



MIDWEST SHIPPERS ASSOCIATION

**Agriculture Transportation Coalition Annual Meeting
– June 26, 2014 – San Francisco, CA**

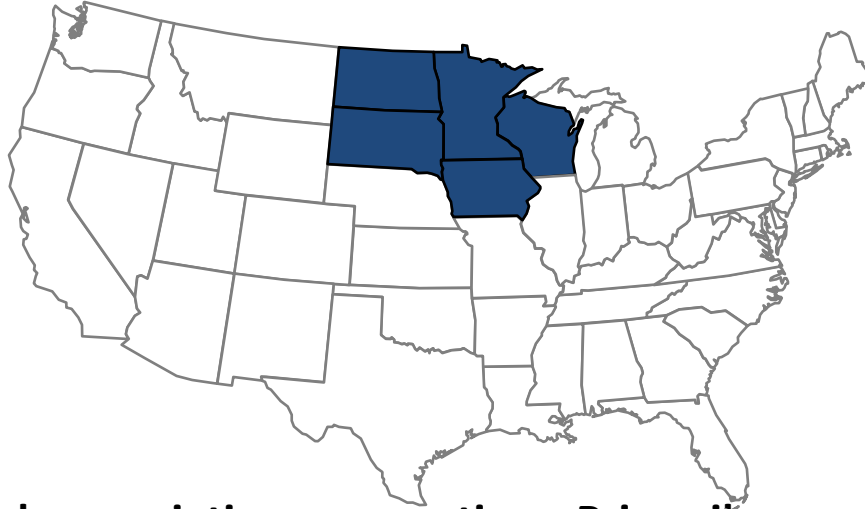
**Shippers Perspectives – Inland Upper Midwest
IP and Commodity Soybean and Grain Container Exporters**

Bruce Abbe, MSA Executive Director

Overview

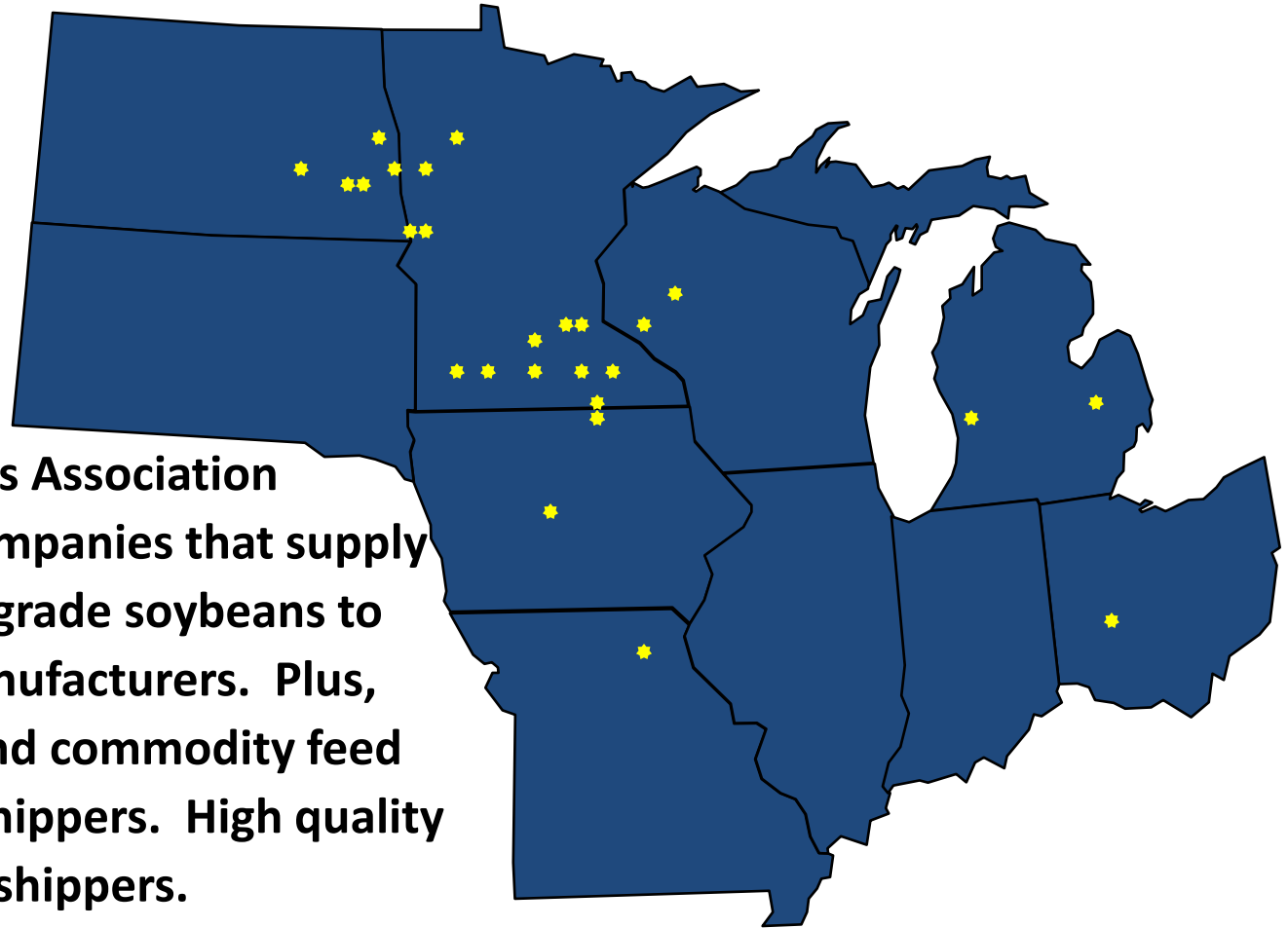
- About the Midwest Shippers Association –
- Current grain market & trade trends- (*China wild card; big lingering problems with rail service*)
- Container grain & soybean export #s
- Grain export shipping - *Basics* –
 - *Bulk Grain – Container Grain Exporting – Trends*
 - *Why we feel there is great opportunity for container ag shipping growth. And why we fear Upper Midwest may be left out.*
- Competitive challenges for inland, Upper Midwest region container exporters
- Storm clouds on horizon
- Opportunities, needs to achieve sustainable growth

About the Midwest Shippers Association



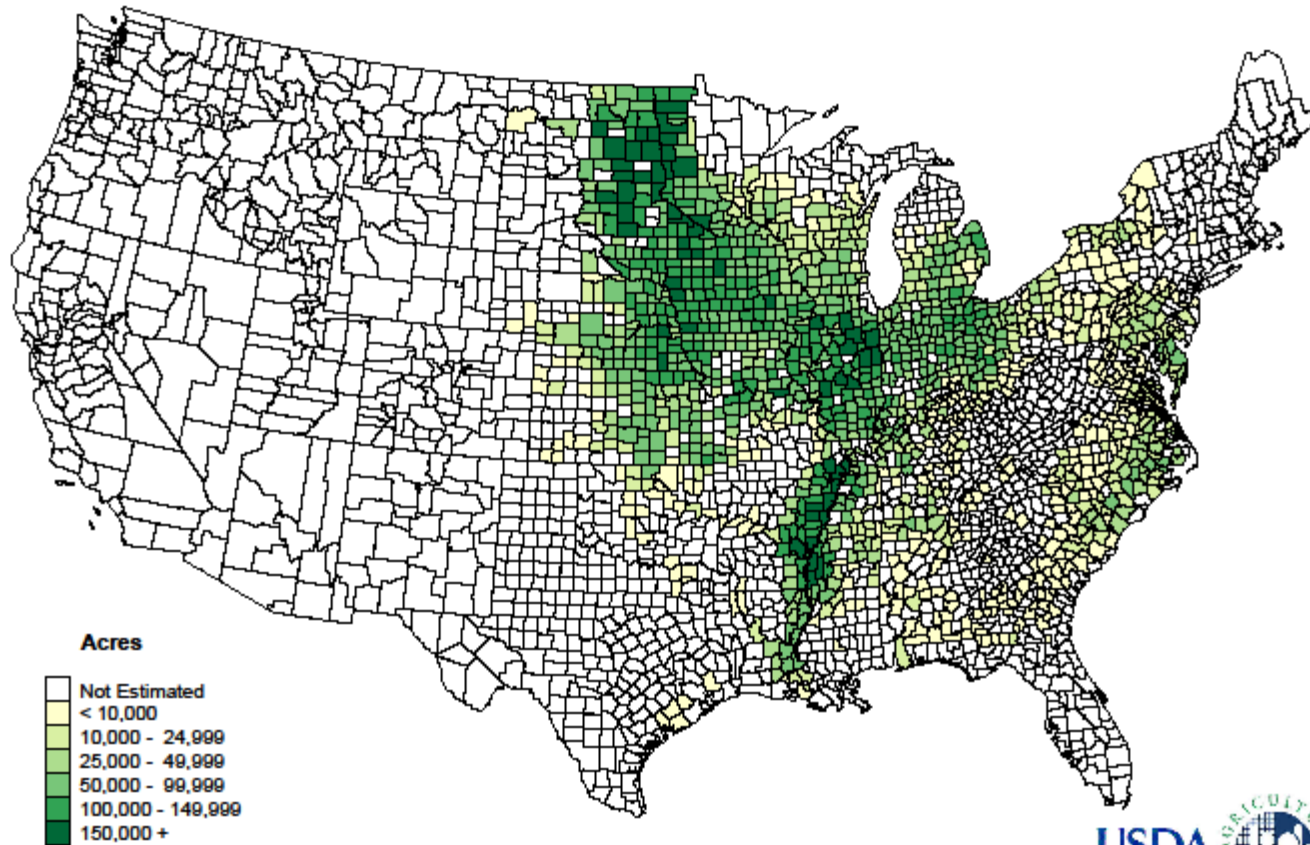
- **Regional trade association cooperative. Primarily serves premium, specialty grains industry in Upper Midwest USA, + commodity container exporters**
- **Medium and small business member companies. Grain and soybean processors, exporters, traders, seed suppliers, grain quality and shipping service providers**
- **Strong container shipping focus. Also freight forwarders & logistics network members**
- **Originally MN Shippers Association - 5 core states – Minnesota, North & South Dakota, Iowa, Wisconsin – plus members in other states that serve the region**

Midwest Shippers Core Member IP Food Soybean Suppliers



*** Midwest Shippers Association has 25 member companies that supply Non-GMO IP food grade soybeans to Asian soy food manufacturers. Plus, other food grain and commodity feed container export shippers. High quality product container shippers.**

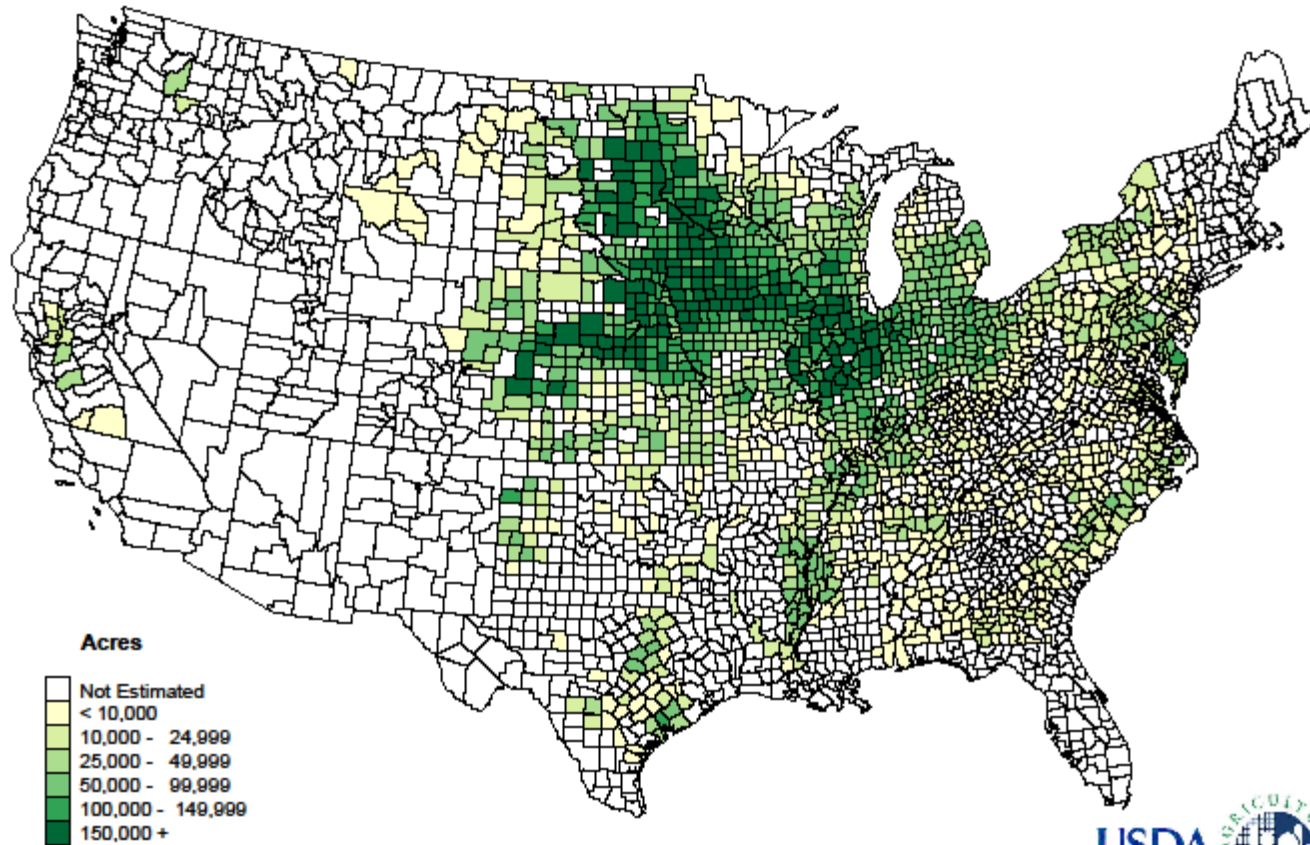
Soybeans 2013 Harvested Acres by County for Selected States



U.S. Department of Agriculture, National Agricultural Statistics Service



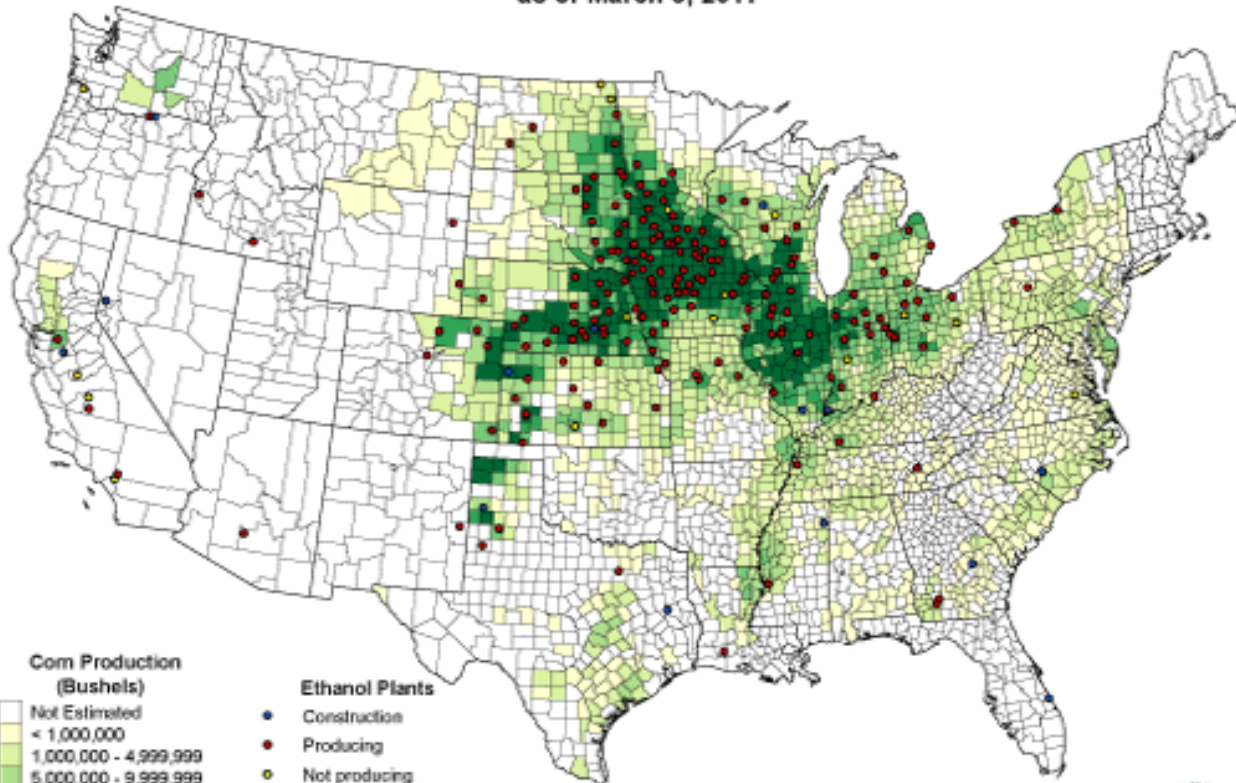
**Corn for Grain 2013
Harvested Acres by County
for Selected States**



U.S. Department of Agriculture, National Agricultural Statistics Service



**Corn for Grain 2010
Production by County and Location of Ethanol Plants
as of March 3, 2011**



- | | |
|----------------------------------|-----------------------|
| Corn Production (Bushels) | Ethanol Plants |
| Not Estimated | • Construction |
| < 1,000,000 | • Producing |
| 1,000,000 - 4,999,999 | • Not producing |
| 5,000,000 - 9,999,999 | |
| 10,000,000 - 14,999,999 | |
| 15,000,000 - 19,999,999 | |
| 20,000,000 + | |

U.S. Department of Agriculture, National Agricultural Statistics Service



Current Grain & Soy Market Trends/Situation

- Coming off of huge corn crop in 2013. Led to sharply lower prices. More balance with soybean acres this year as beans come back.
- With lower corn prices, ethanol plants became profitable again. Ethanol..and therefore DDGS production is running high. DDGS exports look strong, except...
-Huge uncertainty with our top market – China. China has become real, unpredictable wild card for the grain trade.
- “Horrendous” rail service problems the past winter in Upper Midwest/Northern Plains.
 - Fiercest winter in memory caused delays, forced smaller trains, congestion in the Chicago snarl. Rail car deliveries that used to be 2 ½ weeks would take 2 months. Shippers/elevators uncertain if and when cars would arrive.
 - Ships missed at the PWN. Demurrage charges. Grain quit moving from the northern plains, as “basis” prices widened. Farmers felt direct impact.
 - Concerns that ‘Oil is Getting the Service, Grain Left Behind’. BNSF says experienced increased demand from all service sectors – beyond what they anticipated – on top of severe winter issues. Investing \$500 Mil. Plus on the High Line.
 - Some elevators still backed up. Worried about where to put grain, once wheat harvest starts in late July, August. Impact will be with us through fall. How long???? Next winter???
- MSA member IP food grade soybean & food ingredient exporters indicate – strong overseas demand.
- Recent container shipping environment– not good- in Upper Midwest.
 - Tight supply situation, shortages in past months in Twin Cities & elsewhere.
 - Compounded by rail service issues on the BNSF high-demand, ‘High Line’.

China Wild Card

- **Huge uncertainty now with our top market – China. China has become real, unpredictable wild card for the grain trade.**
 - **Rejecting shipments over finding unapproved “MIR 162” biotech corn since late fall/early winter. Large bulk ships sent back.**
 - **Soon, DDGS caught up in same issue. Rejecting container shipments over unapproved MIR 162.**
 - **China new requiring DDGS exporting processing plant to be registered, inspected. USDA taking this on. Ever more protocols. Recently China announced, not accepting new export permits for DDGS shipments.**
 - **Then Soybeans took a hit. China crusher,(mostly Shandong Province, defaulted for large bulk shipments of soybeans. Some 20 shipments reportedly were caught in default, and many more shipments lined up after them were impacted. Soybean shipments for China forced to be diverted elsewhere. Credit issues for crushers, experiencing losses.**
 - **Some believe market manipulation was real reason behind it. Push prices down/void higher priced contracts.**
 - **Yet China remains, and will remain, huge market for U.S. grains and oilseeds.**

Container Grain & Soybean Export #s

- In 2013, overall U.S. container grain exports posted a record year. *Up 22% over 2012.*
- 636,000 TEU equivalents (Piers data reported by USDA).

- Distillers Grains -- DDGS remain top grain export commodity. 316,055 TEU's. *50% of overall total.*

- Soybeans -No. 2 for container exports. 157,606 TEUs, 25% of total.

- Other animal feed (mix). 47,689 TEUs, 7% of total.

- Corn – 40,734 TEUs, 6% of total.

- Soybean Meal – 34,218 TEUs, 5% of total.

- Other – 39,843 TEUs, 6% of total.

- Source: USDA Grain Transportation Report, April 3, 2014

Grain export shipping - *Basics*

- Bulk grain shipping – rail cars/unit trains, barge, ocean bulk ships handle far and away largest share of overall volume of grain exports from U.S. Systems geared to large volume feed/commodity handling.
- Yet overall, container shipping accounts for larger share of ag exports in Value in U.S. – (higher quality food products, fruits, vegetables, dairy, meat exports). *(USDA AMS Rural Transportation Study 2010)*
- Container grain exports from U.S. – under 10% -- but steadily growing.
- Approx. 56% of bulk grain exports from U.S. move by barge down river first. Was 60%.
- Historically great water shipping infrastructure showing its age – Mississippi barge shipping, St. Lawrence Seaway – desperate need of new funding. WRRD passage will bring some needed assistance.
- Rail development has been leader in recent years.

Recent U.S. Developments – Bulk Grain Shipping

- Major bulk grain export capacity expansion in Pacific Northwest.....

- Spurred on by EGT, LLC (Bunge, Itochu, STX Pan Ocean) in Longview, WA

- First major new bulk grain facility in U.S. in more than 25 years. \$200+ million, state of the art facility.

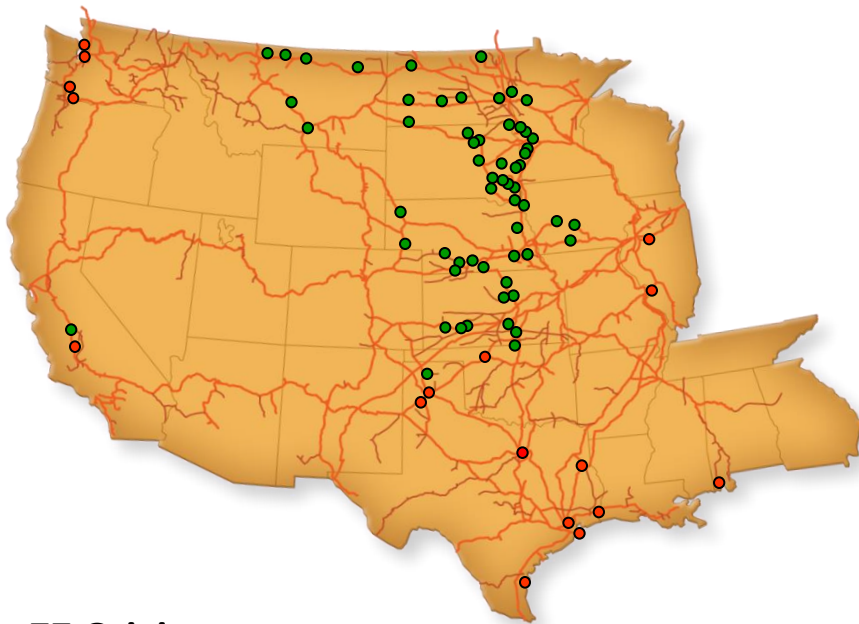


- Other PNW established bulk facilities stepping up with new additions.
 - AGP, Cargill/CHS Temco, KEC, United Grain terminals on Columbia River, Puget Sound, Grains Harbor all have made some expansions/improvements. *Average PNW exports 19 MMT....may grow to est. 30 MMT when completed.*
- **Gulf remains the largest outlet port locations for U.S. bulk grain exports**
 - In dire need of infrastructure funding for lock & dam, river maintenance.

Ongoing Bulk Grain Shipping Trend – Shuttle Train Facility Expansion

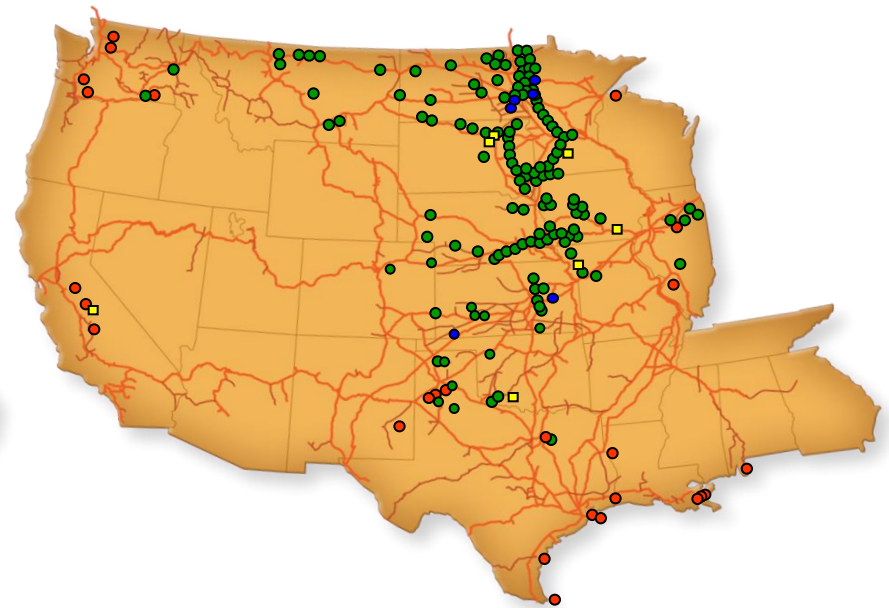
BNSF Shuttle Network

2000



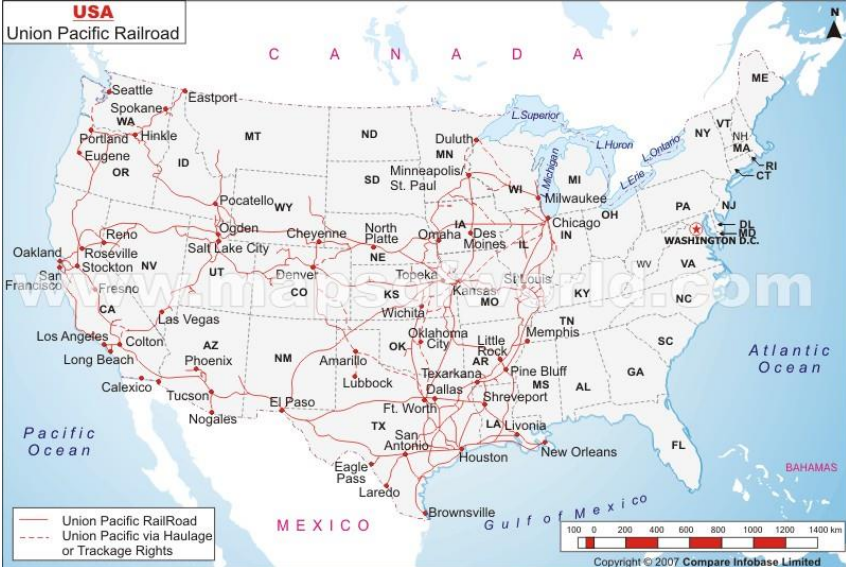
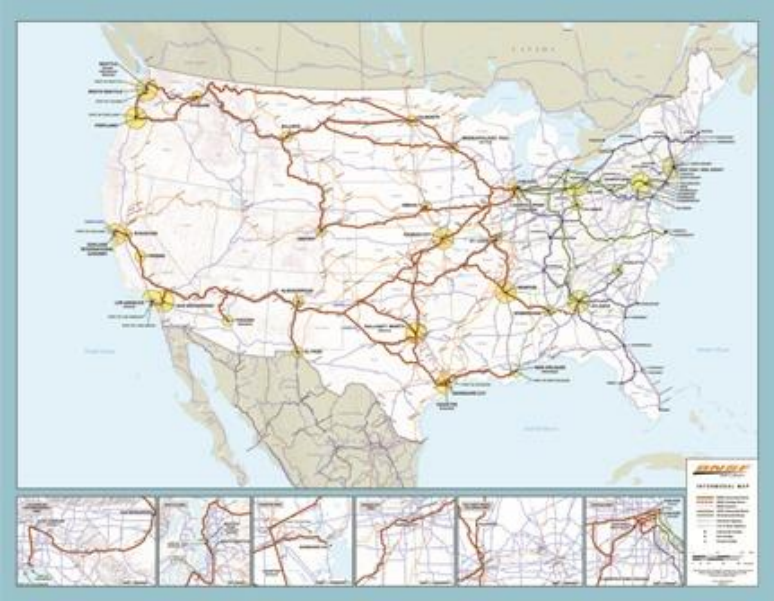
- 77 Origins
- 33 US Destinations
- 8 Mexican Shuttle Destinations

2010



- 173 Origins
- 73 Destinations
- 7 Under Construction
- 29 Mexican Shuttle Destinations

Class 1 Intermodal Railroads Serving the Upper Midwest



New Trends Portend Growth for Container Grain Shipping

- Growth of Identity Preserved grains, oilseeds, quality food ingredients shipped by intermodal container.
- Drivers of Change – *Food safety, quality assurance, traceability, IP product segregation, field-to-table supply chains. Global customer demands. Value-added opportunities*



Benefits of Containerized Grain Shipping

- *“Containerization has evolved from an industry serving niche markets to an industry creating niche market opportunities”.*
- **Quality advantages:**
 - Product differentiation. No contamination. Protects product integrity.
 - Ideal for Identity Preserved soybeans & grains.
 - Ideal for food grade quality grains. Processed grain product ingredients, like soy flakes.
 - Provides for greater traceability. Stricter food safety requirements growing worldwide.
 - Minimal damage. Provides greater product integrity. (Benefit for commodity feed buyers, as well).
- **Market advantages:**
 - Smaller exporters and importers can do business more direct. Enables new competitive players.
 - Scale-able sales. Smaller transactions to finance for importers. Easier risk management.
 - Can source more specific raw material grain & ingredient products for specific end food use.
- **Delivery advantages:**
 - Better suited to certain locations. Smaller, shallow draft ports. Good in strong two-way container export markets – *particularly South East Asia countries*
 - Lots of empty containers need to be returned to S.E. Asia.

Drivers of Change – Food Safety, Traceability

- New drivers of change offer opportunity for growth of containerized ag & grain shipping:
- New food safety laws –
 - U.S. Food Safety Modernization Act – requires much more stringent handling, tracking, plans, audits. Prevention of contamination. Even feed commodity handlers face new requirements. Traceability. FSMA has new transportation of food product regulations in works.
How will bulk shippers respond? Changes are happening.
 - Food Safety is an increasing global concern, with ever tighter global regulations.

Drivers of Change – New Tight Supply Chains

- Emerging new tightly controlled supply chain systems – *from field to table -- seeking market advantages in meeting consumer quality demand. Traceability.*
 - Unilever’s plans. “Responsible Soy””Sustainable Sourcing”
 - Walmart very much moving in this direction.

Which grain shipping system is best suited to deliver – bulk or container?

Easy answer.

Challenges, Perennial Problems for Upper Midwest Container Export Shippers

- **Wide imbalances in service, costs for shipping from Upper Midwest (+Denver & other key) intermodal terminals to overseas markets compared to other inland regions.**
- **Frequent inadequate supply of containers where they are needed for grain exports.**
- **Price disparities significant problem for many regions compared to areas favored by Class 1 railroads and ocean carriers (*i.e. Chicago*).**
- **High costs for repositioning of containers.** *“First rule of repo – don’t repo” say carriers, rails. Yet carriers losing money on Chicago-based rates. We need to change these dynamics -- our export growth depends upon it.*
- **PNW rates much higher than southern California.** *Hurts ag shippers limited to PNW.*
- ***Imbalances that are limiting exports....***

Price Disparities

- **Recent rate comparison –by MSA freight forwarder members showed:**
 - Average of 6 major ocean carriers; rates from different locations to Kaohsiung, Busan, HCMC, Tokyo.
 - Compared to Chicago’s low rates –
 - Kansas City was \$220 higher per 20 TEU.
 - Minneapolis was \$700 higher
 - Detroit was \$800 higher
 - Omaha was + \$1,000
 - Seattle/Tacoma was \$100 higher than Chicago - with no rail involved. \$400 above LA/LB.
 - LA/LB was uncharacteristically high at \$700 to most of those Asian Ports. Often is under \$500 for spot rates. With Sea/Tac often \$600 - \$800 higher than LA/LB.

(Comparison was first done Feb. 15, 2013...and ratios were re-confirmed week of Jan. 6, 2014.)

Container shipping price disparities are simply preventing some major U.S. grain production regions (MN & Upper Midwest) from serving certain overseas markets (growing S.E. Asia markets), that otherwise could yield sustainable export growth. PNW ports, currently, are only viable outlet for MN container exports going west to Asia.

Positive Developments – Container Grain Shipping

- New grain transloading operations at more inland locations, East Coast & West Coast ports.
- Chicago – major hub, with shipping cost advantages, seeing transloader growth. New CN transloading facility in Joliet –
- Charleston - developing in advance of Panama Canal expansion. 3 transload operations now, another coming. Baltimore transloader adding Norfolk, VA operation.
- PNW maintains strong container transloading capability in Seattle, Tacoma
- Southern Cal. – biggest container hub... but very limited for grain transloading...new UP facility, one other. Hanjin's on-dock project not moving forward at LB.
- New K.C. and Omaha bulk, commodity transloading operations



Positive Developments – Container Grain Shipping

- **Canadian National** railroad becoming major new container rail player in Midwest. Large new transload operation Chicago area – Joliet. New service to Indianapolis, partnering with short line.
- New satellite intermodal ramp at Chippewa Falls, Wis. with transload facility, and offers shippers direct access to container for self-loading at plants. Getting it done – on 5 acres.
- Arcadia, Wis. satellite ramp served by MSA member Arcadia Co-op.
- *Status – all operating now. Outbound containers are loaded. Serve Vancouver, Prince Rupert ports.*
- ***Small satellite match-back terminals new model to be watched.***



Needs & Opportunities – Container Shipping

- **For our area – Upper MDW – need more competitive options for container shipping , and more consistent inbound container supply–**
 - Ideally, more direct access to Southern California ports – LA/LB – biggest inbound supply of containers.
 - UP or BNSF service without going through Chicago
 - Expansion, improvement of existing infrastructure, equipment, service – UP, BNSF in west. CP rail expansion (not contraction). Could CN serve MN, T.C. area. to Vancouver, Prince Rupert?
 - Minot – NDPS – restart with container service – inbound for oil industry, outbound with ag. Will Minot get benefit of two-way rates? Will BNSF provide service, appropriate rates for location half the distance to the ports?
- **Opportunity for Growth – Dairy exports forecast to again set record; Meat exports continue to grow rapidly. Can rails revitalize reliable refer service to and from opportune export sources in Midwest?**
- **Collaborate for more creative logistics solutions to put more boxes where they are needed for exports –**
 - Seek matchbacks wherever possible.
 - Press for more reasonable repo rates for moving boxes from surplus locations to places where they can get a paying export load.
 - Seek unit train moves of boxes and advance-arranged loads whenever possible for repo efficiency
 - Find anchor importers, collaborative railroads – (ala CN Railroad & Chip Falls satellite ramp.)

Opportunity – Reinvigorate Great Lakes grain export shipping?



Storm Clouds on the Horizon for Inland Export Shippers

- West Coast port labor issues –Container shipping industry fears global disruption over ILWU contract renegotiations.
 - Trend of importers transloading to 53s/breaking down cargo on coasts -- fewer exportable boxes going inland for exporters use. Growing threat to supply of containers all locations inland.
 - Current limited repo programs – will they continue? We need more. (Hapag is Twin Cities’ star carrier)
 - Growth of large bulk transloading operations will add competition for inland containers – ADM in Decatur, DeLong in Omaha, K.C. (Will the supply be there? Will Chicago’s surplus boxes start to dry up?).
 - Trucker shortage worsening.
 - Is the trend to more “Near Sourcing” for manufacturers real? What will be the impact on container supplies for exports? But...our international customers still need to eat. And they want high quality, safe food.
- ---- ---
- *Economist Kemmsies believes – U.S. container exports will soon surpass imports in volume – TEUs (not value). Maybe..2016 on his trend line. Is the shipping industry ready???*

Some policy issues for container ag shippers

- **STB exerts no oversight authority over Intermodal rail -- now among most important, high volume, most profitable rail shipping. Time to reform these “exemptions”.**
- **Need more transparency over real rates, real service for container export shippers.**
- **Shouldn't intermodal rail have some obligation to provide service within reasonable distances on main lines? Shouldn't rates reflect costs/distances to some degree...where there is two-way business.**
- **Ag exporters – need ‘reasonable repositioning rates’ for containers**

For New Intermodal Service - Be Realistic

- **New intermodal development should be scale-able, allow for incremental development. Understand the two-way nature of intermodal.**
- **Understand we are in this together – Problems anywhere in the supply chain affect the whole chain – ocean carrier continued losses, port labor strife, (beware – on the horizon), rail capacity constraints .**
- **Understand that the economics need to work for all parties.**
- **Need to work for the shippers too!**
- **We really, truly are in a Global Economy. Rural North American grain export area must have the transportation resources and competitive systems and service to succeed and serve their global customers.**



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**September 15-18
Milwaukee, Wisconsin**

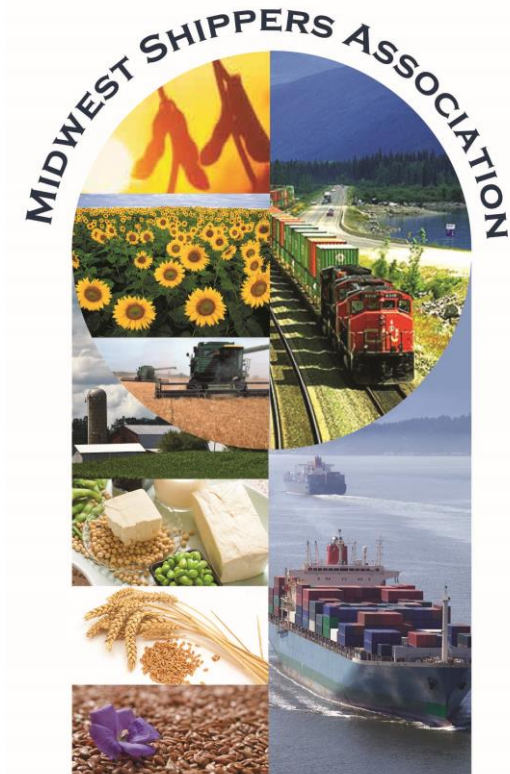
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200+ international trade team soy customers

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Next Winter Let's Hope This Goes Back to Being a 'Figure of Speech'



Thank You



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