

**Testimony of
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**On behalf of the
North American Export Grain Association**

**Before the
House Committee on Agriculture**

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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.