mean that I believe your point is not well taken. I certainly do believe your point is well taken, and that alternatives and redundancies should be built into every critical national infrastructure system. I think that the reality, though, that in the case of shipment of bulk commodities, the reality is and will continue to be that water transport offers enormous comparative advantages to every other kind of transportation.

Mr. SCOTT. So your concluding point then is that the best way to prepare for the future, given the propensity of these storms coming more and more with greater regularity because of global warming, is not to look for alternative routes, but that it is within our capacity to strengthen the infrastructure to withstand and not have alternative routes in the plan?

Mr. WOODLEY. No, sir. I don't discount the validity of alternative routes and redundancy as an important point for future planning. I do not discount that. The observation I make is that the ability of waterborne transportation to economically move large bulk is a characteristic of that transportation, that mode of transportation that seems to me immutable and that will continue to be very, very important, as opposed to or compared to any other alternative that we could name. But I certainly would support the concept of a need for every form of redundancy in the face of the phenomenon that you described, which I agree with you will continue to be a feature of our weather and the challenges that we face going forward.

Mr. GAIBLER. I would just only add that I would concur with the statement by the Assistant Secretary, and only to amplify a little bit, that in terms of lessons learned, you know, I think the things that we have done were unprecedented and never tried before, and I think, again, they were done to be temporary, short-term, try and help get the system back up to full speed. And I think our role is to, if this happens again on a recurring basis, to fine-tune those kinds of initiatives so that, again, get the system back up to the point where it was prior to the damage.

So, again, rail and truck and barge are all critical, but barge certainly has a comparative advantage and will always and should be a predominant carrier of our bulk agricultural commodities.

Mr. SCOTT. Thank you. I thank the gentleman.

The CHAIRMAN. The Chair recognizes the gentleman from Kansas.

Mr. MORAN. Mr. Secretary, has there been a Department estimate of the cost of farmers in reduced prices due to the series of hurricanes? I notice in your testimony that you talk about historic prices, what they were a year ago and what they are today, at least in some commodities. Is there an attribution of those reduced prices to lack of shipping? Related to that question is, have we been able to determine an effect upon the fuel price that results to our farmers as a result of the hurricanes? My question is, what is the consequence to the price our farmers receive and the prices we pay for inputs as a result of Hurricanes Katrina, Rita, and others?

Mr. GAIBLER. The Office of Chief Economist came out with an estimate after the impacts of the Hurricane Katrina, and I think his analysts suggested that increased energy costs could increase by $85 million a month as a result of Katrina. And I think he has done some further analysis in terms of looking at what the other hurricanes have done, and plus the fact that we just had a very strong demand for oil and fuel use.

As it relates to commodities themselves, it has had an impact on price. But when we looked at this before Katrina as a measure, we were looking at our loan deficiency payments for corn projected to be about $3.5 billion. And when we came out with our last supply-demand estimate this month, we did increase those LDPs slightly from $3.5 billion to $3.7 billion. And so while that was attributed partly to the problems of the hurricanes, the transportation disruptions, and the weak basis, a lot of that was still on the impact of our adjustments that we made in terms of increased production estimates.

Mr. MORAN. Is corn the only commodity that you are anticipating an increased payment under the LDP program?

Mr. GAIBLER. No. We will probably see other commodities that will have increased LDPs. We focused primarily on corn because that is the one that is the issue. That is where the barge problems are. But we anticipate—right now soybeans of course we are not paying LDPs but we are paying LDPs on a number of other commodities.

Mr. MORAN. Mr. Secretary, finally, what is the status of the Department's estimate of actual crop losses in the gulf region due to the hurricanes?

Mr. GAIBLER. Well, if you look at the dollar losses, again, this came from the Office of the Chief Economist. The total dollar losses estimated for Hurricane Katrina were around $882 million, Hurricane Rita were $195 million, and then the drought and other related disasters in the upper Midwest were originally estimated at $1.27 billion but they were revised down to $701 million, again because we saw that the crops were coming in much better. The corn and soybean estimates, production estimates were raised from the September to the October ag supply-demand estimates. So in total then—I didn't total it up, but we are looking at roughly $1 billion with the hurricanes and some $700 million in losses. This is crops, livestocks of all types.

Mr. MORAN. Do you expect those numbers to change? Are those preliminary numbers, or that is a firm estimate by the Department?

Mr. GAIBLER. I think right now the numbers are fairly solid. Again, they did do—the only re-estimate that was done was with respect to the drought-related losses.

Mr. MORAN. Secretary Gaibler, thank you very much.

Major Riley, what, if any, are the long-term consequences to the Mississippi River as a result of the damage from the hurricane as that Mississippi River is a major transportation asset to our country?

General RILEY. Sir, I don't think there will be any long-term impacts. There is clearly a short-term one in the lower Mississippi and the ports of New Orleans. But within a day barge traffic was moving and then within a month the deep traffic vessels were moving.

Mr. MORAN [presiding]. Thank you. The gentleman from Minnesota.

Mr. GUTKNECHT. Thank you, Mr. Chairman, and let me thank Chairman Goodlatte. I was among those who went along on the trip to New Orleans, and it was really a very, very interesting trip. A couple of things that I learned that I suspect some of my colleagues don't know and some of the folks who may be here didn't know, at least I didn't know before I went down there, and that is that what we consider to be the Port of New Orleans is actually almost 100 miles long. So we have a lot of port facilities. The ones at the lower end sustained considerable damage, and the ones at the top, at least we were told, had very little damage. So there is sort of an interesting story there.

Second, I did not know how much of our grain ultimately goes through that harbor, how important that really is to our grain producers.

Third, let me say to the Army Corps of Engineers, we saw photographs of sort of the before and after. And I think on behalf not only of our agricultural producers in the upper Midwest but on behalf of an awful lot of other people, we owe the Army Corps a tremendous debt because they have done an amazing job in a relatively short period of time of getting much of the river and the facilities cleaned up, because we saw pictures of very large vessels on their sides and we saw pictures of barges upside down, and I was pleased to see that most of that has been cleaned up in one way or another so that ships can come through.

The other thing I wanted to mention, Mr. Chairman, seated behind the Secretary I see Bert Farrish, and I want to thank him. He was in my district earlier this week, because we have a serious problem, as I think an awful lot of the folks in the upper Midwest do, in terms of LDPs that are just sort of off the charts and sometimes very hard to explain from one county to the next. So I want to thank him for coming up there and meeting with some of our producers and seeing if we can't come up with a more rational way in which we calculate those.

Finally, and I think perhaps most of the questions have been asked that I would have asked. But one of the things we learned when we were in New Orleans is that the port is roughly, at least

the south end is operating at about 65 percent of capacity, and I think the question that we all have is, what can we do from a Federal perspective to get it back up to 100 percent as soon as possible? We can't quantify right now, but based on what we see in terms of the problems with low grain prices, not enough storage, we can't move our grain. Any idea of what we can do to get it back to 100 percent faster? And is there any prognostication in terms of when we will get there?

General RILEY. Sir, if I could only address our role in that. I think our most important piece of that is bringing the hurricane protection level back up in the New Orleans area to at least, as we are authorized right now, to pre-Katrina conditions. That would certainly help provide the confidence of the people in business and industry that want to get their people back to work. And so that is our role, and we see a pretty good assurance by December of having an inner level of protection to allow through normal winter conditions, and then by June being able to protect at a pre-Katrina level of protection for the next hurricane season.

Mr. GUTKNECHT. One of the questions, and this does not necessarily relate only to agriculture. But we have heard a lot of discussion, and this is the first chance we have had publicly to talk to the Army Corps of Engineers about this. In terms of rebuilding the dikes around New Orleans, I have some of my constituents, and it has been discussed publicly, how much of New Orleans can you really protect?

General RILEY. Sir, what we are authorized of course to do right now is protect the New Orleans proper area up to that pre-Katrina level. And there are certainly areas that the city and State and local communities will have to consider whether or not they want to reoccupy. A greater level of protection of course is another question, and how extensive that wants to be. That is more for the State and then Congress and the administration to determine. But certainly the cost of that would be substantial.

Mr. WOODLEY. I would concur in that response. I believe that we will find, while we do have studies under way that will provide a great deal more information and understanding of the pros and cons, I believe that we will find that protecting that city against a storm similar to or even greater than the Hurricane Katrina will be feasible but very expensive.

Mr. GUTKNECHT. I am still not clear. But when do we assume that the Port of New Orleans will be back to 100 percent of operation?

General RILEY. Yes, sir. I cannot talk specifically to the port operation. I am sorry.

Mr. GUTKNECHT. All right. Thank you.

The CHAIRMAN [PRESIDING]. I thank the gentleman. I want to ask Secretary Woodley and General Riley a couple more questions.

First, Mr. Secretary, quoting from your testimony, it is unlikely there will be any long-term closures or catastrophic disruptions to barge movements due to inadequate channel conditions. I am quoting from your testimony. What are the key factors we should be watching for over the next few months to see if the situation changes?

Mr. WOODLEY. The thing to be watching would be Coast Guard advisories that would be put out to limit or advise navigators on adverse conditions that they would have to deal with in various ways by adjusting their operations.

The CHAIRMAN. And let me get a little more specific about one of the concerns that has been raised with us. And that relates to the Missouri River. What is its normal contribution to the Mississippi River flows at St. Louis? And at what level would navigation difficulties develop between St. Louis and Cairo?

Mr. WOODLEY. The question is very complex, and I have come to understand that when you speak of the Missouri River system, the word normal does not seem to have a great deal of meaning, Mr. Chairman.

It is substantial, and in the average year—I have not yet been privileged to see an average year, but I keep hoping that the next one to come will be an average or better than average year, because the drought in that system has been prolonged and profound and has had a very deleterious effect on the livelihoods of the people in the Basin as a whole.

I will say that in a normal year the contribution is very substantial, because the runoff from the upper Mississippi is actually generally less than the contribution of the Missouri River, if I am not mistaken about that, equal to or less than that contribution. So it is a very important contribution to Mississippi River navigation.

The CHAIRMAN. Mr. Secretary, are you telling us that you don't anticipate any disruption in barge traffic between St. Louis and Cairo as a result of the flow from the Missouri at this point in time this year?

Mr. WOODLEY. That would depend upon on how conditions develop primarily in the upper Mississippi.

The CHAIRMAN. I understand.

Mr. Woodley. We do not anticipate it. At this time we do not anticipate it, and we are preparing to accommodate any disruption or any potential disruption by increasing our dredging capacity in this reach of the river between the confluence of the Missouri and Cairo, Illinois.

The CHAIRMAN. General Riley, do you have anything to add to that?

General RILEY. Not much, Mr. Chairman. But the Missouri River does contribute about 2 feet to the water levels. Today the gauges showed it 4.2 feet at St. Louis. And when it gets down to zero, that is when the industry and Coast Guard begins to place restrictions on barges. It is forecast to go down somewhat to this, but that is both across the Missouri and the upper Mississippi with the drought and dry conditions. So the unique and particular contributions of the Missouri I don't think will be so significant as being different from the upper Mississippi.

The CHAIRMAN. Thank you very much. The gentlewoman from South Dakota signaled she didn't have any questions. But none of my questions prompted any? You are recognized.

Ms. HERSETH. Well, I appreciate that, Mr. Chairman. I appreciate your questions to the panel. With regard to the Missouri River, representing South Dakota you understand the concerns we have, and certainly share in the statement, Mr. Secretary, that

there hasn't been a normal year, so to speak. And until we get some decisions that may recognize some changed economies and changed interests that have developed along the upper basin States that have suffered the most severely from the drought, I do think that we are going to face similar problems with Missouri River management and how that impacts the Mississippi and the flow of barge traffic and the impact that that has with the high transportation costs on the rest of the agricultural market. And those of our producers in South Dakota that perhaps ship some of their commodities utilizing barge traffic down the Missouri and then in the Mississippi remains to be seen, although we do know that there has been an impact on the national agricultural economy.

And so, as the chairman may have mentioned at the outset, I had the opportunity to travel with him and other members of the committee down to New Orleans a week or so ago to talk with some of the folks at the different grain terminal facilities. I know that there was mention that Harvest States was probably the hardest hit terminal there, but we met with some officials with Cargill that were talking about the concerns with the barge capacity or with the terminal facilities capacity. And perhaps this question has already been pursued, but do you see any improvements that have been made since the devastation of Hurricane Katrina and where we are that there is going to be an ability, or perhaps this committee can go forward and do something to assist as you work with USDA and other programs that may be available there, to free up certain barge traffic, to get upstream to be able to get better quality grade grains to blend off with some of the poorer quality that suffered damage during the hurricane? Has that already? That may have already been explored, but perhaps you could address that.

Mr. WOODLEY. Yes, ma'am. I believe Deputy Under Secretary Gaibler addressed that in the context of an earlier question.

Mr. GAIBLER. I will just amplify for your benefit. We did undertake as one of several initiatives to try and divert barges with damaged grain out of the New Orleans area early on, beginning last month, and continuing in to this month, and we have diverted 145 barges, roughly 180,000 tons, of damaged grain to alternative locations. There is, as has been expressed here, the need for more, but there are still several barges in the New Orleans area. We recognize that and we are willing to take another look at what we can do to continue to help in that particular situation.

Ms. HERSETH. Thank you.

The CHAIRMAN. Thank you.

I will thank this panel again for your contribution today.

Secretary Gaibler, we have been in communication with the Department, with Secretary Johanns, and will be with Director Bolten regarding this question of whether we are being penny wise and pound foolish not to expend some additional dollars to dispose of the grain on those barges in some fashion that may require some expenditure but would save us a lot of money in terms of loan deficiency payments, restoring the market as rapidly as possible, and not losing any more of our international sales than we have already. And I hope you would take back to the Department our

sense of urgency about that following our visit to New Orleans last week.

Mr. GAIBLER. I will do that, Mr. Chairman.

The CHAIRMAN. I thank you, sir, and I thank all of you for your contribution today.

I want to welcome our second panel: Mr. Robert Dickey, who is a producer with the National Corn Growers Association from Laurel, Nebraska.

Mr. Timothy Gallagher, senior vice president and general manager, grain division, of Bunge North America from St. Louis, Missouri on behalf of the North American Export Grain Association.

Mr. Royce Wilken, president of the American River Transportation Company from Decatur, Illinois, on behalf of the National Grain and Feed Association.

And Mr. Robert Kohlmeyer, president emeritus of World Perspectives, Incorporated, from Fairfax Station, Virginia.

I would like to remind all members of the panel that their full written testimony will be made a part of the record, and ask them to limit their testimony to 5 minutes. And we will start with you, Mr. Dickey, welcome.

STATEMENTS OF ROBERT L. DICKEY, PRODUCER, NATIONAL CORN GROWERS ASSOCIATION, LAUREL, NE

Mr. DICKEY. Good morning, Chairman Goodlatte, Ranking Member Peterson. Thank you for the opportunity to testify on the outlook for transportation on the Mississippi River this harvest. My name is Bob Dickey. I serve on the board of the National Corn Growers Association. I am a liaison to the Production and Stewardship Action Team. I am from Laurel, NE, where I grow corn, soybeans, and raise hogs and cattle.

It comes as no surprise to this committee that agriculture is notorious for its uncertainty. Crops and farm income are dependent like no other industry on weather, politics, market trends beyond our control or ability to estimate. Consequently, we appreciate the committee for taking a serious look at the extraordinary transportation problems facing us this year.

Farmers move their crops and receive their inputs by barge, rail, and truck. The competition among these modes of transportation helps farmers receive the best price for their crops. As evident by current conditions on the Mississippi River, efficient waterway significantly affects domestic grain prices. Even though not all corn growers ship to the Mississippi River, all growers are impacted by it. The price of grain I receive at my home market is largely based on the price of grain that moves on the Mississippi River to the export markets. With more than 1 billion bushels of grain exported by the Mississippi River, a problem with the barge movements on the river has a rippling effect on corn prices nationwide.

Cash prices have fluctuated widely due primarily to the changes in the local bases. The bases in Nebraska ranges from 40 cents to 67 cents per bushel. Corn's national average price has dropped from $1.70 per bushel in September to $1.65 to $2.05 in October. Unfortunately, cash corn prices near the River are as low as $1.26 per bushel. Current prices are the direct result of continued prob-

lems with barge movements on the Mississippi and the limited storage capacity.

However, problems along the Mississippi River existed well before the Hurricane Katrina hit land. Investment in the inland waterway system has not kept pace with demands. The antiquated system is in dire need of infrastructure upgrades to improve efficiency and reliability.

Additionally, the Midwest experienced its worst drought in 17 years, resulting in almost a 3-foot decrease in river levels near St. Louis. That caused barges to run aground and forced operators to trim payloads by up to 6 inches per barge to clear shallow spots on the Mississippi River which initially drove up transportation costs.

Next came Hurricane Katrina, which worsened existing transportation problems. The shutdown of the gulf ports plus the further constricted barge supply due to loss or damage, combined with the effects of the lower river channel and a slowdown in the northbound barge traffic sent barge rates soaring.

Barge freight continues to trade at 600 percent of tariff in St. Louis and 850 percent from Memphis southward. Near St. Paul, Minnesota and Dubuque, Iowa freight rates have more than doubled their 10-year averages.

To put this into perspective, the cost to ship a bushel of corn from St. Louis to New Orleans in the weeks following Katrina jumped from a normal rate of 33 cents to about 81 cents per bushel, according to Informa Economics. In cases where barge rates have sustained 800 percent of tariff, which is equal to $48 per ton or $1.34 per bushel, it costs more to ship a bushel of corn than what the grain elevators along the river are paying for it.

As transportation costs have increased due to the backup on the river, the orderly movement of grain throughout the rest of the country has been disrupted. We are now in a situation where rail cannot absorb the additional traffic necessary to move grain that would have been transported by barge. Without a doubt, the competition between river, railroads and trucks directly impacts the price paid for each bushel of corn.

If Katrina has taught us anything, it is that the Mississippi River is a system. If any one component of that system should fail, the system has lots of problems. While corn growers commend the administration for taking a market-oriented approach to resolving some of the short-term problems with our overstressed grain delivery and distribution system, short-term problems along the Mississippi River will continue to persist year after year if long-term investments are not made to improve our transportation infrastructure.

Corn growers are producing 11 billion bushel crops, a trend that will grow, yet our waterway infrastructure was built in the 1930's when the total corn crop for the entire country was 1 billion bushels. If we fail to move forward with much needed and justified infrastructure improvements, the world will look elsewhere for basic food commodities. That is something corn growers and farmers across the country cannot accept.

Thank you again for the opportunity to testify, and I would be happy to respond to any questions.

[The prepared statement of Mr. Dickey appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you, Mr. Dickey.

Mr. Gallagher, welcome.

STATEMENT OF TIMOTHY J. GALLAGHER, SENIOR VICE PRESIDENT AND GENERAL MANAGER, GRAIN DIVISION, BUNGE NORTH AMERICA, INC., ST. LOUIS, MO, ON BEHALF OF THE NORTH AMERICAN EXPORT GRAIN DIVISION

Mr. GALLAGHER. Thank you, Mr. Chairman. I am Tim Gallagher. I am senior vice president and general manager of Bunge North America's grain division. I am here today on behalf of the North American Export Grain Association. I thank you for the invitation to participate in today's hearing and reviewing the short-term outlook for navigation on the Mississippi River and its impact on U.S. agriculture.

As Americans have learned over the past 2 months, the Mississippi River system is of enormous importance to the U.S. economy. In measure of tonnage, the Port of South Louisiana is the largest port in the United States and the third busiest port in the world. The largest agricultural export by value passing through New Orleans, through the Custom District of New Orleans in 2004 was $4.1 billion worth of soybeans, that is 62 percent of our U.S. soybean exports; $3.8 billion worth of corn, again at 62 percent of our U.S. corn exports; and $1.2 billion worth of wheat, 22 percent of our U.S. wheat exports.

With roughly 1 in every 4 acres of production going into the export channels, and close to 60 percent of that going through New Orleans, you can get a sense of why those of us in agriculture value what we know to be our best natural comparative advantage in trade, the Mississippi River.

Prior to Hurricanes Katrina and Rita, our industry was already facing tightness in barge transportation. Several factors contributed to this: Low water levels, relatively strong demand for both southbound and northbound barge traffic, and about a 9 percent reduction in the fleet size over the course of the last 7 years.

As Hurricane Katrina forced and extended closure to the Port of New Orleans, including all 10 grain facilities, an already tight river transportation system became somewhat desperate. For Bunge, our grain export facility and adjacent soybean processing plant were affected as were 40 percent of our barges that were in the New Orleans area at the time. Fortunately, none of our employees were injured, our grain elevator reopened in 5 days, our processing facility reopened in 3 weeks, and none of our barges were lost. Many in the industry were not so fortunate. Employees lost their homes, were scattered across the region, facilities remained idle, fuel was scarce and the resumption of river transportation continued to sputter.

As shown in the chart and attached in my statement, our industry continues to operate at capacities below its norm. The combination of lost days, reduced capacity, idled loaded barges continues to present challenges for our industry and for our farm customers. Lack of market access, increased freight costs and fuel have eroded the farmers' normal basis relationship to normal historical prices.

To illustrate this, I would like to share an analysis of freight costs from the Boot Heel of Missouri, to New Orleans: August 31, 2003, to move a barge of grain from the Boot Heel of Missouri to the New Orleans area cost 20.5 cents. The high in the harvest time season in September was 28.5 cents in 2003. August 31, 2004, it cost 25.5 cents to move that same barge. In September, the high of 2004 was 46 cents. The day before the Katrina event, it cost 51 cents a bushel to move a barge from the Boot Heel of Missouri down to the New Orleans area. However, in the wake of Hurricane Katrina, freight rates soared even more, hitting a high of 97 cents a bushel on September 8.

What is interesting to note about these barge freight increases from 2003 to 2005 is they reflect an increasing demand to handle industrial commodities heading north. Comparing 2003 to 2004, imported tonnage through the Port of New Orleans increased 42 percent. Similarly, tonnages increased in the first 6 months of the 2005 versus the first 6 months of 2004 by 23 percent. These increases had a significant impact on a barge availability for southbound commodities in this harvest season.

We commend the U.S. Department of Agriculture for looking for ways to ease the pressure in the weeks following the hurricane. Their efforts to move cargos of damaged corn from the gulf and further efforts to provide incentives for storage utilizations should relieve some of the short-term pressures.

As we look ahead, I project the industry may return to more normal operations toward the end of the year; however, I see little change until harvest is complete. The industry is working very hard to work comprehensively on these complex issues in order to make barges available for grain loading locations in the interior to help alleviate the tightness that we are experiencing.

The river system is a primary source of competitiveness in global markets. Many of our international competitors maintain an overall lower cost of production in commodities such as corn and soybeans. It is this freight cost advantage that our river system plays a significant role in U.S. exports and making them competitive. We must maintain and grow this freight advantage to maintain our U.S. competitiveness.

This is why we believe that we must renew our commitment to maintaining the entire river system. We are not just talking about locks and dams. Tributary rivers are vital to the transportation system linking U.S. agriculture to the Mississippi River. Sixty-five percent of the commerce moving along the Mississippi River system stems from tributary rivers.

There is very little slack in the U.S. transportation system, especially in agricultural. Rail and truck alternatives to replace this capacity and cost effectiveness of the river system are simply not existent. Moreover, shipping by barge remains the most fuel efficient, lowest cost, overall efficient method of transporting the necessary volume of agricultural commodities to the export market.

We appreciate the committee's interest in this matter, and we hope the hearing will draw greater attention to the importance of our Nation's inland waterway transportation system.

Thank you again, Mr. Chairman, and members of the committee, for the opportunity to testify, and I look forward to your questions.

[The prepared statement of Mr. Gallagher appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you, Mr. Gallagher.

Mr. Wilken, welcome.

STATEMENT OF ROYCE C. WILKEN, PRESIDENT, AMERICAN RIVER TRANSPORTATION COMPANY, DECATUR, IL, ON BEHALF OF THE NATIONAL GRAIN AND FEED ASSOCIATION

Mr. WILKEN. Thank you, Mr. Chairman. Good morning, honorable members of the committee. I am Royce Wilken, testifying on behalf of the National Grain and Feed Association, commonly referred to as NGFA.

The National Grain and Feed Association is a broad-based trade association that represents grain and grain feed-related commercial businesses. NGFA members consist of more than 1,000 companies comprising 5,000 facilities. I am president of American River Transportation Company, also goes by the acronym of ARTCO, which is a member of NGFA.

ARTCO runs a barge and vessel operation on the Mississippi River, operating 29 shallow draft linehaul vessels, over 2,000 covered hopper barges, 12 fleeting operations, and a midstream transfer buoy. We also operate a barge repair yard in New Orleans, Louisiana. We are wholly-owned by the Archer Daniels Midland Company, and headquartered in Decatur, Illinois.

The American inland waterway system is key to sustaining the competitive agriculture in America. Our waterways allow us to remain competitive not only on the farm but in the transportation and delivery of our harvest to customers around the world.

Hurricane Katrina bore down on the New Orleans area on August 29, inflicting a serious blow to our agriculture transportation system. Katrina hit the Mississippi/center Gulf region, which is typically responsible for 60 to 70 percent of U.S. raw grain exports. Earlier today we heard testimony outlining Katrina's impact overall. This morning I would like to describe how it impacted my company.

Our major fleeting area is located at mile 110 on the lower Mississippi River, approximately 10 river miles above downtown New Orleans. ARTCO's 13 harbor tugs serve all elevators and midstreaming buoys in the area, although we primarily service our four elevators operated by ADM in the Ama, Destrehan, St. Elmo, and Reserve, Louisiana area.

As you know, Katrina struck on Monday morning, August 29. Our response began many days earlier as we carried out the action in ARTCO's hurricane readiness plan:

On Thursday morning, 4 days before the hurricane made landfall, we met internally to lay out the sequence of events, including amassing extra line rigging and plastic wire ties and inventorying fuel to ensure enough for our generators.

Over the next 24 hours, our highest priority was securing barges and shipyard equipment using ARTCO's personnel.

By noon on Friday, the severity of the hurricane was becoming more evident. All employees were released to care for their family and personal property.

On Saturday, we utilized linehaul crews that remained in the harbor to continue to secure barges and other assets, lashed together northbound barges, and prepared to leave northbound for safer waters. Over 300 barges were secured to remain in New Orleans.

At 2 a.m. Sunday morning, our last vessel departed north to meet a flotilla of 10 ARTCO boats with barges in tow around Natchez, Mississippi.

By working around the clock for days in advance, only two of our 13 harbor tugs remained in the harbor with only 4 employees aboard. The remaining 218 employees left for home or evacuated the area.

Hurricane Katrina struck on Monday at 9:00 a.m. The Mississippi River reversed flow and backed up. The river rose 15 feet within one hour at ARTCO's operation 10 miles upriver from New Orleans. Over 100 ARTCO barges were hoisted onto the banks of the Mississippi River, some loaded with 1,500 tons of cargo, others empty. Many fiberglass covers were ripped off. One 270-ton barge was hoisted on top of a repair drydock awkwardly straddling the dock crossways.

On Tuesday, the United States Coast Guard reopened the river for shallow draft vessels. Our 10 linehaul vessels which had weathered the storm near Natchez moved back into and evacuated New Orleans. There was no communication, no personnel.

Throughout the area, barges lay aground and cargo was getting wet. Fortunately, no ARTCO employees were missing or injured. These 10 linehaul boats served as our living quarters, mess halls, salvage vessels, and harbor tugs for the next month. Today, nearly 2 months later, only 75 percent of our marine employees have returned. We are supplementing much needed workers with volunteer employees from outside the region as well as from our linehaul boats.

Although we pulled through this disaster relatively well, ARTCO continues to produce only 75 percent of the empty barges we need for either reload or return to the ongoing grain harvest. In other words, our system needs to be continually emptying barges into ships or elevators into the New Orleans area. This frees them up to return north either reloaded or empty to be loaded again with the current harvest.

ARTCO's experience is representative of waterway operators throughout the region. Each day we are moving closer to pre-Katrina levels, but once we achieve this our concerns will not go away. Katrina was a terrible blow on an already weakened inland waterway system. As I noted initially, our agriculture economy depends on a vibrant inland waterway system to maintain global competitiveness. Unfortunately, we have systematically underinvested in our river system, failing to upgrade our locks and dams on the upper Mississippi River system, and failing to fund basic operations and maintenance costs such as dredging. We cannot expect a 50-year-old inland waterway system to carry 21st century agriculture.

We are grateful for the leadership the House has demonstrated on this issue, particularly your passage of WRDA by a vote of 406 to 14. We ask for your continued support through necessary fund-

ing for our operations and maintenance. We continue to press our case in the Senate, and we hope that this year America's inland waterways will receive the investment they sorely need and deserve.

Thank you for allowing me to speak today. In today's global economy, excellence cannot end at the farm gate. ARTCO and our fellow members of the NGFA are proud to be a key part of America's agricultural economy. That concludes my testimony.

[The prepared statement of Mr. Wilken appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you, Mr. Wilken.

Mr. Kohlmeyer, welcome.

STATEMENT OF ROBERT W. KOHLMEYER, PRESIDENT EMERITUS, WORLD PERSPECTIVES INC., FAIRFAX STATION, VA

Mr. KOHLMEYER. Thank you. Mr. Chairman and members of the committee, thank you for the invitation to appear before this committee and the privilege of sharing some thoughts and ideas about the relationship between the costs of transportation, grain markets, and the value of crops produced by American farmers.

I have spent more than 50 years in the grain industry. During that time, I have managed grain elevators, both large and small, including some along our inland waterways. I spent a significant portion of my career deeply involved in export merchandising to customers around the world. More recently, until retirement, I was president of World Perspectives, Incorporated, a company that serves global clients with agricultural market and policy analysis, strategic planning, and management service. I now provide consulting services to those clients through World Perspectives.

During my career, the transportation function for grain within the United States has greatly changed. All of the transport modes are still here. We still use trucks, railroads, barges, and ocean vessels. But trucks have doubled in size, railroads provide whole train service, and the cost of rail freight is no longer regulated by the Government. Barges too have grown in capacity. Barge tows are larger, and they are pushed by power units generating two or three times more power. Grain used to be exported on old liberty ships that carried 10,000 tons at most. Now, a majority of U.S. grain and soybean experts are carried on vessels that can hold 50 to 80,000 tons.

One thing has not changed, however. Transportation costs had a significant influence on the value of grain from the farm gate to the end user then, and transportation costs wield at least the same degree of influence on prices today.

The aftermath of Hurricane Katrina and the devastation and human suffering it caused in the greater New Orleans area when it came ashore August 29 has been well documented. The impact of Katrina on U.S. agriculture was immediate and severe, and it can still be seen today, nearly 2 months later.

Other witnesses have spelled out in detail the importance of the Mississippi River corridor to U.S. agriculture. Any disruption to barge movement or export loadings will send immediate ripples upstream and all the way to the farm gate, as we have been reminded in the aftermath of Katrina. However, for me, the real agricultural

story concerns the industry's response to Katrina. The herculean efforts, the ingenuity of elevator management, elevator workers, who in many cases suffered personal losses, grain inspection personnel, the Coast Guard, river pilots, and the Army Corps of Engineers, plus numerous others is an untold but truly remarkable story.

All 10 of the export elevators in that port area sustained some damage, but only one was severely damaged. However, many lost power. Barges filled with grain and soybeans were tossed all over the area, some were sunk, some were not found for days, and many were damaged and their cargo soaked by rain and floodwater. The storm surge caused silting in the river below New Orleans, making passage of ocean vessels upriver difficult or impossible. Yet, just 2 days after the storm struck, empty vessels began a slow crawl up river, and less than a week after the storm grain loadings began. By mid-September, enough loading capacity was available to accommodate the demand at that time.

The volume of grain and soybean export shipments from the Mississippi River the past few weeks have reached more normal levels, but this has happened despite continued problems with available barge supplies, logistics, barge movement, and shortages of rail equipment and, above all, the high cost of transportation.

Corn values at the gulf are high, but corn values for the producer upstream are low. The spread between the two is historically wide and made historically wide by the high cost of barge freight, among other factors. The result is that high prices for corn at the gulf can threaten the competitiveness of U.S. corn in the world market, while at the same time farm market prices for corn are so low that loan deficiency payments are made by the Government, and they have soared as high as 45 cents a bushel or even higher in some locations.

It would be an oversimplification to say that the Government is actually subsidizing part of the high cost of barge freight with LDPs, and to say that barge freight, the cost of it has caused large LDP payments would be equally oversimplified. There are many other factors involved, yet there is an undeniable connection between the two.

How will the situation work out? I suspect this situation will work itself out the way short supply situations work themselves out in unregulated market environments. "High prices are the best cure for high prices" goes the old saying, and it will apply here, too. Ways will be found to increase barge capacity while at the same time ways will be found to minimize barge use. And it will rain sometime in areas that contribute to water levels in the Mississippi River. Ultimately, barge supplies will become in better balance with demand and freight costs will rationalize.

It is worth noting that when naturally occurring circumstances such as storms, drought, ice, and floods do not interfere, barge capacity has generally been adequate to meet domestic and export demand for grain via the waterway system. Stagnating U.S. export volume is not really the result of inadequate barge supplies.

I would like to tell you that demand for U.S. exports of grain and soybeans will soon grow beyond the volume plateau of the last 20 years, but unfortunately I cannot do that. I believe that demand

will grow eventually and that the volume plateau will be raised, but probably not for several years. The record for U.S. corn exports, the annual record was set more than 20 years ago. Demand growth for corn in the last 15 years has come from domestic sources, not from exports.

As for soybeans, we will do well to hang on to the current export volume in the face of South American competition that will benefit from an improving infrastructure of its own. Increasing barge capacity will not change the outlook. More barges will not necessarily mean more exports. But a longer term reduction in available barge capacity, for whatever reasons, would almost certainly mean lower agricultural exports.

The inland waterway is an enormous asset, as we have heard detailed today, not only to agriculture, but to the U.S. economy as a whole. To retain the value of this asset, the Government must fulfill its obligation it assumed when the waterway system was created to maintain it in good working order. Obviously, the Government cannot control hurricanes, droughts, ice, and so forth that may disrupt water navigation, but timely repairs and maintenance will mitigate naturally caused disruptions and allow agriculture and other sectors of the U.S. economy to draw maximum benefit.

Thank you for the opportunity to present my views on these important matters.

[The prepared statement of Mr. Kohlmeyer appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much, Mr. Kohlmeyer.

Let me ask all the witnesses. It has been mentioned here today what contributions rail and truck might make. Could they absorb the additional grain supply? Would railcars and trucks be the limiting factor? Or would the cost of the railcars and trucks make it prohibitive to move that supply of grain? Mr. Dickey?

Mr. DICKEY. Well, in my case it would be prohibitive to rely totally upon the rail and truck system, because they are maxed out at this point in time. If you want to get a railcar in my area, it may be weeks, maybe months, because they are contracted out ahead of time, and I just don't think that that is a viable solution at this point in time.

The CHAIRMAN. Mr. Gallagher?

Mr. GALLAGHER. I agree. Availability, it was very tight in the harvest time season. But even beyond that, I think the thing that we must not lose sight of, approximately 90 percent of the grain that is going to the New Orleans market by export is delivered by barge, and that is 60 percent of the U.S. exports for both corn and beans. So we are asking for other transportation modes to absorb a huge amount of grain and they currently just don't have the capacity to absorb that sort of incremental volume.

The CHAIRMAN. Mr. Wilken.

Mr. WILKEN. I would concur with that, along with the fact that there is 18 railcars to one barge and over 50 trucks per barge. And the sheer capacity of the infrastructure of rail and truck could not handle that. There is capacity in the inland river system if we invest in the infrastructure and capitalize on that.

The CHAIRMAN. Mr. Kohlmeyer.

Mr. KOHLMEYER. I seriously doubt that the railroads are capable or in fact would want to be capable of handling a much larger share of U.S. grain transportation, particularly headed toward export. Today, I am sure that they would view the situation as relatively short term, and probably would not see their way clear to investing a lot of new capital to create new equipment and power in order to max out their grain carrying capacity.

Railroads are carrying about as much grain as they seem to want to carry, and I doubt that they are going to be a solution or a salvation for grain barge problems.

The CHAIRMAN. How much additional grain could be moved through other ports, such as Houston, the Great Lakes, or the Pacific Northwest? We will start with you again, Mr. Dickey.

Mr. DICKEY. Well, in our case, in Nebraska, there is a volume of grain that does go to the Northwest. But our best markets in Nebraska, as far as outside the State, is to California and to Mexico. And currently, if we ship or send a bushel of corn to Mexico, it costs $1.36 per bushel, and my farm gate price last week was $1.35 per bushel.

So I think we do need to look at some other alternatives. You are right on, Mr. Chairman.

The CHAIRMAN. Mr. Gallagher.

Mr. GALLAGHER. I think some of those ports have incremental capacity. Certainly the Texas gulf has a number of facilities that are probably underutilized. The PNW facilities are probably much tighter with regard to capacity constraints. The Lake system also probably has some capacity that could be utilized. But I think generally, in all those cases, what you run into is a constraint before you ever get to the port system. And that is what we ran into in this instance, and that constraint typically is in the transportation market.

So to shift a significant amount of volume away from the gulf market that has such a large share to get to these other markets, even if they do have capacity, is just not practical in a short period of time. It would take a number of years to build that infrastructure to get it there. And, as Bob pointed out, you wonder if the railroads really have the keen interest to do that. I think they are probably more interested today in moving higher value commodities. And as their system is constrained, that is probably what pays them the most money versus moving a lower valued grain commodity.

The CHAIRMAN. Mr. Wilken.

Mr. WILKEN. Mr. Chairman, I would agree with Bob as well as an earlier statement. I believe that barge transportation is the most efficient, safest, most productive delivery belt, conveyer belt, if you will, to the gulf. There are other markets out there that are more costly in terms of cost per bushel to transfer to those markets. So we have the infrastructure available; let us invest in it and capitalize off of it in the gulf.

The CHAIRMAN. Thank you. Mr. Kohlmeyer.

Mr. KOHLMEYER. The fact is that U.S. grain export capacity; that is, the capacity to load vessels in the United States at U.S. ports with grain, is considerably overbuilt and was overbuilt as a result of some ambitions back in the 1980's that have not proven to be

fulfilled. So, yes, there is capacity at other ports: The Great Lakes, the Texas gulf, even the U.S. Atlantic. The Pacific Northwest is sort of an island unto itself and its capacity is generally mostly utilized.

But having said that, the cost of being able to use those other loading ranges would be very substantial, would probably be so substantial that it would have the effect of reducing farm gate prices rather than increasing them.

The CHAIRMAN. Thank you.

The gentleman from Minnesota is recognized, Mr. Gutknecht.

Mr. GUTKNECHT. Well, thank you, Mr. Chairman, and I want to thank the panel for being here today. You have been here a long time, and I think most of the things that I would have asked about have been discussed. Let me just use this opportunity, though, to thank you for, directly or indirectly, talking about the importance of the Water Resource Development Act.

I think the one thing that has happened as a result of this hurricane is that we have all been sort of re-reminded just how important the Mississippi River is, especially to farmers in the upper Midwest, and I think it underscores that we have a lock and dam system that was designed for a 50-year life span, and some of those facilities are now 70 years old. And so whatever you can do to help us put pressure on some of our colleagues at the other side of this Capitol building to move that process forward I think would be welcomed, and I think this is that opportunity.

So, again, thank you for coming to testify. If nothing else good comes out of this, if we can finally get some action on the Water Resource Development Act, I think your time here in Washington will have been well spent. Thank you very much.

The CHAIRMAN. The gentleman from Texas.

Mr. CONAWAY. Thank you, Mr. Chairman.

A couple of quick questions. A couple of testimonies mentioned that the number of barges on the Mississippi are down. But can you give me—about 9 percent over the last 7 or 8 years—a sense of what the carrying capacity is as a result of bigger barges?

Mr. WILKEN. Congressman Conaway, the size of the barge has increased approximately 2-foot haul-up draft. That means we are operating 14-foot hull barges versus 12-foot hull, we can set down in the river an additional 2 feet. Each inch equates to approximately 17 tons of product, which equates to approximately 104 tons per foot or 208 tons per 2 feet. I think that calculation is correct.

So we have increased our productivity by using the same horsepower, the same crew members, to push a bigger barge.

Mr. CONAWAY. You and I have a problem. When somebody asks me what time it is, I tend to tell them how to build a watch.

Nine percent of reduction in the number of barges, but today we have a carrying capacity overall increase from—that 8-year, 9-year period is up. Can you give me a sense of what the percentage increase overall is on that barge carrying capacity? Not individual barges, but the total capacity.

Mr. WILKEN. I would have to research that and get back to you on that.

Mr. CONAWAY. Are the rates back down to pre-Katrina levels and do you have any indication of when the Port of New Orleans will

be fully operational again, in other words, essentially fully back in service? Any sense of the timing on that?

Mr. GALLAGHER. No. Rates aren't back down to normal levels yet. We have seen some increases in basis levels in the interior. Rates have come down a little bit.

The other thing that has driven the increase in basis levels in the interior is the delivered value at the gulf has gone up as the gulf has had to go into the interior and bid up grain just to get it into the system, given the low flat price of grain we have got.

In terms of when things go back to normal, it is tough to call in this market. We are really floating in uncharted waters here. And we have got markets two to four times what would be historical highs.

I think as we get closer to the end of the year, things will get better each day. But as we get closer to the end of the year, I can't say they are going to be normal, but they will be much closer than where it is today. We may be operating at—I am going to say 70 to 75 percent of capacity at the gulf right now. If we can get some of this damaged grain moved out, free up resources for barges to move down with better grain, and improve our productivity at the point of export, all that will be very, very helpful.

Mr. CONAWAY. Anybody else?

Thank you, Mr. Chairman. I yield back.

The CHAIRMAN. I thank the gentleman.

Mr. Gallagher, let me follow up on that. Has the USDA's program to free up these barges filled with damaged grain been helpful in getting more barges back in the fleet?

Mr. GALLAGHER. Yes, it has. I think we can say that directionally, with a pretty decent degree of certainty in terms of absolute, in terms of what it has meant, that is much harder to find in a market like this that we are dealing in.

So I think anything we can do to get an additional barge back up into the interior so we can put more grain into it will benefit.

The CHAIRMAN. So you would recommend that this program be continued to free up the remaining barges?

Mr. GALLAGHER. Yes. Both the NAEGA and NGFA members would recommend that we move forward with additional barges.

The CHAIRMAN. And without that program, what is your company's range of options dealing with this damaged grain inside your barges?

Mr. GALLAGHER. One option, which the industry continues to try to struggle with to a point now, is try to condition these barges at the gulf. But that will just take time. And time is something that we really don't have much of right now, given the urgency of the problem. We can move it back to other channels, to feed channels or some of the ethanol markets. Again, that is finding markets to use this stuff, and finding ways to get it there; and doing it in a prompt fashion is very important. We can take it off the barge and, frankly, just put it on the ground somewhere and hope you can keep it for later use.

Or the last option and probably the worst alternative is just hauling it to the dump. But all of those options, I think, are things the industry is doing right now. We have even heard it is being

burned as fuel, given the high prices of fuel that we are faced with today.

The CHAIRMAN. Thank you.

Mr. Kohlmeyer, with over 2 billion bushels of our 2004 crops still in storage, a large 2005 crop, what is 2006 looking like?

Mr. KOHLMEYER. Well, that is a question that I can answer.

My guess is that we will produce another large crop in 2006, although probably not quite so large as this year. The production costs and input costs to grow corn have gone up and are likely to stay up, and that will probably have some influence on how much is planted.

I think it is fair to say that demand is on a rather steady cycle of annual increases, thanks to ethanol. But ethanol is just really kind of the new kid on the block.

The amount of corn we use in animal feed has grown substantially over the years.

Putting all that together, my guess is that next year's carryout, that is to say, from the 2006–07 crop year, will probably shrink somewhat from the one anticipated currently.

The CHAIRMAN. In your testimony, you touch on the relationship between freight rates and the LDPs. Would you care to discuss this further?

There has been a lot of concern expressed here today that we are being penny wise and pound foolish in terms of not expending some money to free up these barges, which presumably would have a positive effect in lowering the freight rates.

What impact would that have on the LDPs?

Mr. KOHLMEYER. Lowered freight rates would probably result ultimately in lowered levels of LDPs. I think there is no question, as I said in my testimony, that there is a relationship between barge freight rates and the rather high level of LDPs. But to say that one causes the other or one is the result of the other really is to ignore a lot of other factors that are involved.

But, in general, lowering the cost of transportation raises the value of the producers' grain, which in this case would lower LDPs.

The CHAIRMAN. Thank you very much,

Well gentlemen, this has been very helpful. Has anything I asked prompted any other questions? If not, we will thank and excuse this panel as well.

I have a closing statement. I want to thank participants for attending this hearing today.

Katrina caused problems with export facilities and barge traffic at a time when rail is already near capacity and fuel prices are driving truck freight prices even higher. The impact from Katrina has rippled all the way up the Mississippi River, impacting the bids farmers are receiving for their grain across the country.

It is clear from today's testimony that we will have a very difficult situation to deal with for some time. The committee appreciates your comments and will contact you if we need additional information as we all work to ensure we can get our grain to market in the days ahead.

And without objection, the record for today's hearing will remain open for 10 days to receive additional material and supplement any

written responses from witnesses to any member posed by a member of the panel. I don't see any objections.

This hearing of the House Committee on Agriculture is adjourned.

[Whereupon, at 12:14 p.m., the committee was adjourned.]

[Material submitted for inclusion in the record follows:]

DEPARTMENT OF THE ARMY

COMPLETE STATEMENT

OF

JOHN PAUL WOODLEY, JR.
ASSISTANT SECRETARY OF THE ARMY (CIVIL WORKS)

And

MAJOR GENERAL DON T. RILEY
DIRECTOR OF CIVIL WORKS
U. S. ARMY CORPS OF ENGINEERS

BEFORE THE

COMMITTEE ON AGRICULTURE
UNITED STATES HOUSE OF REPRESENTATIVES

STATUS OF MISSISSIPPI RIVER TRANSPORTATION SYSTEM

October 26, 2005

INTRODUCTION

Mr. Chairmen and Members of the Committee, thank you for the opportunity for the U.S. Army Corps of Engineers to testify regarding the status of the Mississippi River transportation system. The Corps has had a navigation mission since the Survey Act of 1824. Since that time, the Corps has helped serve commercial navigation through the construction, operation, and maintenance of ports and waterways across the Nation. The goal of the Corps navigation mission is to help facilitate commercial navigation by providing safe, reliable, highly cost effective and environmentally sustainable waterborne transportation systems. My statement will consist of information on the current conditions of the Mississippi River navigation system and current projections of water levels and other potential impediments related to the movement of waterborne commerce on this system over the next six months.

The Mississippi River serves as a major transportation artery for the movement of bulk commodities such as agricultural products and petroleum products. After Katrina struck Louisiana, numerous barges and tow boats were impacted, many of which contained agricultural products for offloading at one of the many grain facilities in the New Orleans area. At the same time, all shipping into and out of New Orleans was halted. This had a major impact in the short-term on the ability to move petroleum products and grain.

KATRINA RESPONSE

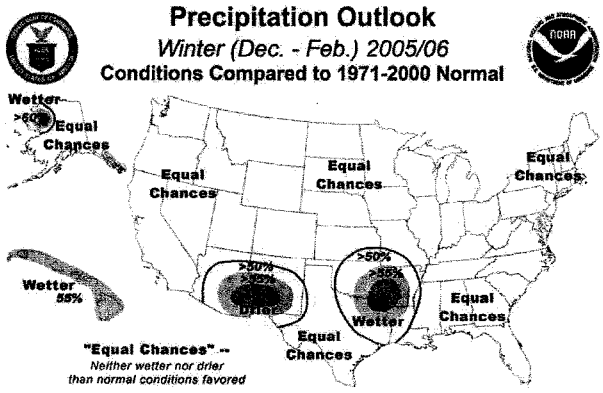
Immediately after Hurricane Katrina passed, Federal agencies, including NOAA, the U.S. Navy, the U.S. Coast Guard and the Corps began to assess the condition of the Mississippi River, as well as all other impacted ports and waterways. This monumental task was completed much sooner than projected thanks to the coordinated Federal effort. The assessment was significantly enhanced by extraordinary efforts of the Gulf Intracoastal Canal Association and Waterways Council, Inc. They immediately arranged daily conference calls with the users, other Federal agencies, and other pertinent trade organizations and shipping interests. At a time when communication was so critical and yet so difficult, this was an extremely effective means of managing the many issues associated with restoring navigation channels to their full capability and coordinating the information necessary to ensure rapid recovery of barges and vessels scattered throughout the New Orleans area. The Mississippi River has been successfully restored to full deep draft operation and many of the barges and vessels have been retrieved and placed back into service.

UPPER MISSISSIPPI RIVER CONDITIONS

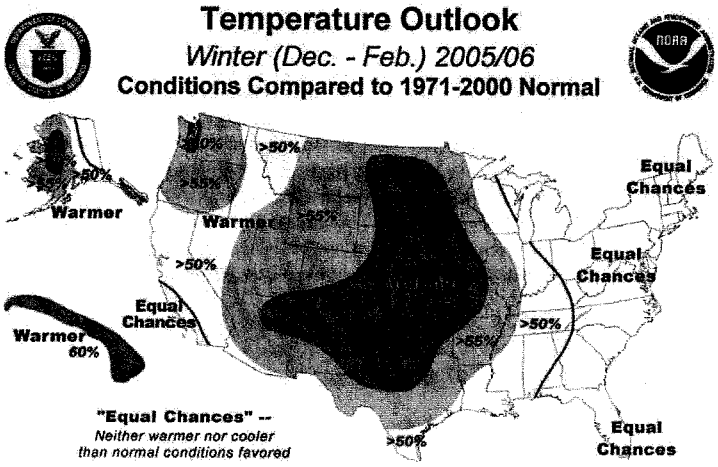
Near Term and Mid Range Weather Forecast

The following graph prepared by the National Oceanic and Atmospheric Administration

(NOAA) suggests that the upper Midwestern states have a 33% chance of not experiencing any unusual dry weather conditions during the upcoming winter season.



The mid range temperature outlook shown in the graph below suggests warmer than normal conditions for the central part of the Nation.



Near Term and Mid Range River Stage Forecast

Under a worst case scenario assumption, if it does not rain at all in the next three weeks in the entire river basin above St. Louis, the stage at St. Louis is forecast to be -1.5 feet. If it does not rain at all in an additional week, for a total of four weeks, the stage could fall to -3.4 feet at St. Louis. It should be noted that the river fell to -1.5 feet earlier this year.

From looking at a hydrograph for the St. Louis area, which is representative of the Middle Mississippi (between St. Louis, Missouri and Cairo, Illinois), it is reasonable to anticipate some fairly low stages during the next few months. However in looking at the Cairo, Illinois gage, which is representative of the Lower Mississippi, it is highly unlikely that stages lower than those reported earlier this year would be encountered in the near future. Under the conditions that we could reasonably expect to encounter over the next six months, stages on the Upper Mississippi above St. Louis generally can be controlled during dry periods by locks and dams. Therefore most of the following discussion will be focused on the Middle Mississippi.

Stage Impacts on Drafts and Tow Sizes

Middle Mississippi

River stages do not directly relate to allowable drafts and tow sizes. There are many other factors that are taken into consideration when deciding what prudent restrictions should be in place. However, based on historical actions, some comparison can be made. On the Middle Mississippi, drafts are historically unrestricted as long at the St. Louis gage is above 0.0. Once stages reach, or are forecast to reach, the -2.0 feet to -3.0 feet stage, drafts have usually been reduced to less than 10 feet. Provided the stages fall at a reasonable rate and there is not a catastrophic grounding which disturbs the bottom of the river, drafts of 9 feet or better can usually be accommodated with dredging. There are rock ledges on the lower portion of the Middle Mississippi. This rock would limit drafts to 10 feet or less at a stage of 2.2 feet on the Cape Girardeau, Missouri gage. In addition to draft restrictions, tow sizes are also reduced as stages fall. Unrestricted tows on the Middle Mississippi are usually in the 36 to 40 barge range. With stages approaching 0.0, this would possibly be reduced to 30 barges or less. In the -2.0 to -3.0 feet stage, tows would likely be required to be made up of 24 barges or less. With extreme low stages, tow sizes might actually be reduced to 12 to 15 barges. However, this is very much dependent on the actual channel conditions. Decisions regarding restrictions on tow sizes and drafts are made through a collaborative effort of the Corps, the U.S. Coast Guard, the National Weather Service and the towing industry.

Channel Maintenance

The Corps' primary role is monitoring channel conditions, assisting the Coast Guard in locating and marking channels and dredging as required. There are three dredges currently working on the shallow draft channels of the Mississippi River. A Government dustpan dredge and a

contract cutterhead dredge are working in the Middle Mississippi and a Government dustpan dredge is working on the Lower Mississippi near Memphis, Tennessee. In addition to these dredges, the Corps has the ability to bring several others into the region if required. There are two other large dustpan dredges that could be called upon if needed as well as other cutterhead dredges.

Ice

Historically ice has resulted in suspension of commercial navigation on the Upper Mississippi above St. Louis from mid-December until mid-March. In conjunction with this, Locks 11 & 19 are scheduled to be closed for Major Rehabilitation from December 15, 2005 through March 15, 2006. Historically ice does not result in a complete closure on the Middle Mississippi. It can cause traffic delays and short-term stoppages. This is not an annual event and usually occurs in the January to February time frame.

SUMMARY

Given the uncertainty of the weather, it is impossible to predict what channel conditions will be for the rest of the year. Additionally due to the dynamic nature of the river, the Corps cannot guarantee that there will not be any closures. However, for the reasons given above, it is unlikely that there will be any long-term closures or catastrophic disruptions to barge movements due inadequate channel conditions. The Corps is committed to maintaining this vital waterway in the best possible condition. We will remain diligent in monitoring channel conditions through surveys and communication with towing companies to assure that potential problems are recognized early and addressed appropriately.

This concludes my statement. Thank you for this opportunity and we would be happy to answer any questions.

Testimony of Floyd Gaibler
Deputy Under Secretary for Farm and Foreign Agriculture Services
United States Department of Agriculture

Introduction

Mr. Chairman and members of the committee, thank you for the opportunity to come before you today and discuss the impacts of the recent hurricanes on our transportation infrastructure in the Gulf region. The devastation and damage left in the aftermath in coastal areas along the Gulf has had ripple effects upstream, affecting all modes of transportation, which in turn has exacerbated fall grain harvests and storage concerns.

America's farmers and ranchers were feeling pressure on multiple fronts before the storms. The Midwest faced drought while energy costs were rising and nearly 2.5 billion bushels of corn and soybean were carried over from 2004 bumper crops.

I would like to focus my remarks on the impacts of these events on agriculture and, specifically, on the grain industry and transportation sector's ability to move grain during this difficult period. In addition, I would like to review actions taken by the department to reduce the stress placed on the transportation and handling system.

Finally, I would like to provide our perspective on the outlook for navigation over the next six months as we look toward the harvest that is in full swing and the prospects for moving grain to export facilities in the Gulf region.

Impact on Ports and Grain Transportation

Although the river was opened quickly, oil spills, debris, and a nearly complete loss of aids to navigation rendered the river impossible for navigation immediately following the hurricanes.

The pace of vessel loading at ports fell considerably the week following Hurricane Katrina. Prior to the storm, the weekly loading pace was 36 vessels, with 49 due to arrive in the next 10 days. The week after the hurricane loaded vessels amounted to 10 with 18 due to arrive in the next 10 days.

In addition to the bulk grain facilities and ports along the Mississippi River, the ports of Gulfport and Pascagoula, Mississippi, sustained severe damage to warehouses and transit sheds for refrigerated and frozen commodities such as poultry. Imports of bananas were affected. Chiquita's Gulfport facility was severely damaged and will need to be rebuilt.

In the Port of New Orleans (PONO) nearly 2,300 metric tons of frozen poultry was destroyed in storage when Katrina hit and the port lost power. There are 10 export elevators in the area surrounding New Orleans and three floating rigs that can load 30,000 to 60,000 bushels of grain per hour from river barges onto ocean-going vessels. In total these elevators have a storage capacity of approximately 53 million bushels of grain and a capability of loading 970,000 bushels per hour when fully operational. Operational capacity was 63 percent of normal on September 7 after Katrina.

International food aid shipments out of the Central Gulf are now operational. A shipment of about 700 metric tons of international food aid flour was affected by the hurricane. Once steamships lines were permitted into the port it was discovered the commodity was in tact and was lifted in good order with minimal damage. The remaining flour that had not been delivered to New Orleans was diverted to Houston and has been unloaded from rail cars to containers.

Only one bulk grain vessel was affected as it was in the Mississippi River and scheduled to load 4,000 metric tons of soybean meal at Destrehan, Louisiana, between September 1 and 10. The soybean meal was destined for Honduras under the Food for Progress program. The original vessel sailed with out the cargo. The 4,000 metric tons of soybean meal was rebooked on another vessel, which completed loading the cargo at Destrehan, Louisiana on October 19, 2005.

Grain elevators on the Texas Gulf generally escaped damage from Rita. Getting power restored was the most significant delay. The seven grain export elevators located on the Texas Gulf have 33 million bushels of combined storage capacity.

Rail shipments to Texas increased from 2,000 rail cars per week before Katrina to 3,000 rail cars per week after Katrina. Rail shipments were up 77 percent from a year ago and 20 percent over the 3-year average.

Alternative ports to the Mississippi / Center Gulf region, namely the Texas Gulf, Great Lakes and Pacific Northwest, were already running at or near full capacity when the hurricanes struck, limiting the ability to divert products to these ports.

Sixteen oil refineries along the Gulf Coast took precautionary "shut down" measures as Rita approached. Three of those are still shut down. Three refineries in the New Orleans area are still shut down from Katrina. In total, the shut down refineries account for 1.6 million barrels per day of refining capacity. In the five weeks since Hurricane Katrina, the U.S. average cost of diesel fuel has risen 22 percent to $3.15 per gallon. Diesel prices in the Lower Atlantic region have increased by 50-cents per gallon since the storms.

The nation's transportation network is interrelated and connected. When one part of the system suffers severely, there are ripple effects throughout the entire system. In the Mississippi and Texas Gulf regions, the "one-two punch" of Hurricane Katrina followed by Rita affected both rail and waterway transportation negatively.

In the Mississippi Gulf, 90 percent of grain is delivered by barge, the rest by rail. Rail service to the Mississippi Gulf was initially embargoed by the railroads. By September 7, rail service was restored to most locations, except to sections of New Orleans and Myrtle Grove, Louisiana. The Texas Gulf is more dependent on rail service than the Mississippi Gulf. Rail service to the Texas Gulf was halted prior to Hurricane Rita on September 24, creating a variety of scheduling problems that are still being sorted out.

As a rule of thumb, it is often said that "truck transportation costs three times rail, and rail costs three times barge." Leading up to Hurricane Katrina, some of the advantage of barge rates over rail were eroding because of lower water levels in the Upper Mississippi River system resulting from the drought in Corn Belt states. The low water levels were causing concerns about the ability to move grain down the river during the upcoming harvest season. Before Katrina made landfall, drought conditions rendered a water level on the Mississippi River so low that many barges couldn't even get into grain elevators to be loaded in Memphis.

Hurricanes Katrina and Rita exacerbated an already problematic situation. Barges on the Mississippi River serve as the prime example.

After Katrina, barge industry representatives estimated 300 to 400 barges were out of service, numbers that were widely reported in national media. By mid-October, after industry efforts to recover barges, it was determined that only about 25 barges were actually lost due to severe damage or sinking.

Barge vessel pilots reported many of the aids-to-navigations (AToNs), such as signal buoys, were missing or destroyed after the hurricanes. The AToNs are the traffic system on the river. Imagine navigating a super-highway at night, without lights, guardrails, or lines on the road. Not only is it treacherous, it is uninsurable for business purposes. Sunken barges caused hidden dangers for river traffic and silt from the storms limited drafts to 33-feet and lower.

Barge rates that were already high due to drought in the upper Midwest rose sharply after Hurricane Katrina hit. The barge market started to recover only to be jolted again by Hurricane Rita.

Although barge rates had already begun to rise in July and August, the hurricanes simply added to the pressure on both barge and rail freight rates (*Addendum, illustrations 1 and 2*). After the hurricanes, with the increases in fuel costs, it appears that no mode has a cost advantage over any other mode of transportation.

Basic rail car freight rates (tariff rate) can only change with several weeks' advance notice. However, the impact of the hurricanes can be seen in the secondary rail car market where shippers bid for cars to be delivered in future months. These rates increased sharply since the hurricanes (*Addendum, illustrations 3, 4 and 5*). Rather than bids easing for rail cars to be delivered in December and January, as they tend to do when harvest ends, ongoing pressure on freight rates is anticipated. Rates are not expected to decline significantly simply because of the tightness in the transportation market right now and the concerns it creates among shippers.

The Mississippi River system is a major transportation artery in the U.S. marketing system, which provides a low-cost way for many farmers in the Midwest to serve global markets for grains, oilseeds and grain products. This system is one of the most important

elements in keeping U.S. grains and oilseeds - particularly, corn and soybeans - as well as several other U.S. agricultural products competitive in world markets.

In a typical year, 50 to 65 percent of U.S. grain exports move down this inland waterway and through the Gulf to their final destinations around the globe. Just before Hurricane Katrina hit, out of a total 50 million metric tons leaving U.S. ports in 2005, 59 percent had already been exported from the Mississippi Gulf.[1]

Of the top 10 U.S. ports used to *export* agricultural products, four of them are located in the Mississippi and Texas Gulf region (*Addendum, illustration 6*).[2] Fifty-four percent of agricultural exports, or approximately 67 million metric tons of cargo, moved through these four ports in 2004. Key commodities include bulk grains and grain products such as cereal and flour, soybeans, vegetables, animal feed, rice, and tallow (*Addendum, illustrations 7 and 8*).

For U.S. *imports* of agricultural products, two of the top 10 ports are located in the Mississippi and Texas Gulf region (*Addendum, illustration 9*).[3] In 2004, almost three million metric tons of agricultural imports, or eight percent of total agricultural imports, moved through these Gulf ports. Key commodities include oils (coconut, soybean, palm kernel, nut), coffee, fruit (bananas and pineapple), molasses, and beverages.

Agricultural damage has been severe in some coastal areas. Winds from Hurricane Rita, for example, hit all of the sugarcane growing areas in Louisiana. The tidal surges from these hurricanes also flooded croplands and pastures. Conservatively speaking, the hurricanes have caused as much as $1 billion in direct damages to crops and livestock throughout the Gulf Coast.

As Hurricane Katrina hit New Orleans, barge grain shippers up-river watched and waited with uncertainty. In Memphis, the corn basis before the hurricane was 20-cents per bushel under the Chicago Board of Trade which was relatively normal for early September. After the hurricane, grain companies quickly dropped the basis in Memphis to as low as 50-cents under not wanting to buy grain they may be unable to ship depending on the amount of damage done to the river system and the export facilities on the Gulf. Similar declines in basis levels happened all along the river system. The basis level in Savage, Minnesota dropped from an already low of 50-cents under to more than 80-cents under. Today, the basis in Memphis is back to 25-cents under the Chicago Board of Trade and 53-cents under in Savage, which is still slightly lower than normal.

USDA Initiatives

USDA has implemented three emergency provisions to help improve the situation for farmers and ranchers.

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[1] As of August 18, 2005, 50.2 mmt exported from all U.S. ports; 29.7 mmt exported from the Mississippi Gulf.
[2] South Louisiana (36%); New Orleans (8%); Westwego (5%); and Houston (5%)
[3] Houston (5%); and New Orleans (3%)

USDA took steps to further reduce stress on the grain transportation system caused by the hurricanes. We provided a temporary incentive to assist immediate movement of some 100 barges of damaged corn, approximately 110,000 short tons, out of New Orleans to up-river locations. Once unloaded, the empty barges will continue up river to load and begin moving new-crop commodities. USDA's Commodity Credit Corporation (CCC) also received proposals to move 422,194 tons of damaged corn out of New Orleans. CCC accepted three offers from two companies to move 45 barges containing 69,918 tons of damaged corn out of New Orleans to up-river locations.

In addition, to help producers deliver and sell crops in the absence of sufficient barge transportation, USDA will pay incentives for alternative storage of up to 50 million bushels of grain. CCC received proposals for alternative storage on over 327 million bushels. To date, CCC has accepted proposals on 41,373,000 bushels covering 26 proposals from 19 companies. This action will further ease pressure on producers marketing commodities under adverse conditions.

To reduce stress on the Central Gulf transportation and handling system, USDA will provide a transportation differential to cover the costs of moving grain to other river transportation modes, handling methods and locations. CCC received proposals on movements of 829,359 tons of bulk commodities through ports other than the Central Gulf. CCC accepted six offers from three companies to provide transportation freight differential incentives to move 294,770 metric tons of corn, wheat, and soybeans through the Great Lakes and Pacific Northwest ports. The shift from Gulf barge transportation to Great Lakes and Pacific Northwest rail transportation will help mitigate the temporary congestion.

To further alleviate grain movement pressure on the Mississippi River, CCC, on a state-by-state basis, will allow producers with 2004-crop corn, soybean and rice marketing assistance loans that mature at the end of September and October and who wish to forfeit the loan collateral securing these loans to CCC, the opportunity to keep the commodities on their farm for 60 days. These producers typically would be required to immediately move the forfeited commodity to commercial warehouses. During this 60-day period, the producer may purchase these commodities from CCC at the rate CCC uses in allowing marketing assistance loans to be repaid. This action also reduces the pressure on commercial storage availability.

Second, Agriculture Secretary Mike Johanns authorized more than $150 million in emergency assistance be made available to agricultural producers suffering from Hurricane Katrina. Emergency Loans are available to eligible producers who have suffered at least a 30 percent reduction in crop production or have sustained physical losses to buildings, chattel or livestock. Farmers and ranchers have eight months from the date of a presidential or secretarial disaster declaration to apply for low-interest agency loans.

And third, USDA implemented immediate changes to our 2005-crop year Marketing Assistance Loan Program to allow producers to obtain loans for "on-farm" grain storage on the ground in addition to storage in grain bins and other normally approved structures. States along the river in the upper Midwest have requests for approval of temporary and emergency storage in excess of 71 million bushels. Areas tributary to the Illinois River have requests for approval in excess of 43 million bushels. Facilities along the Missouri River have requested temporary and emergency storage in excess of 115 million bushels. We have requests along the Ohio River of approximately 40 million bushels. In total throughout the U.S., USDA has approved 222 million bushels of temporary storage and 273 million bushels of emergency storage.

This action is designed to alleviate short-term logistical problems and support local cash prices above distressed levels as a result of the hurricanes.

In addition, the Farm Storage Facility Loan Program (FSFL) is available to provide low-interest financing for producers to build or upgrade on-farm grain or silage storage facilities.

Status of Recovery

Ports – At the Port of New Orleans, normally 1,500 to 3,000 people are employed as dock workers, truckers and crane operators. Currently, 1,000 of those workers have returned to work and are living on temporary MARAD ships provided by the Department of Transportation. There is continued high demand for truck drivers at the port. Truck capacity is running at 40 percent of pre-storm levels. Additionally, with the major relief efforts that have been undertaken in the hurricane-affected areas, shortages of trucks are being reported in the Midwest and Southeast regions. Galveston reports delays in truck deliveries of grain. Normally a truck takes six days to make a roundtrip from the Midwest to Galveston; however, that same trip is now taking 10 days due to limited staff availability.

Other ports along the Gulf continue their recovery. Gulfport is operating two of its nine berth spaces. Five container vessels have called since September 22. The port continues the clean-up process from the storm and has started demolition of several damaged warehouses including some used for frozen product. Pascagoula is providing only direct loading services at this time - cargo is moved directly from truck, rail, or barge to and from the vessel. The port's warehouses sustained significant damage and are currently under reconstruction. The port plans to have the warehouses open and operational within the next two weeks. At the Port of New Orleans, 14 vessels, including four container ships, are scheduled to call this week, representing approximately 35 percent of pre-Katrina ship traffic. This tops the previous week's schedule of 9 vessels, demonstrating steady growth in cargo operations.

At the Texas Gulf, approximately 40 to 50 percent of the Port of Port Arthur is operational. Dry cargo facilities are open and functioning. Utilities are available to the port facilities; however, power has not been restored to some private facilities/terminals

due to internal damage. The port has processed approximately 60 deep draft vessels in the past 10 days, moving cargo such as crude oil, steel, lumber, and military supplies.

All Mississippi River channels used for grain export are open and operating at normal depths. The shipping channel leading to Port Arthur and Beaumont, Texas, is open to 40-feet, daylight transits only, pending restoration of aids to navigation. The Coast Guard has cleared the Port of Lake Charles, Calcasieu Channel, to 40-feet, daylight transits only.

Grain Inspections – Mississippi Gulf grain inspections showed a significant increase between September 29 and October 13 – increasing over 150 percent (*Addendum, illustration 10*).

In the period immediately after Katrina hit, Mississippi Gulf grain inspections fell to 20 percent of their 4-year average. As of October 13 grain inspections at the Mississippi Gulf were actually 22 percent above the 4-year average. Texas Gulf grain inspections have nearly returned to normal, with the exception of the Beaumont facility. The export grain elevator at Beaumont, Texas, has limited power and cleanup is still occurring. This facility suffered the most damage from Hurricane Rita and likely is going to be out of service for the longest period of time. As of October 13, grain inspections in the Texas Gulf were 60 percent above the 4-year average following inspections for the week ending October 6 at 249 percent of the previous 4-year average. These levels of grain inspection contrast significantly with the 18 percent of the 4-year average that were experienced immediately following Hurricane Rita (*Addendum, illustration 11*).

Vessel and Barge Shipments – Vessel loadings of bulk grain in the Mississippi and Texas Gulf declined significantly after Hurricanes Katrina and Rita. Due to draft restrictions along the Mississippi River, ports and elevators that were available for bulk grain loadings were loading at less than optimal levels. Within two weeks of Hurricane Katrina passing, the pace of vessel loading was just about back to normal – reaching the 4-year average. However, with the approach of Hurricane Rita, the loading pace dropped again. At the close of the first week of October, the gap between vessels loading and arriving was beginning to narrow, indicating recovery is progressing (*Addendum, illustration 12*).

The United States Coast Guard captain of the Port New Orleans has lifted all restrictions on the Lower Mississippi River. USCG has restored all navigational aids and AToNs. Initially, the dredgers were not able to get to ports like Gulfport and Pascagoula because they were busy dredging in the Mississippi River. Dredging has now started in these ports over the past few weeks.

Barge operators say a lack of adequate labor to unload barges and turn them around is resulting in a huge bottleneck of barges in the south. There is a critical shortage of lodging facilities for barge crews in the southern area. Empty barges from New Orleans are not making their way back up river quickly enough.

Barges moving up the Mississippi River were in short supply immediately after Hurricanes Katrina and Rita. However, barge companies are increasingly using covered barges to move non-grain cargo back up the Mississippi River. This up-bound movement of non-grain cargo adds approximately two days to the turnaround time of a barge. These additional days also limit the availability of barges to move grain down river.

Barge grain shipments to the Mississippi Gulf were running behind the 4-year average before Hurricane Katrina. After the storm, shipments declined further as barges began to back up waiting for ports, elevators, and navigation channels to reopen (*Addendum, illustration 13*). While barge grain shipments continue to lag the 4-year average, for the week ending October 15 barge grain shipments rose to over 160 percent of the average shipments for the four preceding weeks (*Addendum, illustration 14*).

Still, out of a fleet of 11,900 covered barges, the industry reports that 2,000 to 2,200 of the covered barges are currently in the lower Mississippi River between Baton Rouge and Myrtle Grove, Louisiana. An unknown number of barges are reported to be transporting "hold off-condition" grain, some of which are said to have been in the Mississippi Gulf prior to Hurricane Katrina.

Barge capacity before the hurricanes was extremely low as the retirement-to-building ratio stood at 2-to-1. A significant shortage of barge production over the last four years is a major factor. Experts point to the elevated price of steel as a major reason for barge depletion. In 2001, the cost of building a barge was $280,000 compared with the current rate of about $400,000.

Rail Grain Deliveries – Rail grain deliveries to the Mississippi Gulf are beginning to recover, but appear to be about two weeks behind normal. For the last seven weeks, rail deliveries have been down 73 percent from 2004 (*Addendum, illustration 15*). Continuing this pattern, for the week ending October 12, Mississippi Gulf grain deliveries were 75 percent below the 4-year average.

Deliveries to the Texas Gulf have been erratic, but still 76 percent above the 4-year average. (*Illustration 16)*. However, the sequencing of rail deliveries to grain elevators at the Texas ports has been somewhat problematic.

At least three weather-related conditions also affected weekly grain car loadings during October: massive thunderstorms dumped up to a foot of rain on parts of Kansas, washing out several UP rail lines and disrupting operations; tropical storm Tammy dropped large amounts of rain along much of the Eastern Seaboard; and the lingering effects of Hurricanes Rita and Katrina continued to hamper operations. Also, unusually early heavy snow in North Dakota and Montana slowed rail traffic.

Weather-related events, which slowed rail traffic, also are likely the reason secondary rail car bids for guaranteed delivery during November and December shot back up after dropping during the week of October 13. Bids for guaranteed grain cars have been at record highs since August, in response to the hurricanes.

Secondary rail bids for guaranteed delivery during the months of January and February finally began to show signs of easing during the week of October 20 from sharp increases that occurred in response to Hurricanes Katrina and Rita. Still, they remain much higher than previous years, signaling shippers' concerns about tightness in the transportation market overall.

Local Rail Service – The New Orleans Public Belt Railroad (NOPB), which provides interchange service to five of the six major railroads that normally operate in New Orleans and serves the Port of New Orleans, has resumed operations on 90 percent of its lines and interchanges. The remaining lines could take another seven weeks to repair.

The New Orleans Gulf Coast Railroad (NOGC), which serves the CHS/Harvest States elevator at Myrtle Grove, Louisiana, will probably be out of operation until the end of the year. NOGC reports that it still has a mile of debris to remove from the line and will probably need to raise some portions of the line.

Interchange service in New Orleans among five of the six major railroads has been restored. CSX is the only major railroad unable to interchange freight in New Orleans, and it will be another five or six months before interchange service is restored.

Prices – Shippers are bidding against each other for barge and rail car capacity. Some shippers are paying 93-cents per bushel to ship corn on a barge, 200 percent more than last year. The price to charter a barge on the Mississippi River from Memphis to New Orleans has increased by over 500 percent since September. It typically costs 30-to-35-cents per bushel to ship soybeans down the Mississippi River. Reports of 200 percent increases are common right now. The situation is harshest for farmers without storage capacity who can't wait out barge industry challenges and high shipping costs.

With nearly 70 percent of U.S. corn and soybeans exported via the Mississippi River and its tributaries, farmers have neither the storage capacity nor the luxury of time to wait out a bottleneck of barges or create alternative transportation routes to ship their commodities.

Grain storage capacity has become a serious problem complicated by a carry over of nearly 2.5 billion bushels of corn and soybeans from 2004 bumper crops as well as the ongoing harvest of what will probably be the second largest crop on record in 2005. USDA's National Agricultural Statistics Service (NASS) projects farmers will harvest 10.9 billion bushels of corn and 2.97 billion bushels of soybeans this year.

As of Sunday, October 16, U.S. farmers had harvested 76 percent of their soybeans and 49 percent of their corn. Large volumes of old-crop corn and soybeans that remain in storage from 2004 have compounded the storage problem (*Addendum, illustration 17*).

At Buffalo Island in Missouri, Cargill has approximately 600,000 bushels of corn stored on the ground because grain elevators are full and there's a shortage of barges to ship the

grain down the Mississippi River. Tarps cover the grain and fans are used to aerate the grain. Farmers who have no storage capacity are selling grain at reduced prices.

Increased supplies are weighing on farm prices. USDA has recently reduced its price projections for both corn and soybeans. The department forecasts an average U.S. price received by farmers for corn of $1.85 per bushel for the marketing year that began September 1, 21-cents lower than the average for the 2004/05 marketing year. Soybean prices are expected to average $5.40 per bushel, 34-cents below last year's average.

Energy and fertilizer prices have soared along with the prices of crude oil and natural gas. Fuel costs have risen dramatically in the past year. USDA estimates farmers are paying 63 percent more in 2005 than in 2004 for diesel fuel. Crude oil delivered from the Gulf accounts for 30 percent of domestic production. Ninety-percent of oil output was disrupted by the hurricanes and caused a 30-to-40-cent-per-gallon jump in gasoline and diesel prices as farmers were gearing up for harvest. Farmers growing fuel-intensive crops like cotton have felt the impact the most. Every month that fuel prices stay high, farmers spend an additional $85 million.

Off-road diesel prices used for combines could average $1.65 per gallon higher than last year. Farmers are dealing with increased costs for propane to dry grain as well as significantly higher fertilizer costs for fall applications. Some farmers have left corn to dry in the field this year, hoping to save on drying costs. But there's no way to avoid filling fuel tanks on trucks, tractors and combines.

Rising energy costs are cutting into the farmer's bottom-line. Hurricanes have driven up the cost of petroleum and natural gas related products such as diesel, propane and fertilizer. The majority of nitrogen fertilizer used on American farms is imported and higher fuel costs are hitting farmers just as they prepare for fall applications.

Outlook Over the Next Six Months

USDA is optimistic, but cautiously so. There are a number of bright spots in this picture, but also many challenges. The pace of recovery and the status of the grain and barge industry today are remarkable given the damage inflicted by these hurricanes. And where we are today is in no small way a measure of the cooperation among many people – individuals in the grain and barge industry, the Army Corps of Engineers, the Coast Guard, and USDA.

Time is not on our side, however. We are in the midst of the harvest season. We have a transportation system that is still in the process of recovering. Our grain inspection personnel have responded admirably during difficult times -- many have been separated from their families and are living in trailers, yet working around the clock to inspect grain so vessels can be loaded and barges turned back up river.

We remain optimistic that the river system can handle the grain movements, although we know it will be a more expensive year to ship grain. We also know that it will take

longer to move grain down the river and return a system that is "out of sync" back to normal operating conditions.

Rail will continue to struggle in a few areas, notably down in the Texas Gulf, until backlogs created by embargoes due to Hurricane Rita are corrected. Once that is addressed, we believe that the railroads will catch up and be able to service grain shippers. However, demand for rail cars is continuing to increase from other, non-agricultural sources. This means that railroads are being pressed to capacity and it likely means added pressure on rail rates.

Grain transportation, storage and energy costs are the three critical issues facing Midwest farmers along the Mississippi River this year. The ripple effect is causing pressure on many agricultural producers across the nation. Pricing pressure will place additional burdens on U.S. farmers. Farm program payments triggered by low market prices will help offset some of the lost income. Through loan deficiency payments alone, corn producers could capture about 45-cents per bushel. We are working steadily to create alternative storage and transportation solutions. Near-record harvests compounded by the availability of barges, higher energy costs, decreased labor pools in the Gulf region along with port infrastructure repairs, all add up to a challenging situation. While the situation is steadily improving, an intense focus by federal, state and local governments along with private efforts will be needed for the next three to six months.

Addendum

Illustration 1

Barge Rate Index and Current Rates ($/short ton), Based on 1976 Benchmark

	Twin Cities Index	Benchmark	**Current Rate $/Ton**	% Change	St. Louis Index	Benchmark	**Current Rate $/Ton**	% Change
8/24/2005	374	6.19	**23.15**		353	3.99	**14.08**	
8/31/2005*	510	6.19	**31.57**	36%	600	3.99	**23.94**	70%
9/7/2005	536	6.19	**33.18**	5%	685	3.99	**27.33**	14%
9/14/2005	550	6.19	**34.05**	3%	703	3.99	**28.05**	3%
9/21/2005	485	6.19	**30.02**	-12%	542	3.99	**21.63**	-23%
9/28/2005*	548	6.19	**33.92**	13%	715	3.99	**28.53**	32%
10/5/2005	593	6.19	**36.71**	8%	771	3.99	**30.76**	8%
10/12/2005	673	6.19	**41.66**	13%	921	3.99	**36.75**	19%

August 29, 2005 - Hurricane Katrina; September 24, 2005 - Hurricane Rita

Rates indicated are for barge movements per ton from Minneapolis-St. Paul, MN and St. Louis, MO to New Orleans export locations.

Current rates are based on corresponding 1976 benchmark dollar rate per ton, calculated as follows: Current Rate = (Index multiplied by the (1976 tariff benchmark rate per ton))/100.

Illustration 2

Rail Rates

	Wheat: Minneapolis To Houston, TX	**Corn: Chicago to Baton Rouge, LA[1]**
	--$/mt--	
13-Oct-05	**37.50**	**39.91**
tariff (10/03/05)	26.68	28.77
Nov premium (10/08/05)*	6.71	6.71
fuel surcharge (15.4%)	4.11	4.43
14-Oct-04	**26.11**	**33.75**
tariff (10/04/04)	23.09	30.16
Nov premium (10/08/04)*	1.17	1.17
fuel surcharge (8%)	1.85	2.41
2005/2004 change	44%	18%

[1] Although corn is not moved to Baton Rouge by rail, this is used for comparative analysis with barge rates.

* Premium: Secondary Rail Car Market (average of BNSF and UP)

Illustration 3

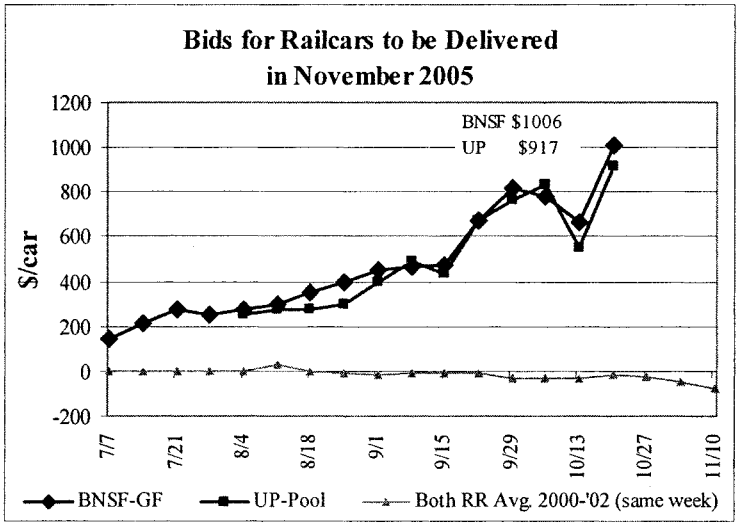


Illustration 4

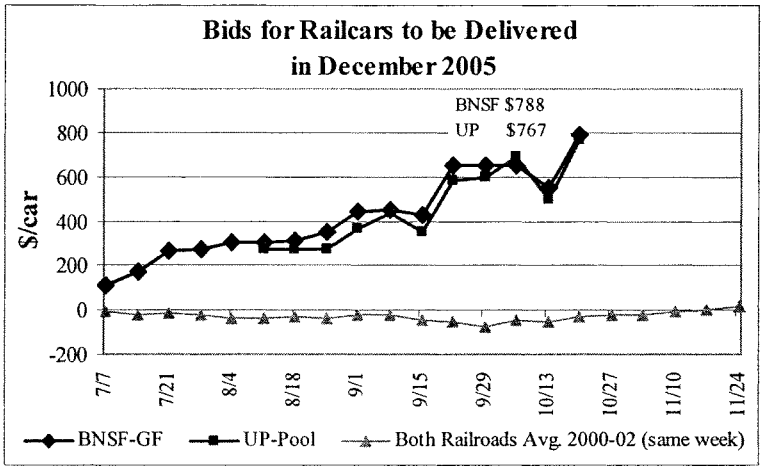


Illustration 5

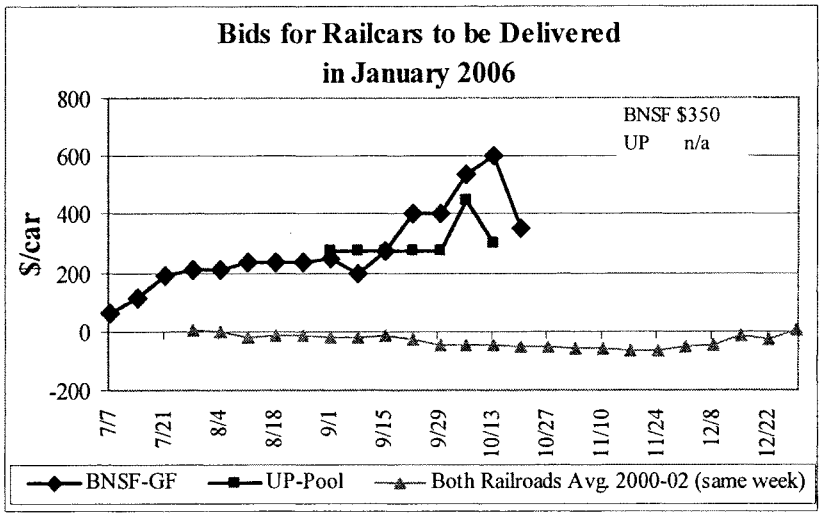


Illustration 6

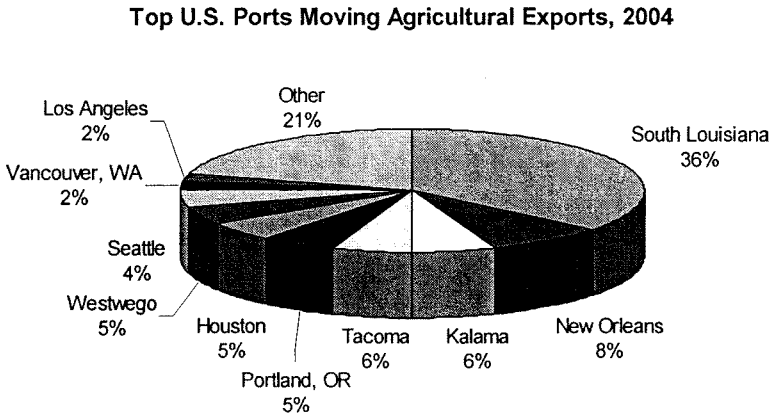


Illustration 7

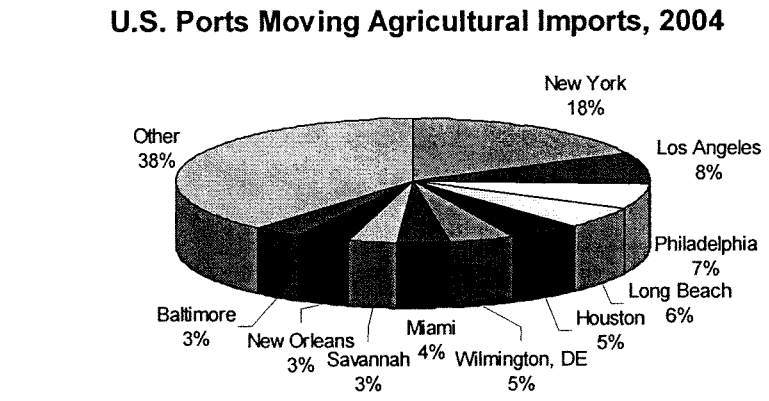
Total 2004 Agricultural Exports New Orleans, South Louisiana, and Westwego, LA			
Commodities	**Thousand Metric Tons**	**Share**	**U.S. Share**
Bulk grain	29,365	44%	48%
Soybeans	17,500	26%	68%
Grain products, flour	7,536	11%	82%
Vegetables	5,660	9%	60%
Animal feed	3,879	6%	48%
Rice, crackers, pasta	1,176	2%	42%
Soybean oil	269	0%	83%
Bulbs and seeds	266	0%	31%
Poultry	262	0%	12%
Corn oil	236	0%	70%
Other	436	1%	4%
Total	66,585	100%	49%

Source: Port Import Export Reporting Service (PIERS), Journal of Commerce, 2004

Illustration 8

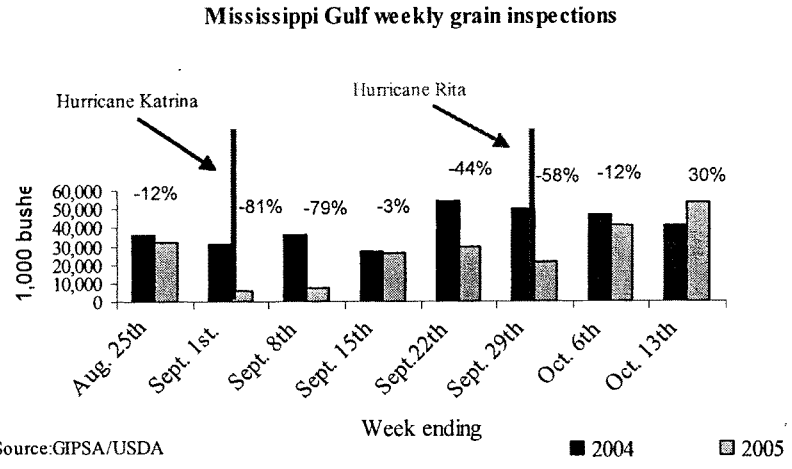
Top 10 Agricultural Commodities Exported through Texas Gulf Ports*, 2004			
Commodities	**Thousand Metric Tons**	**Share**	**U.S. Share**
Bulk grain	7,906	76%	13%
Tallow, grease	546	5%	68%
Rice, crackers, pasta	32	3%	12%
Bulbs and seeds	245	2%	29%
Grain products, flour	174	2%	2%
Edible nuts	145	1%	30%
Soybeans	121	1%	0.5%
Poultry	112	1%	5%
Cotton	104	1%	6%

Illustration 9



Source: Port Import Export Reporting Service (PIERS), Journal of Commerce
Data is calculated by weight

Illustration 10



Source:GIPSA/USDA

Illustration 11

Table 4: Grain Inspections (1,000 bushels)

Week Ending	Mississippi Gulf 2005	Mississippi Gulf 4-yr avg	% Chg.	Texas Gulf 2005	Texas Gulf 4-yr avg	% Chg.	Total (MS, TX, & PNW) 2005	Total (MS, TX, & PNW) 4-yr avg	% Chg.
08/25/05	32,126	40,882	↓ 21	5,455	4,695	↑ 16	59,539	59,757	0
9/1/2005*	6,232	30,382	↓ 79	9,318	5,499	↑ 69	30,599	49,203	↓ 38
09/08/05	9,436	41,113	↓ 77	5,794	5,402	↑ 7	30,327	56,404	↓ 46
09/15/05	27,139	37,960	↓ 29	15,307	5,527	↑ 177	58,446	56,272	↑ 4
09/22/05	31,483	38,335	↓ 18	6,935	4,282	↑ 62	57,713	56,461	↑ 2
9/29/2005*	20,968	39,788	↓ 47	1,024	5,659	↓ 82	41,162	57,615	↓ 29
10/06/05	41,025	42,597	↓ 4	11,638	3,331	↑ 249	73,968	60,968	↑ 21
10/13/05	53,389	43,689	↑ 22	8,522	5,324	↑ 60	79,660	67,550	↑ 18
YTD 2005	1,360,711	1,500,462		234,442	243,563		2,339,912	2,490,196	
2005 as % 2004	91%			96%			94%		

* Hurricane Katrina, Aug. 29; Hurricane Rita, Sept. 24.

Source: USDA, FGIS

Illustration 12

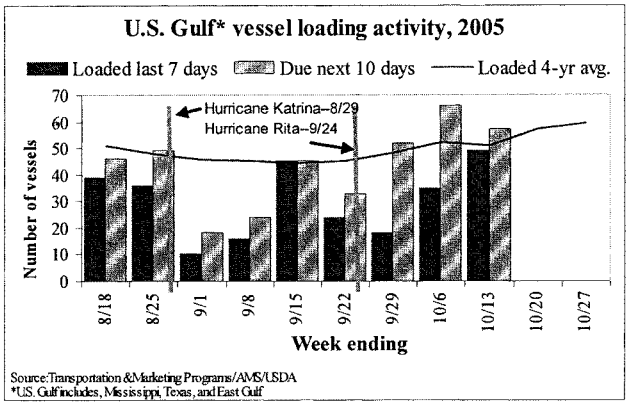


Illustration 13

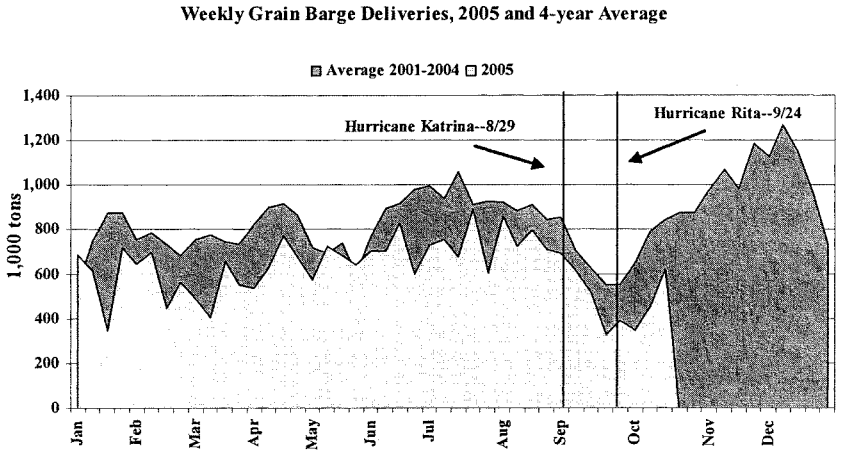


Illustration 14

Grain barge shipments (1000 tons)						
	Weekly shipments			Cumulative shipments		
Week Ending	2005	Avg. 01-04	% Change	2005	Avg. 01-04	% Change
8/27/2005	691	855	↓19%	22309	28083	↓21%
9/3/2005*	614	701	↓12%	22923	28784	↓20%
9/10/2005	515	623	↓17%	23438	29407	↓20%
9/17/2005	326	553	↓41%	23764	29960	↓21%
9/24/2005*	387	551	↓30%	24151	30511	↓21%
10/1/2005	345	652	↓47%	24496	31163	↓21%
10/8/2005	454	794	↓43%	24950	31957	↓22%
10/15/2005	618	846	↓27%	25568	32802	↓22%

*Hurricane Katrina, Aug. 29; Hurricane Rita, Sept. 24.

Illustration 15

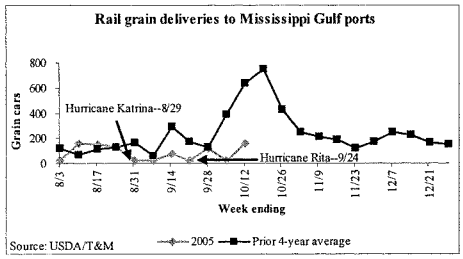


Illustration 16

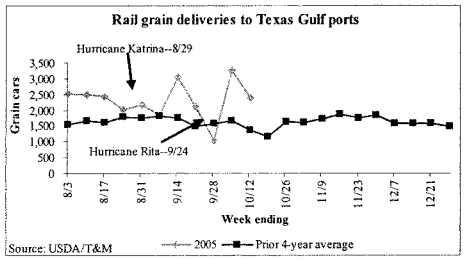
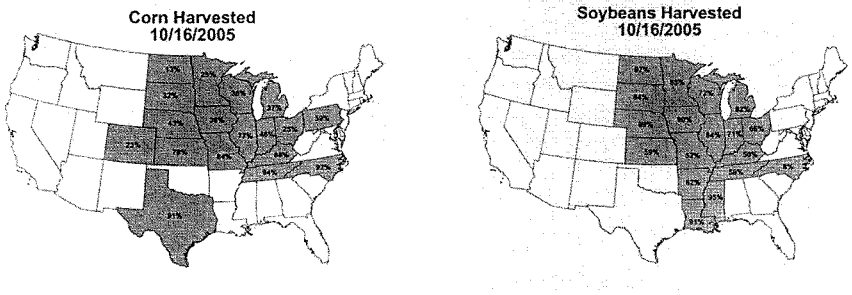
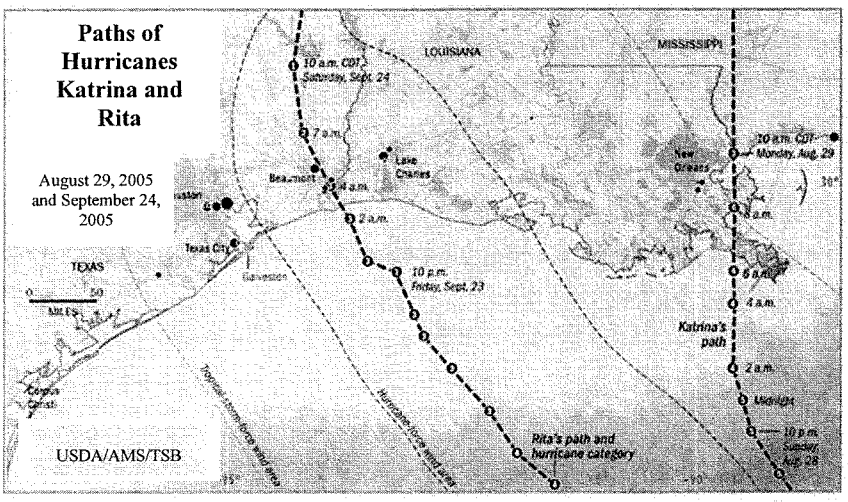


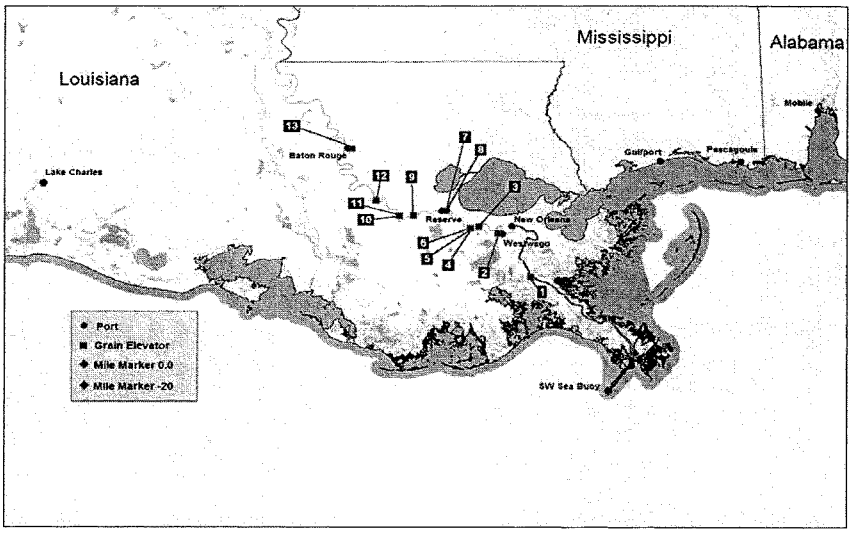
Illustration 17



Mississippi Gulf Briefing
Hurricanes Katrina and Rita

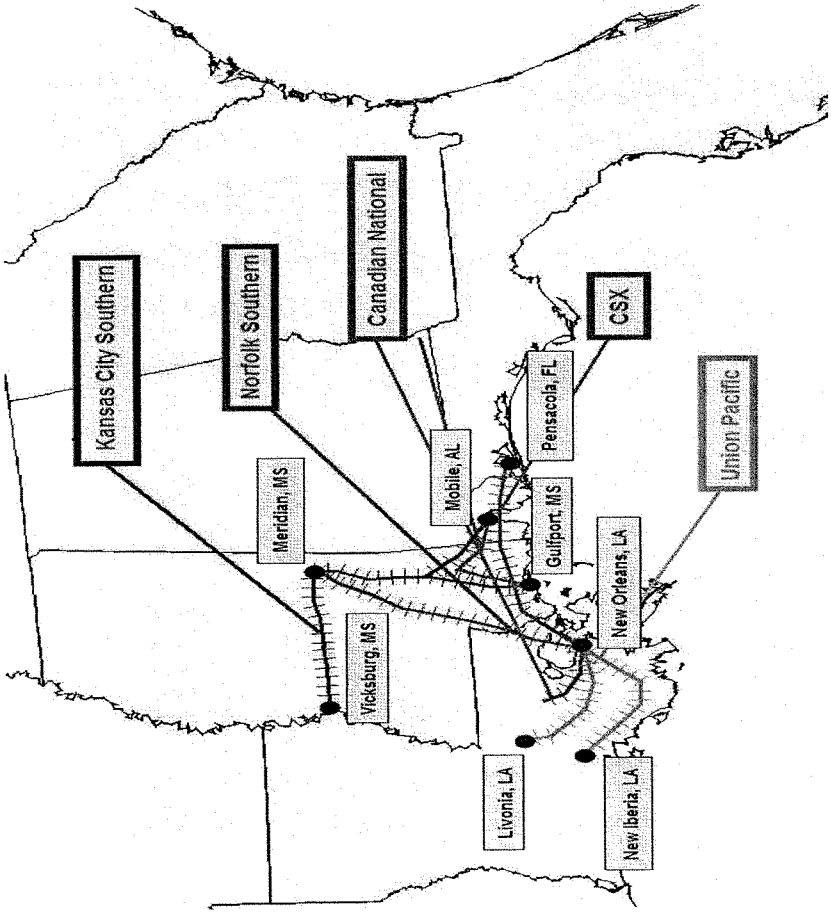


Mississippi Gulf Export Grain Elevators



23

MAP OF MAJOR RAILROADS IN THE MISSISSIPPI GULF



National Corn Growers Association
www.ncga.com

Testimony of Bob Dickey
National Corn Growers Association

Review of the Current Impact of Mississippi River Transportation on Agricultural Markets

House Committee on Agriculture
Washington, D.C.
October 26, 2005

Good morning.

Chairman Goodlatte and Ranking Member Peterson, thank you for the opportunity to testify on the outlook for transportation on the Mississippi River and its tributaries during this harvest and the impact limitations to navigation have had on movement of agricultural products.

My name is Bob Dickey. I serve on the board of the National Corn Growers Association (NCGA) and I am liaison to the Production and Stewardship Action Team. I am from Laurel, Nebraska, where I grow corn and soybeans and raise hogs and cattle. NCGA was founded in 1957 and represents more than 33,000 dues-paying members from 48 states. NCGA also represents the interests of the more than 300,000 farmers who contribute to corn check-off programs in 19 states.

It comes as no surprise to this committee that agriculture is notorious for its uncertainty. Crops and farm income are dependent like no other industry on weather, politics and market trends beyond our control or ability to estimate. I guarantee that the cost to harvest and market this year's crop is on the minds of all corn growers, and consequently, we appreciate the Committee for taking a serious look at the extraordinary, short-term transportation problems facing us this year.

I also commend the U.S. Army Corps of Engineers, the U.S. Coast Guard and the National Oceanic and Atmospheric Administration for their diligent work to get the Gulf port facilities and the Mississippi River open for business as quickly as they did.

Waterway Transportation Dynamics

U.S. farmers need efficient transportation networks. Farmers move their crops and receive their inputs by barge, rail and truck. The competition among these modes of

transportation helps farmers receive the best price for their crops, meet their customers' demand for timely delivery of products and successfully compete with foreign producers. Without the competition that comes from access to efficient, alternative transportation methods, farmers can pay considerably more to transport their crops.

As evident by current conditions on the Mississippi River, efficient waterway transportation affects domestic grain prices. Even though not all corn growers ship to the Mississippi River, all growers are impacted by it. The price of grain I receive at my home market is largely based on the price of grain that moves on the Mississippi River to the export markets. A problem with barge movements on the river has a rippling effect on corn prices nationwide.

Each year, more than one billion bushels of grain (about 60 percent of all grain exports) move to export markets via the Mississippi River. The American farmer's international competitiveness has always hinged on the ability to move crops to market. The lower the cost of transportation; the lower the cost of U.S. grain on the world market; thus, the more grain the U.S. is able to sell.

International competition from countries such as Argentina and Brazil are lowering profit margins and increasing the importance of quick and efficient delivery of bulk commodities. At the same time, South American countries are investing large sums in river infrastructure to upgrade their river systems to be more competitive in world markets. America cannot afford to allow any aspect of river commerce to deteriorate for fear of losing export market share to South America at the expense of our agricultural industry. A major advantage our farmers have over competitors in Brazil is the inland waterway system. Without it, we will not remain a reliable supplier in the international marketplace.

Additionally, navigation offers transportation with unparalleled environmental benefits. The carrying capacity of one 15-barge tow eliminates the need for 870 semi-trailer trucks to travel our nation's highways, reducing traffic congestion. Barges operate at 10 percent of the cost of trucks and 40 percent of the cost of trains, while releasing 20 times less nitrous oxide, nine times less carbon monoxide, seven times less hydrocarbons, and burning 10 times less high-price fuel.

State of the River

Problems along the Mississippi River existed well before Hurricane Katrina hit land. Investment in the inland waterway system has not kept pace with demands. The antiquated system is slowly being starved resulting in operational failures that hinder barge movement and dramatically impact corn prices.

Additionally, the Midwest experienced its worst drought in 17 years, resulting in almost a three-foot decrease in river levels near St. Louis. That caused barges to run aground and forced operators to trim payloads by up to six inches per barge to clear shallow spots on the Mississippi River. (A one inch reduction in draft corresponds to a loss of about 17

tons in cargo.) Over Labor Day weekend, a low water advisory was issued by the Captain of the Port of St. Louis. Additional load restrictions were ordered on barge transport requiring a 20 percent reduction in cargo and travel at speeds one-fourth below normal.

Next came Hurricane Katrina which worsened existing transportation problems. According to the U.S. Coast Guard, at least 100 barges were sunk or run aground south of New Orleans. The shutdown of the Gulf ports plus a further constricted barge supply, combined with the effects of a lower river channel, and a slowdown in northbound barge traffic sent barge rates soaring.

In the days following Hurricane Katrina's landfall, barge tariff rates – the rates paid by grain companies for transportation outside long-term shipping contracts – to ship grain from St. Louis to New Orleans soared by 60-100 percent. Similarly, the Illinois River barge index-quotes significantly increased by 52 percent on August 31, 2005, according to the Agricultural Marketing Service.

Barge freight continues to trade at 600 percent of tariff from St. Louis and 850 percent from Memphis southward. St. Louis has averaged 162 percent for August and 222 percent for September over the last five years. Near St. Paul, Minnesota and Dubuque, Iowa freight rates more than doubled their 10-year averages.

To put this into perspective, the cost to ship a bushel of corn from St. Louis to New Orleans in the weeks following Katrina jumped from a normal rate of 33 cents to about 81 cents per bushel, according to Informa Economics. In cases where barge rates have sustained 800 percent of tariff – $48 per ton, or $1.34 per bushel – it costs more to ship a bushel of corn than what grain elevators along the river are paying for it.

While federal, state, and local officials have done an incredible job of getting things back up and running at Gulf ports, Katrina has certainly set back exports as well. Mississippi Gulf grain export inspections fell 81 percent during the first week of September compared to the same week in 2004. U.S. Gulf vessel loading activity is steadily improving, but problems facing us today cannot be worked out in this harvest.

Current Market Outlook

Last year was a record for corn production – 11.8 billion bushels. This record crop drove per-bushel prices down resulting in many farmers storing large portions of their crop in hopes prices would improve. As a result, a total of 2.1 billion bushels from 2004 crop still remains in storage, the most since 1989. With almost 40 percent of the nation's 2005 corn crop harvested, we are experiencing a logistical nightmare with a large percentage of last year's crop still sitting in the bins, this year's harvest in full swing and limitations to our transportation options.

In Nebraska, about 20 percent of last year's corn crop, or 280 million bushels, is still taking up space in grain bins on farms and in area elevators. My neighbors to the east

(Iowa) report that carryover is more than 493 million bushels. Nationally, corn ending stocks are up 141 million bushels from last month and are 108 million higher than the previous year. Suggesting that it could be hard to find storage this fall is definitely an understatement.

Furthermore, storage problems will be exacerbated by the current transportation challenges. For those with limited access to storage, delivering corn to market is likely the only option. Corn's average price has dropped from $1.70 - $2.10 per bushel in September to $1.65 - $2.05 in October. Unfortunately, cash corn prices along the river are as low as $1.26. Prices in my home county for this past week are $1.35. Elsewhere in Nebraska, cash corn prices range from $1.47 to $1.62 a bushel.

Cash prices have fluctuated widely due primarily to changes in the local basis. The basis in Nebraska ranges from 40 cents to 67 cents. This situation is a direct result of continued problems on the Mississippi River transportation system and limited storage capacity. Additionally, corn futures have moved lower under the pressure of harvest. As a result, producers may hold 2005 corn for some acres not planted next year unless conditions improve significantly.

The October reports from the National Agricultural Statistic Service (NASS) project U.S. corn production to reach nearly 10.9 billion bushels, the second largest corn crop on record. The average yield for the United States is 146.1 bushels per acre, up 2.9 bushels from September's estimates and more than two percent above the yield trend.

Impact on Corn Shipments in Nebraska

Unlike most of the nation's corn exports which are transported by barge down the Mississippi River to the Port of New Orleans, Nebraska exports about 10 percent of its corn crop to foreign markets via Mexico by rail and Asia through the Pacific Northwest ports. In my home county, corn that is not fed to livestock or utilized by an ethanol plant is exported by rail to feeder cattle operations in Texas and Oklahoma or across the border to Mexico.

Prior to Hurricane Katrina railroads were operating at capacity. In a normal year, rail cars are in short supply during peak harvest season, and it's not uncommon for grain to be piled on ground until railroads can haul it to market. As transportation costs have increased due to the back up on the river, the orderly movement of grain throughout the rest of the country has been disrupted. We are now in a situation where rail cannot absorb the additional traffic necessary to move grain that would have been transported by barge.

The USDA Grain Transportation Report recently estimated that guaranteed placement of rail cars in Nebraska has increased from $300-500 per car to $1200-1600 per car (30 cents per bushel) not including the current 11.8 percent fuel surcharge (11 cents per bushel). Freight rates from Nebraska to Mexico (Brownsville, TX) are currently $3,645

per car (95 cents per bushel). This brings the total estimated rail rate from Nebraska to Mexico to a per bushel cost of $1.36.

While many elevators pre-purchase freight and guaranteed car placements ahead of time, this harvest season is experiencing extreme delays in delivery of rail cars – in some cases up to 6 weeks. Furthermore, shipping corn today from my home county with the purchase of guaranteed placements at $1200 (a very conservative estimate) to Mexico is almost the same as the price of corn in Nebraska.

A Case for the Missouri River

Management of the Missouri River has a large impact on navigation on the Missouri and Mississippi Rivers, rail rates in the western United States, flood-plain farming and recreation. Under the new master manual, navigation will be precluded if the reservoirs up river are below 31 million acre feet. As a result of water cutbacks in recent years, very little navigation occurs on the Missouri River, and it is possible that if the drought in the Upper Basin continues, navigation will be precluded again in 2006.

Furthermore, reduced flow from the Missouri River, which contributes approximately 60 percent of the Mississippi flow, lowers the Mississippi River by nearly 3 feet. With drought conditions along the Mississippi River, there is potential for shutting down river navigation altogether, creating catastrophic conditions for Midwest agriculture.

Federal and state governments have debated the viability of navigation on the Missouri River for more than a decade. This year's transportation problems clearly exhibit the futility of this debate. Ethanol plants are running at capacity, livestock are eating their fill, grain bins are full, the railroads are stretched to capacity, and we are out of shipping options. Even modest shipments on the Missouri would be beneficial as any elevator that can ship grain has a better basis than one that cannot.

Conclusion

Corn growers commend the administration for taking a market-oriented approach to resolving some of the short-term problems with our over-stressed grain delivery and distribution system. It's important to get our infrastructure back on track so we can meet customers' needs and our producers' concerns at harvest when our system is at maximum capacity.

The competition between river, railroads and trucks directly impacts the price paid for each bushel of corn. Today, lower prices are reflected in the higher costs of transportation that river terminals must pay to get grain to market. Unfortunately, the back-up in the system will be felt well into next year.

In mid-December, the Upper Mississippi River will begin its seasonal shutdown of navigation. As the river closes, rail problems will likely continue because the mid and upper river will not be available to haul grain by barge. If there is an increase in export

demand, the continually navigable portion of the system (Illinois River, Mississippi River below St. Louis, and Ohio River) will see a normal improvement in basis. However, if there is an upswing in exports, the rail dependent areas could actually see basis widen because there will be an increase for already scarce rail assets.

Furthermore, short-term problems along the Mississippi River will continue to persist year after year if long-term investments are not made to improve our transportation infrastructure. Corn growers are producing 11 billion bushel crops – a trend that will continue and grow. However, our waterway infrastructure was built in the 1930's when the total corn crop for the country was 1 billion bushels. Today, Iowa alone produces one billion bushels.

If Katrina taught us anything, it's that the Mississippi River is a system. If any one component of that system should fail, the system as a whole fails. Corn growers have been long-time supporters of robust investments in rail, highway and inland waterway infrastructure. Countless studies and years of investigation prove that the public investment in our inland waterways is not only justified but needed. We cannot afford to wait any longer. If we fail to move forward, the world will look elsewhere for basic food commodities. That is something corn growers and farmers across the country cannot accept.

Thank you again for the opportunity to testify. I would be happy to respond to any questions.

Testimony of
Timothy Gallagher
Senior Vice President & General Manager, Grain Division
Bunge North America, Inc.

On behalf of the
North American Export Grain Association

Before the
House Committee on Agriculture

October 26, 2005

Good morning, I am Tim Gallagher, Senior Vice President & General Manager of Bunge North America's Grain Division. I am here today on behalf of the North American Export Grain Association (NAEGA). Thank you for the invitation to participate in today's hearing reviewing the short-term outlook for navigation on the Mississippi River system and the impact on U.S. agriculture.

Bunge North America, the North American operating arm of Bunge Limited, is a vertically integrated food and feed ingredient company supplying raw and processed agricultural commodities and specialized food ingredients to a wide range of customers in the livestock, poultry, food processor, foodservice and bakery industries. With headquarters in St. Louis, Missouri, Bunge North America employs nearly 4,000 people who operate grain elevators, oilseed processing plants, edible oil refineries and packaging facilities, and corn dry mills in the United States, Canada and Mexico.

NAEGA, a not for profit trade association, established in 1912, consists of private and publicly owned companies and farmer-owned cooperatives that are involved in and provide services to the bulk grain and oilseed exporting industry. NAEGA's mission is to promote and sustain the development of commercial export of grain and oilseed trade from the United States. NAEGA acts to accomplish this mission from its office in Washington, D.C., and in markets throughout the world.

As more Americans have learned over the past seven weeks, the Mississippi River system is of enormous importance to the U.S. economy – even more so to the U.S. agricultural economy. The Mississippi River is the central artery of a 14,500-mile inland waterway system spanning much of the United States. In measure of tonnage, the Port of South Louisiana is the largest port in the United States and third busiest in the world. According to the U.S. International Trade Commission, in 2004 the New Orleans Customs District handled $36.8 billion of U.S. exports and $78.8 billion in imports. The largest agricultural exports by value passing through these ports in 2004 were $4.1 billion of soybeans (62 percent of total soybean exports); $3.8 billion of corn (62 percent of total corn exports); and $1.2 billion of wheat (22 percent of U.S. wheat exports).

As you know, the United States exports nearly $60 billion worth of agricultural products every year. In 2004, the United States exported over 104 million metric tons of grain and oilseed derivative products valued at over $17.7 billion. Much of this export success is based on the

proximity of production regions to river borne transportation. With roughly one in every four acres of U.S. production going into export channels and close to 60 percent of that going through New Orleans to the Gulf, one quickly senses why those of us in agriculture value what we know to be our best natural comparative advantage in trade – the Mississippi River and its tributaries.

Prior to Hurricanes Katrina and Rita, our industry was already facing tightness on the river. Low water levels and strong demand for both northbound and southbound barge traffic contributed to limited barge availability and increasing freight values. Rising fuel costs have increased towing rates by nearly 50 percent over last year; resulting directly in what we estimate to be a six cent per bushel deterioration in basis for farmers in the interior.

The freight tightness is also due in part to a reduction in the number of barges in the river fleet in recent years. In 2004, the covered hopper barge fleet consisted of 11,572 barges. That number is 8.9 percent less than the number of barges available in 1998.

This demand is compounded by significant increases in major commodity imports through the New Orleans Customs District. From 2003 to 2004, inbound tonnage increased by more than 42 percent. This trend has continued as imports from the first six months of 2005 increased 23 percent over imports during the first half of 2004. These imports have created new demand for northbound movements to interior locations, movements that lengthen turn-around times and barge availability for southbound movements of agricultural commodities. The reality of the situation is that the robust market reflects a strong domestic economy.

As Hurricane Katrina forced an extended closure of the Ports of New Orleans and South Louisiana - including all ten grain export facilities – an already tight river transportation situation became desperate. For Bunge, our grain export facility and adjacent soybean processing facility were affected, as were 40 percent of our barges that were in the New Orleans area. Fortunately, our grain export elevator reopened in five days; our processing facility opened within three weeks; and none of our barges were lost. Many in the industry were not so fortunate. Facilities remained idle; fuel was scarce; employees lost their homes and were scattered across the region; and the resumption of river transportation sputters.

Despite weeks of recovery efforts, the industry continues to operate at a capacity below its norm. (*See Appendix A*) The disruption in the Gulf made a tight situation worse. After Katrina, barges awaited unloading at closed grain elevators while vessels lined up at the Port of New Orleans waiting to be unloaded for shipment to northern destinations. The short term inability to unload and move barges led to a severe shortage of capacity to move grain.

The combination of lost days, reduced capacity, and idled loaded barges continues to present a huge challenge for our industry and our farm customers. Lack of market access and increased costs of freight and fuel have eroded the farmers' basis relationships to the market price.

To illustrate this point, I would like to share an analysis of freight costs from the Boot Heel of Missouri to New Orleans:

August 31, 2003	20.5 cents/bushel
September 2003 high	28.5 cents/bushel

August 31, 2004	25.5 cents/bushel
September 2004 high	46 cents/bushel
August 26, 2005 (Day before Katrina)	51 cents/bushel

In the wake of Hurricane Katrina, freight rates soared - hitting 97 cents/bushel on September 8, 2005. Anecdotally, we observed that for every 100% increase in freight rates above tariff, ten cents per bushel was added to transportation costs.

As we look ahead, I project that the industry may return to more normal operations at the Gulf around the end of this year. However, I would point out that we likely will see little change until the harvest is complete. Presently, agriculture exports out of the Gulf are serving inelastic demand only. The industry will be challenged in the weeks and months ahead as it attempts to address issues with barges containing old crop corn that have been in New Orleans since before Hurricane Katrina made landfall. That said, the industry is working very hard to address comprehensively the complex issues in order to make barges available for grain loading locations in the interior to alleviate tightness, but it will take time to normalize conditions.

We commend the U.S. Department of Agriculture for looking for ways to ease pressure in the weeks following the hurricanes. Their efforts to move cargoes of damaged corn from the Gulf and further efforts to provide incentives for storage utilization should relieve some of the short-term pressures.

As I previously mentioned, the river system is a primary source of competitiveness in global markets. As our river system has deteriorated and others have made investments in transportation infrastructure, the U.S. freight advantage over global competitors such as Brazil has diminished. Many of our international competitors maintain an overall lower cost of production in commodities such as corn and soybeans; commodities largely dependent on barge transportation on the Mississippi River system. It is the freight cost advantage of our river system that plays a significant role in keeping our exports competitive. We must maintain and grow this freight advantage to maintain U.S. competitiveness. This is why we believe we must renew our commitment to maintaining the entire river system.

We are not just talking about locks and dams. Tributary waterways are a vital transportation system linking agricultural production to the Mississippi River system and export markets beyond. 65 percent of commerce moving on the Mississippi River stems from tributary waterways.

Tributaries and other "low-use" waterways have been targeted for budget savings over the past several years. Consequently, the bases of these channels are rising and will no longer be navigable if left untouched. Annual routine maintenance dollars are needed to prevent this from occurring. Already we face the inability to load barges to full capacity in some areas because shallow depths limit navigation.

There is very little slack in the U.S. transportation system, especially in agriculture. Rail and truck alternatives to replace the capacity and cost effectiveness of the river system are simply non-existent. Rail shipping is already at full capacity and there is a labor shortage of certified

truck drivers. Moreover, shipping by barge remains the most fuel efficient, lowest cost and overall efficient method of transporting the necessary volume of agricultural commodities to export.

It would take 16 rail cars or 60 trucks to equal the capacity shipped by one barge. One 15-barge tow can carry as much as 870 large trucks with considerable less pollution of the environment. For every gallon of fuel, one ton can be carried 514 miles on an inland barge versus only 202 miles by rail or 59 miles by truck. Waterborne transportation is the most environmentally friendly, resource efficient and globally competitive method of grain transportation available today.

The lower cost of barge transportation has increased the selling price of corn and soybeans for farmers along the Mississippi, Illinois, Ohio and Missouri Rivers relative to land-locked areas. Grain flow studies for Iowa and Minnesota have shown that within a 180-mile corridor on either side of the river, a significant amount of grain moves to the Mississippi River in response to higher commodity prices on the river.

Mr. Chairman, we appreciate the Committee on Agriculture's interest in this matter and the hearing today. We hope this hearing will call greater attention to importance of and threats to our nation's inland waterways transportation system.

Again, thank you Mr. Chairman, Ranking Member, and Members of the Committee for the opportunity to provide testimony.

Appendix A

Port of New Orleans Exports by Commodity
(in 1,000 bushels)

CORN																
Week/Month	5-Aug	12-Aug	19-Aug	26-Aug	2-Sep	Total	9-Sep	16-Sep	23-Sep	30-Sep	Total	7-Oct	14-Oct	21-Oct	28-Oct	Total
2004	6114	22751	26359	25963	18668	99853	19394	20911	33358	31646	105309	27609	17731	39727	18994	104061
2005	10894	23697	20265	26167	4293	85317	6673	19242	21860	19670	67445	26748	34498			61257
% change	78.2	4.2	-23.1	0.08	-77	-14.6	-65.6	-8	-34.4	-37.8	-36	-3.1	95			

SOYBEANS																
Week/Month	5-Aug	12-Aug	19-Aug	26-Aug	2-Sep	Total	9-Sep	16-Sep	23-Sep	30-Sep	Total	7-Oct	14-Oct	21-Oct	28-Oct	Total
2004	444	305	2824	2098	3049	8720	10549	2670	12414	13484	39117	14047	18109	22373	32797	87327
2005	3346	6024	4088	4293	0	17751	2396	4089	8172	1744	16401	9041	16782			25824
% change	652.5	1877.8	45	105	-100	103.5	-77.3	53.2	-34.2	-87.1	-58.1	-35.6	-7.3			

Source: FGIS

Thoughts Concerning Barge Freight Costs On Grain Markets

Testimony before the
Committee on Agriculture
U.S. House of Representatives
October 26, 2005

By
Robert Kohlmeyer
President Emeritus
World Perspectives, Inc.

Mr. Chairman and members of the Committee, thank you for the invitation to appear before this Committee and the privilege of sharing some thoughts and ideas about the relationship between costs of transportation, grain markets and the value of crops produced by American farmers.

I have spent more than 50 years in the grain industry. During that time I have managed grain elevators both small and large, including some along our inland waterways. I spent a significant portion of my career deeply involved in export merchandising to customers around the world. More recently until retirement, I was President of World Perspectives (WPI), a company that serves global clients with agricultural market and policy analysis, strategic planning and management services. I now provide consulting services to those clients through WPI.

During my career the transportation function for grain within the U.S. has greatly changed. All of the original transport modes are still here. We still use trucks, railroads, barges and ocean vessels. But trucks have doubled in size. Railroads provide whole train service, and the cost of rail freight is no longer regulated by the government. Barges too have grown in capacity. Barge tows are much larger, and they are pushed by power units generating two or three times more power. Grain used to be exported on old liberty ships that could carry 10,000 tons at most. Now, a majority of U.S. grain and soybean exports are carried by vessels that can hold 50,000 to 80,000 tons of grain.

One thing has not changed, however. Transportation costs had a significant influence on the value of grain from the farm gate to the end user then. And transportation costs wield at least the same degree of influence on prices

today. If there is a difference, it is that transportation costs are now determined to a much greater degree by basic supply and demand, and are therefore variable and more volatile than when I started out in this business.

The aftermath of Hurricane Katrina and the devastation and human suffering it caused in the greater New Orleans area when it came ashore August 29 has been well documented. The impact of Katrina on U.S. agriculture was immediate and severe, and it can still be seen today, nearly two months later. Other witnesses today will no doubt spell out in detail the importance of the Mississippi River corridor to U.S. agriculture. Between 60 and 70 percent of U.S. corn and soybean exports are shipped from elevators in or near the Port of New Orleans, and the large majority of the corn and soybeans that are exported there arrive from the Midwest by barge. Any disruption to barge movement or export loadings will send immediate ripples upstream and all the way to the farm gate as we have been reminded in the aftermath of Katrina.

However, for me the real story concerns the industry's response. The Herculean efforts and ingenuity of elevator management, elevator workers who in many cases had suffered personal losses, grain inspection personnel, the Coast Guard, river pilots, the Army Corps of Engineers and numerous others is an untold but truly remarkable story. All of the 10 export elevators sustained some damage, but only one was severely damaged. Many lost power. Barges filled with grain and soybeans were tossed all over the area. Some were sunk, some were not found for days, and many were damaged and their cargo soaked by rain and flood water. The storm surge caused silting in the river below New Orleans making passage of ocean vessels upriver difficult or impossible.

Yet, just two days after the storm struck, empty vessels began a slow crawl upriver. And less than a week after the storm grain loadings began. By mid-September enough loading capacity was available to accommodate demand. By chance, the storm occurred at the transition time between old and new crops when scheduled commitments and loadings are usually at a low point. Still, the industry's performance in the aftermath of Katrina is simply amazing.

The volume of grain and soybean export shipments from the Mississippi River the past few weeks has reached more normal levels. But this has happened despite continued problems with available barge supplies,

logistics, barge movements and shortages of rail equipment and above all, the high cost of transportation. Simple export volume numbers do not tell the story of what historically high freight rates have done and continue to do to grain values, nor do they show the distorted price relationships that result.

Barge supply and capacity were tightening before Katrina due a reduced barge fleet and an increasing volume of upbound cargo requiring more time to handle. Katrina exacerbated the situation. Upwards of 250 barges containing storm damaged grain cargo were idled in the New Orleans area after the storm while outlets were found for the damaged grain. Some of the lightly damaged grain can be blended off, but it is a slow process. Severely damaged grain becomes a salvage issue, but finding outlets for this sudden surge of highly damaged grain is proving to be difficult. Meanwhile, the barges holding the damaged grain are tied up and not available to the market.

Another problem affecting barge availability concerns the low water levels in the mid and upper Mississippi River and some of its tributaries because of the Midwest drought that began last summer and is not over yet. Low water has forced restrictions on barge draft which then reduce the amount of grain that each barge can carry. Low water also reduces the number of barges that can make up a tow in some areas, and the speed at which tows can move.

All of this reduces the capacity of the barge fleet, effectively increasing the shortage of barges at exactly the time that farmers are harvesting huge crops – the 2nd largest corn and soybean crops ever. These crops follow the enormous record setting crops harvested last year, and supplies are backing up and clogging the system. In many areas storage space is almost impossible to find except on the ground. The increasing shortage of barge capacity simply adds to the grain supply problems.

All of this has a negative impact on grain prices, but one that is hard to measure. However, the specific impact of the shortage of nearby barge capacity on grain values can be reasonably estimated. Recently, bids for nearby barge corn CIF or delivered to the Gulf were about 62 cents per bushel over the Chicago Board of Trade's December Corn contract, an unusually high level reflecting the barge shortage and high barge freight costs. But bids to farmers delivered waterway loading points were around 25 to 30 under December Corn, an unusually low level that is also a reflection of the barge shortage and high barge freight costs. A buyer

seeking corn delivered to the Gulf by barge must pay up to obtain what he needs from a limited supply. However, an elevator operator located far up the waterway system must reduce his bid to farmers to also compensate for the shortage of barges and the high freight he has to pay when he finds one.

Corn values at the Gulf are high, but corn values for the producer upstream are low. The spread between the two, about 90 cents per bushel in this example, is made historically wide by the high cost of barge freight. The result is that high prices for corn at the Gulf threaten the competitiveness of U.S. corn in the world market, while at the same time the farm gate market for corn is so low that loan deficiency payments (LDPs) made by the government soar to $0.45 per bushel or higher in many locations.

It would be an oversimplification to say that the government is actually subsidizing part of the high cost of barge freight with LDPs. And to say that the cost of barge freight has caused large LDP payments would be equally oversimplified. There are a great many other factors involved in establishing the level of LDPs or the value of barge freight. Yet, there is an undeniable connection between the two so far during the current harvest season.

How will the barge situation work out? I suspect this situation will work itself out the way short supply situations work themselves out in unregulated market environments. "High prices are the best cure for high prices" goes the old saying, and it will apply here. Ways will be found to increase barge capacity, while at the same time ways will be found to minimize barge use. And it will rain sometime in areas that contribute to water levels in the Mississippi River. Ultimately, barge supplies will come into better balance with demand, and freight costs will rationalize.

It is worth noting that when naturally occurring circumstances such as storms, droughts, ice and floods do not interfere, barge capacity has generally been adequate to meet domestic and export demand for grain via the waterway system. Stagnating U.S. export volume is not the result of inadequate barge supplies. Rather, it is mainly due to steadily increasing competition from other origins, although specious phytosanitary barriers play a role as well. I am not aware of any significant, ongoing loss of export grain business because of insufficient barge capacity on our inland waterways.

I would like to tell you that demand for U.S exports of grain and soybeans will soon grow beyond the volume plateau of the last 20 years, but unfortunately, I cannot do that. I believe that demand will grow eventually and that the volume plateau will be raised, but probably not for several years. The record for U.S. corn exports was set more than 20 years ago. Demand growth for corn in the last 15 years has come from domestic sources, not from exports. As for soybeans, we will do well to hang on to current export volume in the face of South American competition that will benefit from an improving infrastructure of its own. Increasing barge capacity will not change the outlook. More barges will not mean more exports. But a longer term reduction in available barge capacity for whatever reasons would almost certainly mean lower agricultural exports.

The U.S. Inland Waterway system is an enormous asset to agriculture and the entire U.S. economy as other witnesses have emphasized today. It is a major part of the infrastructure advantage U.S. grain exporters enjoy over the increasing number of competitors we face in the world marketplace. Despite the anomaly that exists just now, the waterway contributes to the efficiencies that allow farmers to receive the highest possible prices for their crops while at the same time U.S. exporters are able to compete in that world marketplace.

To retain the value of this asset, the government must fulfill the obligation it assumed when the system was created to maintain the entire waterway system in good working order. Obviously, the government cannot control hurricanes, droughts, winter ice or severe flooding that may disrupt waterway navigation. But timely repairs and maintenance will mitigate naturally caused disruptions and allow agriculture and other sectors of the U.S. economy to draw maximum value from this asset.

Thank you for the opportunity to present my views on these important matters.

Impacts of Hurricane Katrina on Corn Exports in the Mississippi Gulf Region[1]

Dennis M. Conley and Christopher Kerr [2]

This report focuses on the impacts of Hurricane Katrina on corn exports through the Mississippi Gulf region. Approximately 55 percent of corn, soybean and wheat exports combined go through this region, and about 75 percent of corn exports alone depart through here. This makes the port of New Orleans and the larger Mississippi Gulf region a strategic gateway for exports from the U.S. on which the agricultural economy is heavily dependent.

As part of a multi-state research project (CSREES, USDA) a study done by Conley (June 2005) analyzed the impacts of a terrorist event that would close down the port of New Orleans. The scenarios included 10, 15 and 25 percent, respectively, of annual corn exports being lost because of terrorism. The study concluded that at the 10 percent level the impacts would be negligible. Even at the 15 percent level most corn exports would be routed through the Pacific Northwest ports and lesser amounts through the other ports. While the cost of transportation was higher because of rail versus water transportation, the loss in export sales was nominal – about 1 percent. At the 25 percent level the loss of export sales were substantial at an estimated $600 million. Even higher levels of lost sales were attempted but world demand could not be met without the U.S. supplies.

While terrorism was the initial cause of disruption being studied, the impacts of a natural disaster like Hurricane Katrina are potentially the same. The question is, " Will the Gulf Region be affected by as much as was assumed in the terrorism scenarios?" About two months have passed since the two hurricanes struck the Gulf Region and information has been coming in with respect to corn inspections for export, disposition of barges, and the return of grain export facilities to normal operations. The following graphs were developed to describe the situation in the Mississippi Gulf region and to make an estimate of the dollar loss in corn exports because of Hurricane Katrina.

Figure 1 shows weekly inspections for corn exports through the Mississippi Gulf region. It starts in January 2005 and goes through October 20, 2005. The average level of inspections, year-to-date (YTD), is 524,000 metric tons. The effect of Katrina can be seen in early September and about three weeks later inspections were nearly back to normal. In the last three weeks inspections have been at the upper levels for

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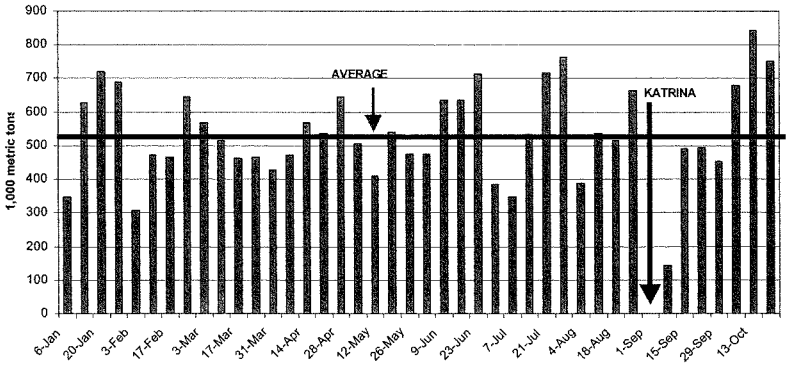
[1] Written testimony for hearings of the House Agriculture Committee, U.S. Congress, October 26, 2005.
[2] Professor and MBA Agribusiness graduate student, respectively, Department of Agricultural Economics, University of Nebraska-Lincoln.

the year. This is a testament to the ability of the grain export industry and carriers to rebound under extremely difficult circumstances.

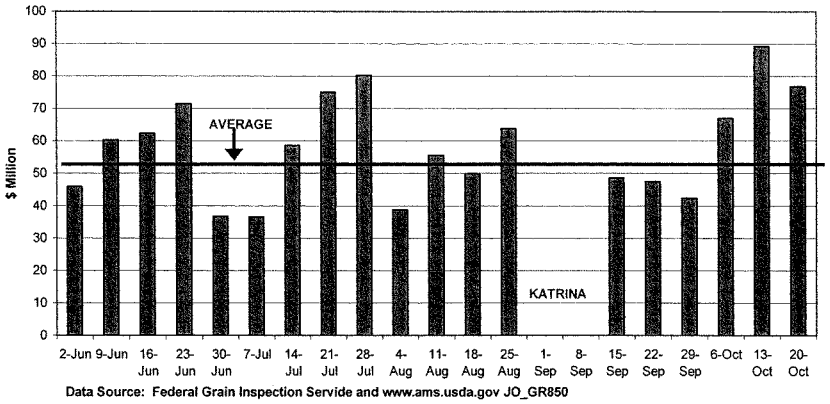
Figure1. Weekly Inspections for Corn Exports - Mississippi Gulf



Data Source: Grain Transportation Report and Federal Grain Inspection Service, USDA

Figure 2 shows the weekly value of corn inspections for export for the three months prior to Hurricane Katrina. The average bids for No. 2 yellow corn, barge delivery at the Gulf, were multiplied by the weekly inspections. No bids were made from Monday, August 29 through Friday, September 9 because of the hurricane. The average weekly value of inspections for export is $52.7 million.

Figure 2. Weekly Value of Corn Inspections for Export, 2005 - Mississippi Gulf



The year-to-date (YTD) corn inspections in 2005 are below those of 2004 as shown in Figure 3. The impact of Katrina on inspections is shown with the dashed line projecting what inspections might have been without the hurricane.

Figure 3. 2004 & 2005 YTD Corn Inspections for Export - Mississippi Gulf

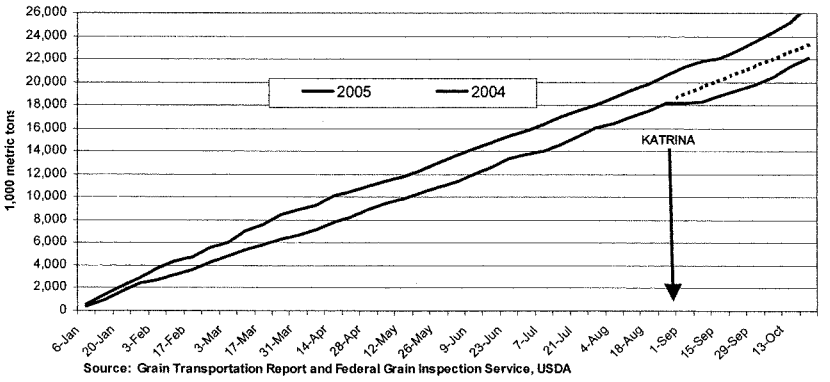
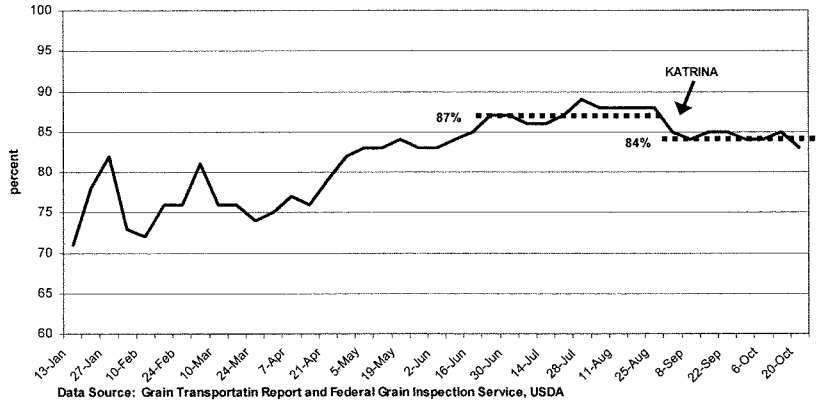


Figure 4 compares year-to-date (YTD) corn inspections in 2005 as a percentage of corresponding figures in 2004. From mid-June to the end of August, the 2005 YTD inspections reached an average of 87 percent of 2004 figures. That is, 2005 Gulf exports were down by 13 percent from the previous year up to the end of August. Some of this decline can be explained by the YTD figures for corn exports going through the Pacific North West (PNW). They are running at 98 to 99 percent of corresponding figures for 2004. The ocean freight rate spread between Gulf-to-Japan and PNW-to-Japan has widened making it more favorable to ship grain through the PNW (Grain Transportation Report, AMS, USDA, January 27, 2005).

Also shown in Figure 4, the post-Katrina figures declined to an average 84 percent even with the higher levels of weekly inspections starting in October as shown in Figure 1. The hurricane caused a hit to corn exports that is difficult to make up.

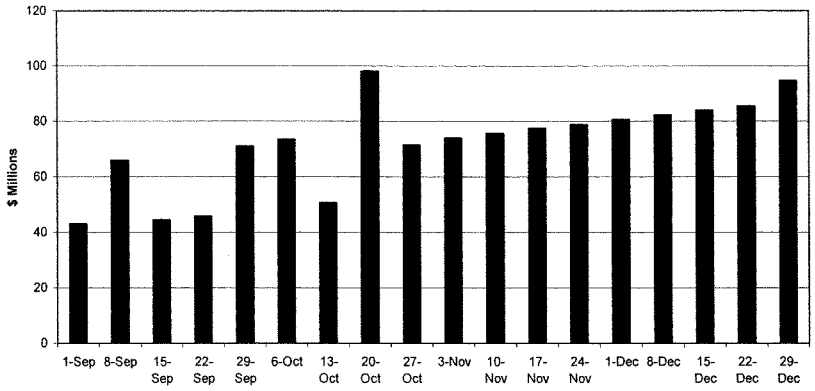
Figure 4. 2005 as a % of 2004 - Corn Inspections for Export, Mississippi Gulf



Data Source: Grain Transportatin Report and Federal Grain Inspection Service, USDA

Figure 5 shows the level of estimated dollar loss in corn exports, Mississippi Gulf. If exports had remained at 87 percent of the 2004 YTD figures, then there would be no loss. Directly attributable to Katrina is the reduction to 84 percent of the 2004 figures, and the estimated lost tons come from the difference. The weighted average Gulf bid for the three months prior to Katrina was $2.5571 per bushel or $100.668 per ton. Applying this bid to the lost tons by October 20 gives an estimated dollar loss of $98.2 million. If the 3 percent difference in exports remains through December, the estimated level of loss is $94.7 million.

Figure 5. Level of Estimated Loss in Corn Exports - Mississippi Gulf



Conclusions

Up through October 20, Hurricane Katrina caused corn exports from the Mississippi Gulf to decline by 3 percent compared to exports the year before. The direct accounting cost was estimated to be in the range of $95 to $98 million. The economic costs are greater because the $98 million in revenue immediately lost by recipients will not be re-circulated into the economy. The multiplier for a dollar of revenue earned in the U.S. economy ranges from four to five times, so the economic loss would be close to $500 million. This is an economic loss to farmers, rural communities, grain dealers, transport carriers, and the general population.

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STATEMENT OF ROYCE C. WILKEN

Good afternoon, Mr. Chairman and members of the committee. I am Royce Wilken, testifying on behalf of the National Grain and Feed Association (NGFA) regarding the damaging impact of Hurricane Katrina. The National Grain and Feed Association is a broad-based trade association that represents and provides services for grain and feed-related commercial businesses. NGFA members consist of more than 1,000 companies comprising 5,000 facilities.

I am president of the American River Transportation Company (ARTCO), which is a member of NGFA. ARTCO runs a barge/vessel operation on the Mississippi River, operating 29 shallow draft linehaul vessels, more than 2,000 covered hopper barges, 12 fleeting operations and a mid-stream transfer buoy. We also operate a barge repair shipyard in New Orleans. We are wholly-owned by the Archer Daniels Midland Company, and headquartered in Decatur,Illinois.

The American inland waterway system is key to sustaining competitive agriculture in America. Our waterways allow us to remain competitive not only on the farm, but in the transportation and delivery of our harvest to customers around the world.

Hurricane Katrina bore down on the New Orleans area on August 29, inflicting a serious blow to our agriculture transportation system. Katrina hit the Mississippi/Center Gulf region, which typically is responsible for 60 to 70 percent of U.S. raw grain exports—primarily corn, soybeans and spring wheat. Earlier today we heard testimony outlining Katrina's impact overall. This afternoon, I would like to describe how it impacted my company.

Our major fleeting area is located at mile 110 on the Lower Mississippi River. This location is approximately 10 river miles above downtown New Orleans. ARTCO's 13 harbor tugs serve all export elevators and mid-streaming buoys in the area although we primarily service the four elevators operated by ADM in Ama, Destrehan, St. Elmo and Reserve, Louisiana.

As you know, Katrina's enormous power and final path locked in over the weekend of August 27–28, striking on Monday morning. Our response began many days earlier as we carried out the actions in ARTCO's Hurricane Readiness Plan.

- On Thursday morning, four days before the hurricane made landfall, we began to implement the first step of our plan. We met internally to lay out the anticipated sequence of events, including amassing extra line rigging and plastic wire ties and inventorying fuel to assure enough for our generators.
- Over the next 24 hours, our highest priority was the physical preparation for the hurricane, securing barges and shipyard equipment using ARTCO personnel.
- By noon on Friday the severity of the hurricane was becoming more evident. All employees were released to care for their family and personal property.
- On Saturday we utilized line haul crews that remained in the harbor to continue to secure barges and other assets, lash together northbound barges and prepare to leave northbound for safer waters. Over 300 barges were secured to remain in New Orleans in small groups by double lashing the barges together with 1 inch diameter steel cable around deck fittings on the barges.
- At 2 a.m. Sunday morning our last vessel departed north to meet a flotilla of 10 ARTCO boats with barges in tow around Natchez, Mississippi.
- By working around the clock for days in advance, only two of our 13 harbor tugs remained in the harbor with only four employees aboard. The remaining 218 employees, 69 shipyard, 95 harbor and 54 supervisory, left for home or evacuated the area.
- Hurricane Katrina struck on Monday at 9 a.m. The Mississippi River reversed flow and backed up. The river rose 15 feet within 1 hour at ARTCO's operation 10 miles up-river from New Orleans.
- Over 100 ARTCO barges were hoisted onto the banks of the Mississippi River. Some loaded with 1,500 tons of cargo, others empty. Many fiberglass covers were ripped off and scattered, never to be found. The shipyard had one 270-ton barge hoisted on top of a repair dry-dock awkwardly straddling the dock crossways.
- On Tuesday the U.S. Coast Guard reopened the river for shallow draft vessels. Our 10 line-haul vessels, which had weathered the storm near Natchez, moved back into an evacuated New Orleans. There was no communication, no personnel. Throughout the area, barges lay aground and cargo was getting wet. Fortunately no ARTCO employees were missing or injured.
- These 10 line-haul boats served as our living quarters, mess hauls, salvage vessels and harbor tugs for the next month.
- Today, nearly 2 months later, only 75 percent of our marine employees have returned. We are supplementing much needed workers with volunteer employees from

outside the region as well as from our line haul boats. Although we pulled through this disaster relatively well, ARTCO continues to produce only 75 percent of the empty barges we need for either reload or return to the ongoing grain harvest. In other words, our system needs to be continually emptying barges into ships or elevators in the New Orleans area. This frees them up to return north, either reloaded or empty, to be loaded again with the current harvest. Today, for every four barges I need, I can only get three.

As this committee is well aware, the barge shortfall which ARTCO has experienced is representative of waterway operators throughout the region. Each day we are moving closer to pre-Katrina levels, but once we achieve this, our concerns will not go away. Katrina was a terrible blow on an already weakened inland waterway system.

As I noted initially, our agriculture economy depends on a vibrant inland waterway system to maintain global competitiveness. Unfortunately, we have systematically underinvested in our river system, failing to upgrade our locks and dams on the Upper Mississippi River and its key tributaries and failing to fund basic operations and maintenance costs such as dredging. We cannot expect a 50-year-old inland waterway system to carry 21st century agriculture.

My colleagues and I are grateful for the leadership the House has demonstrated on this issue, particularly by your passage of WRDA in July by a vote of 406–14. We ask that you continue to show your support through necessary funding for operations and maintenance. We continue to press our case in the Senate and hope that this year America's inland waterways will receive the investment they sorely need and deserve.

Thank you, Mr. Chairman and members of the committee for allowing me to speak today. In today's global economy, excellence cannot end at the farm gate. ARTCO, and our fellow members of the NGFA, are proud to be a key part of America's agricultural economy. Thank you for your interest in our business and the impact of Hurricane Katrina.

That concludes my testimony.