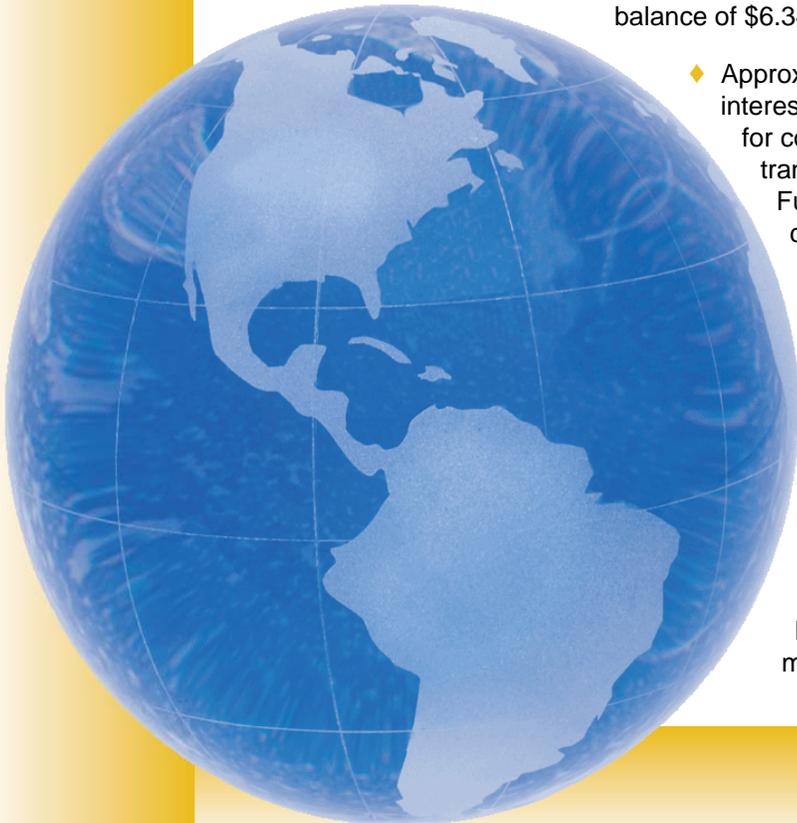


A Reliable Waterway System Is Important to Agriculture

Do You Know Why?

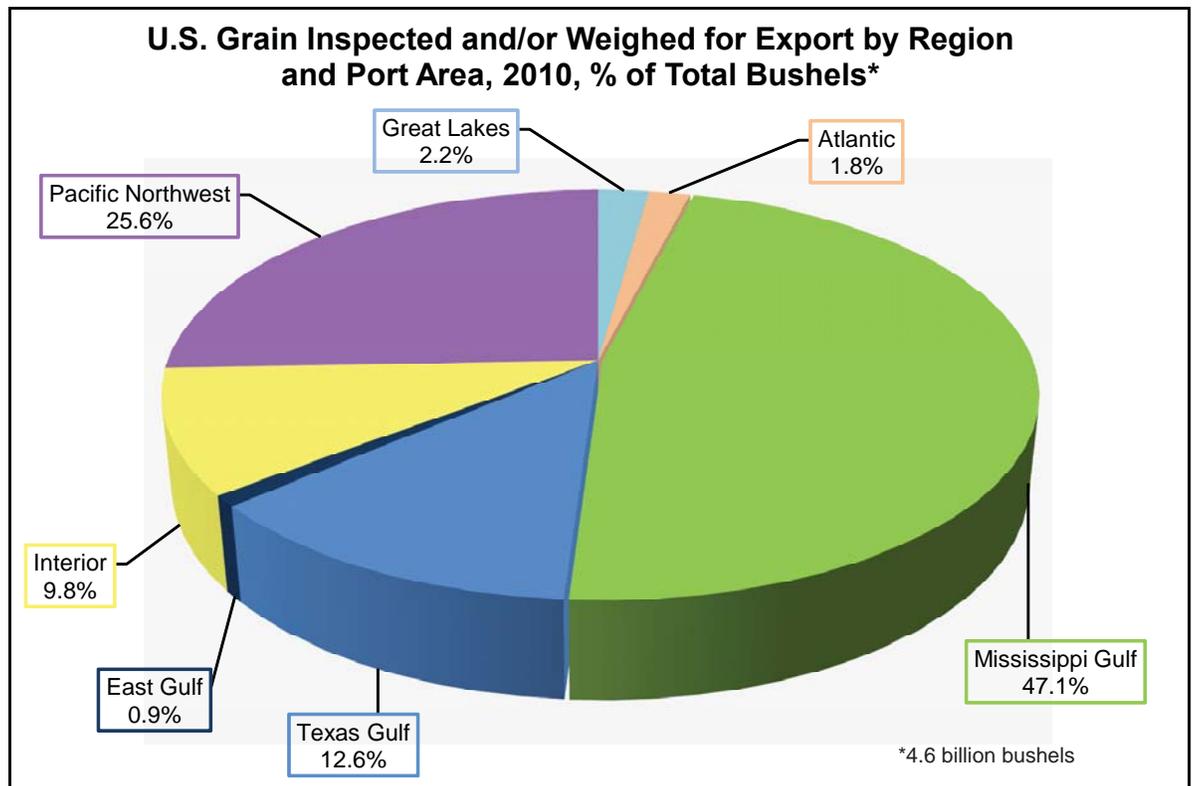
Big Picture Overview

- ◆ U.S. agriculture is expected to contribute \$47.5 billion to the U.S. balance of trade in fiscal 2011 (*USDA ERS/FAS Outlook for U.S. Agricultural Trade*, February 24, 2011).
- ◆ Exports are forecast to reach \$135.5 billion, while imports are forecast to reach \$88 billion.
- ◆ In calendar year 2010, 81 percent of U.S. agricultural exports (158 million metric tons), and 77 percent of imports (37 million metric tons) were waterborne (*Census Bureau, U.S. Department of Commerce, and PIERS*).
- ◆ Exporters, importers, and domestic shippers depend on authorized port and waterway depths and widths, and locks and dam infrastructure.
- ◆ U.S. importers and certain domestic shippers pay the Harbor Maintenance Tax (HMT), a 0.125 percent ad valorem tax on the value of the cargo.
- ◆ Fiscal 2010 HMT revenues and investment interest were \$1.364 billion. Transfers from the fund were \$828.6 million, yielding a year-end Harbor Maintenance Trust Fund of \$5.647 billion.
- ◆ Estimated fiscal 2011 HMT revenues and investment interest are \$1.495 billion. Requested transfers from the fund are \$801 million, yielding a year-end balance of \$6.341 billion.
- ◆ Approximately \$74.1 million in revenues and investment interest from a 20 cents per gallon tax on diesel fuel for commercial vessels engaged in inland waterways transportation went into the Inland Waterways Trust Fund in fiscal 2010 to finance one half the Federal costs of authorized locks and dams projects.
- ◆ The fiscal 2010 appropriations for construction and major rehabilitation of inland and intracoastal waterways projects included \$73.3 million from the fund.
- ◆ Fiscal 2011 appropriations include \$79.1 million from the fund.
- ◆ In fiscal 2010, U.S.-flag vessels earned \$382 million from nearly 2.3 million metric tons of U.S. humanitarian food aid under cargo preference law. Cargo preference helps maintain U.S. mariner and vessel availability.



Grain Exports

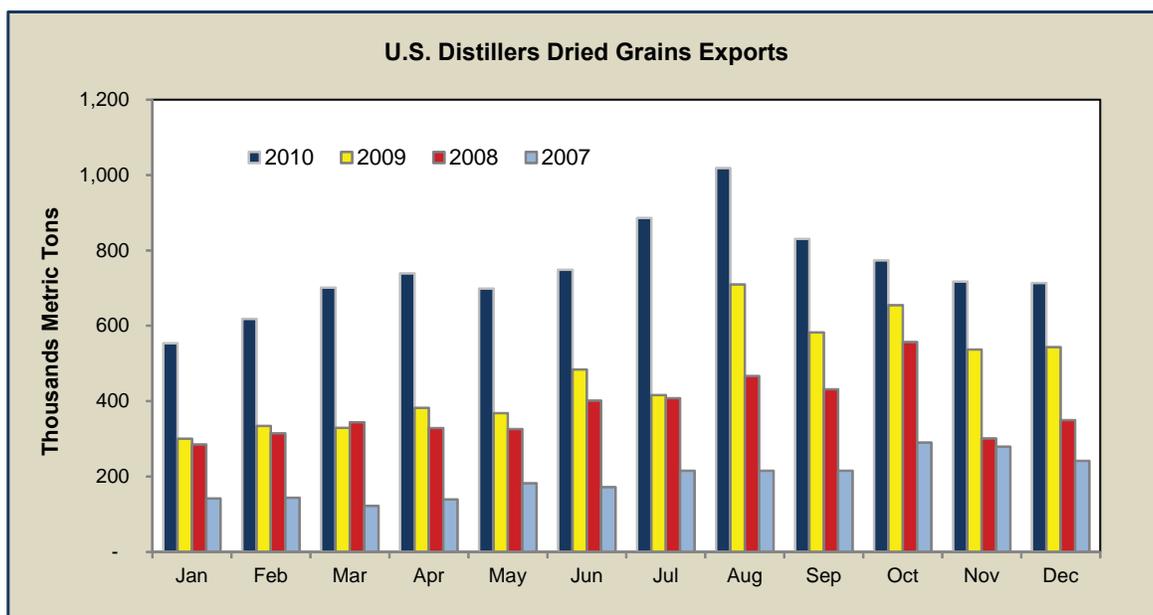
- ◆ The United States exports approximately one quarter of the grain it produces. On average, this includes nearly 45 percent of U.S.-grown wheat, 35 percent of U.S.-grown soybeans, and 20 percent of U.S.-grown corn.
- ◆ Approximately 61 percent of grain inspected for export departed from the U.S. Gulf in calendar year 2010, nearly 2.8 billion bushels (*USDA GIPSA*).
- ◆ The Pacific Northwest (PNW) ports accounted for nearly 26 percent of U.S. grain inspected for export in 2010, nearly 1.2 billion bushels.
- ◆ The April 8, 2011, *USDA World Agricultural Supply and Demand Estimates* for 2010/11 U.S. exports includes:
 - Feed grains—53.3 million metric tons (58.8 million short tons)
 - Corn—1.95 billion bushels (54.6 million short tons)
 - Soybeans—1.58 billion bushels (47.4 million short tons)
 - Wheat—1.275 million bushels (38.3 million short tons)
 - Soybean meal—9.25 million short tons
 - Rice—116 million hundredweight (5.8 million short tons)
 - Sorghum—140 million bushels (3.9 million short tons)
 - Soybean oil—3.1 billion pounds (1.55 million short tons)



Source: USDA Market News, Grain Inspected and/or Weighed for Export by Region and Port Area, January 10, 2011

Ethanol, DDG, Corn Production, Fertilizer, and Barge Traffic

- ◆ U.S. ethanol production capacity at 194 operating refineries is over 13.8 billion gallons per year. An additional 637 million gallons of capacity will be available upon completion of 9 new construction and expansion projects (*Renewable Fuels Association, April 11, 2011*).
- ◆ Nearly 397 million gallons of ethanol were exported during calendar year 2010, compared to over 113 million gallons in calendar year 2009 (*Census Bureau, Department of Commerce*).
- ◆ Major multimodal ethanol terminals include Albany, NY, Baltimore, MD, Chicago, IL, Houston, TX, Linden, Newark, and Sewaren, NJ, New Orleans, LA, and Providence, RI.
- ◆ Barges move an estimated 5 percent of ethanol.
- ◆ Barges also move some of the fertilizer needed to grow corn for the production of ethanol, as well as some of the distillers dried grains (DDG), an ethanol by-product used for animal feed.
- ◆ For every gallon of corn ethanol, about 6.34 pounds of DDG are produced. Nearly 9 million metric tons of DDG were exported during calendar year 2010, compared to 5.65 million metric tons in calendar year 2009 (*Census Bureau, Department of Commerce*).

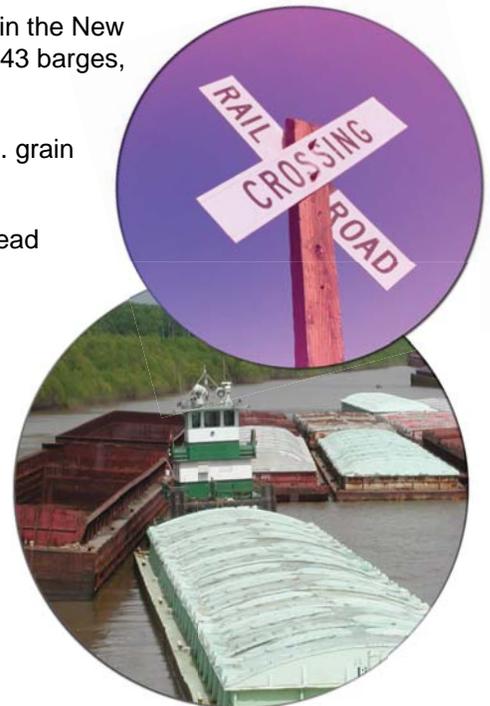


Source: Census Bureau, U.S. Department of Commerce

- ◆ According to the Renewable Fuels Association, the U.S. ethanol industry was on pace to export 28 percent of expected DDG production in 2010.
- ◆ Increased ethanol production means increased corn acreage devoted to it, and transportation of fertilizer to grow the corn.
- ◆ USDA projects a corn harvested area of 81.4 million acres, yielding 152.8 bushels per acre, with 5 billion bushels to be converted to ethanol and by-products in 2010/11. (April 8, 2011, *USDA World Agricultural Supply and Demand Estimates*).
- ◆ Corn uses about 240 pounds of fertilizer per planted acre, as it has high nitrogen fertilizer requirements.
- ◆ The United States imported nearly 40 million short tons of fertilizer during calendar year 2010, compared to nearly 26 million short tons in 2009. Nearly 19 million short tons of nitrogen were imported in 2010, compared to nearly 14 million short tons in 2009. (*Census Bureau, U.S. Department of Commerce*).

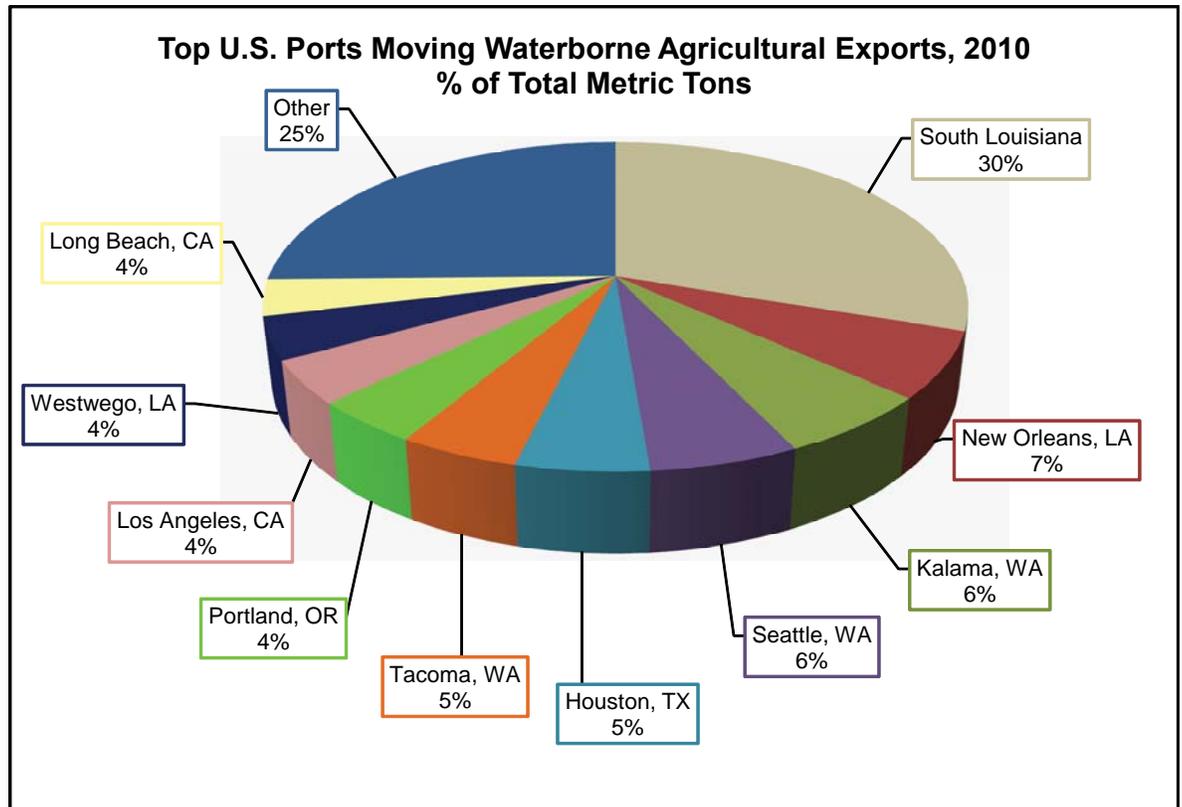
Barge and Rail Competition

- ◆ Total calendar year 2010 traffic (upbound and downbound) at Mississippi Lock 27, Ohio Lock 52, and Arkansas Lock 1 (*USACE OMNI RPT 06 Waterway Traffic Report*) included:
 - Corn—23.8 million short tons
 - Oilseeds—soybeans, flaxseed, and others—11.3 million short tons
 - All chemical fertilizers—8.8 million short tons
 - Processed grain and animal feed—5.8 million short tons
 - Wheat—1.3 million short tons
 - Rye, barley, rice, sorghum, and oats—0.5 million short tons
 - Other agricultural, food, fish, and forest products—2 million short tons
- ◆ A substantial amount of export grain enters the Mississippi River below Mississippi River Locks 27, Ohio River Locks and Dam 52, and Arkansas Lock and Dam 1 (*U.S. Army Corps of Engineers and USDA GIPSA*).
- ◆ In 2010, 21,844 downbound grain barges passed through Locks 27, 52, and 1, with over 34.8 million short tons of grain.
- ◆ In comparison, 29,287 grain barges were unloaded in the New Orleans region during the period, a difference of 7,443 barges, with an estimated 13.2 million short tons of grain.
- ◆ Railroads originate approximately 35 percent of U.S. grain shipments.
- ◆ Railroads take into account barge rates and the spread between U.S. Gulf and Pacific Northwest ocean vessel freight rates, and price their services accordingly.
- ◆ *USDA Transportation of U.S. Grains, A Modal Share Analysis, 1978-2007*, shows that barges moved 44 percent of all grain exports in 2007.
 - Barges moved 55 percent of corn to ports and 1 percent of corn to processors, feed lots, and dairies in 2007. Rail shares were 35 percent for exports and 26 percent for domestic moves.
 - Barges moved 46 percent of soybeans to ports and 2 percent of soybeans to processors in 2007. Rail shares were 41 percent for exports and 14 percent for domestic moves.
 - Barges moved 28 percent of wheat to ports and 1 percent of wheat to processors in 2007. Rail shares were 66 percent for exports and 65 percent for domestic moves.
 - Barges moved 19 percent of sorghum to ports in 2007. Rail shares were 47 percent for exports and 9 percent for domestic moves.
- ◆ Studies¹ have shown that without barge competition, agricultural shippers pay higher rail transportation costs, the further they are from an inland waterway.



Top U.S. Ports for Agricultural Exports

- ◆ In calendar year 2010, U.S. waterborne agricultural exports totaled 158 million metric tons—21 percent were moved in containers (*PIERS*).
- ◆ During the same period, containers were used to transport 5 percent of total waterborne grain exports and 7 percent of U.S. grain exports to Asia.
- ◆ The top 5 U.S. ports for bulk and containerized agricultural exports were, South Louisiana, New Orleans, Kalama, Seattle, and Houston. In terms of containerized movements, the top 5 ports were Los Angeles, Long Beach, Oakland, Seattle, and Norfolk.



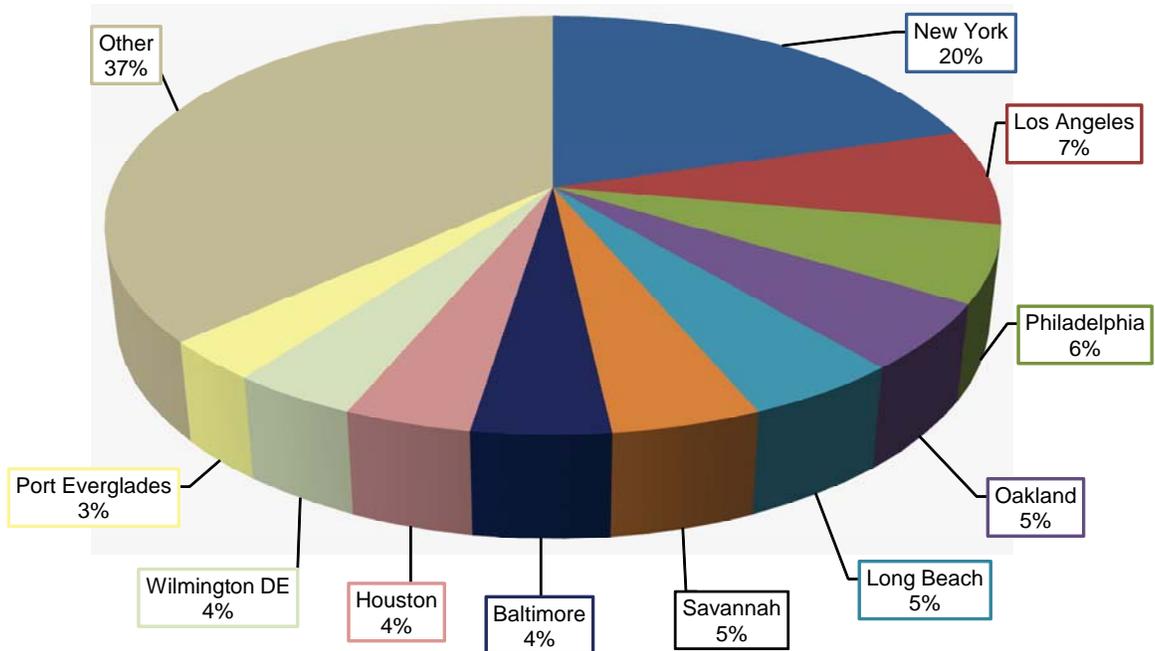
Source: (PIERS)

*158 million metric tons

Top U.S. Ports for Agricultural Imports

- ◆ In 2010, U.S. bulk and containerized waterborne agricultural imports totaled 37 million metric tons—71 percent were moved in containers (*PIERS*).
- ◆ The port of New York brought in more agricultural cargo than Los Angeles, Long Beach, and Oakland, CA combined—more than 7.6 million metric tons.
- ◆ The top 5 U.S. ports for bulk and containerized agricultural imports were New York, Los Angeles, Philadelphia, Oakland, and Houston.

Top 10 U.S. Ports Moving Waterborne Agricultural Imports, 2010 % of Total Metric Tons



Source: (PIERS)

*37 million metric tons

Harbor Channel and Inland Waterway Draft Issues

- ◆ Inadequate water depths and channel widths can lead to higher transportation costs. Barges and vessels may be loaded to less than capacity, more barges and vessels may be required to ship the same amount of commodities, and one-way, or day time only traffic restrictions may be imposed.
- ◆ In recent years there have been extended periods where low river levels and reduced channel widths impeded grain barge movements. When river levels are low, barges must be loaded lighter than normal and the number of barges in a tow may be reduced to the available channel width.
- ◆ At a 9-foot draft, a barge has 1,500 short tons of capacity; for each inch of reduced draft, the barge loses about 16.7 short tons of capacity.
- ◆ When harbor channels are at less than authorized depths, S-Class container vessels lose 320 tons of cargo capacity per inch, Panamax bulk grain carriers lose 179 tons per inch, and Great Lakes ocean-bound vessels lose 115 tons per inch.

Effects of Temporary Closures on Costs, Receipts, and the Federal Budget

- ◆ U.S. exporters compete on the basis of world prices.
- ◆ Temporary closures² of channels due to low water conditions, groundings, natural disasters, man-made disasters, strikes, and lockouts can lead to delays, spoilage, diversion to other modes and ports, higher transportation costs, and lost sales.
- ◆ Higher transportation costs can result in lower cash bids in interior markets. As cash prices fall, USDA loan deficiency payments may increase³.
- ◆ U.S. exporters may be unable to pass on higher transportation costs, as customers can purchase similar products from other countries.
- ◆ In contrast, U.S. importers may be able to pass on higher transportation costs to their customers.
- ◆ Railroads and highways are facing congestion, constrained capacity, and equipment shortages.
- ◆ Authorized channel depths and widths, and locks and dams maintained by the U.S. Army Corps of Engineers moderate the effects of congestion, provide resiliency, and enhance recovery after transportation disruptions.
- ◆ Other important partners include the U.S. Coast Guard, which provides security and aids to navigation, and National Oceanic and Atmospheric Administration which provides maps, charts, weather information, and surveys after disruptions.



Want to Know More? Try These Publications:

¹Studies and reports on modal share and competition

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"Study of Rural Transportation Issues." April 2010. USDA and U.S. Department of Transportation.

"A Modal Comparison of Domestic Freight Transportation Effects on the General Public." November 2007. Amended March 2009. Texas Transportation Institute, Center for Ports and Waterways.

Harbor, Anetra. 2007. "Competition in the U.S. Railroad Industry: Implications for Corn, Soybean, and Wheat Shipments." Presentation given by Marvin Prater at Transportation Research Forum, Fort Worth, Texas, March 17, 2008.

"Trends in Freight Railroad Rates and Competition (GAO-07-292SP), an E-supplement to GAO-07-291R." August 15, 2007. United States General Accountability Office, Washington, DC.

"Freight Railroads: Industry Health Has Improved, but Concerns about Competition and Capacity Should Be Addressed." GAO-07-94. October 6, 2006. United States General Accountability Office, Washington, DC.

Vachal, Kimberly, John Bitzan, Tamara VanWechel, and Dan Vinje. 2006. "Differential Effects of Rail Deregulation in the U.S. Grain Industry." Presented at the International Association of Agricultural Economists, Gold Coast, Australia, August 12-18, 2006.

²Temporary closures

Meyer, Seth, Luis Fellin, and Peter Stone, December 2007. "Impact of a Lock Failure on the Mississippi or Illinois Rivers." Food and Agricultural Policy Research Institute.

"Effects on Agriculture of a Closure of West Coast Port Facilities," United States District Court for the Northern District of California, San Francisco Headquarters, United States of America, Plaintiff, v. Pacific Maritime Association, and International Longshore and Warehouse Union, Defendants, Declaration of Ann M. Veneman, Secretary of Agriculture, October 7, 2002.

³Higher transportation costs, lower cash bids

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Nibarger, Daniel, Pierre Bahizi. September 2, 2010 "Commodity Basis, Price Spreads, and Transportation Cost." Grain Transportation Report. pp. 2-3.

"Transportation and The Farmer's Bottom Line." June 2010. O'Neil Commodity Consulting (on behalf of the Soy Transportation Coalition and the United Soybean Board).

Review and Analysis of Corn Rail Rates." June 2010. Informa Economics (on behalf of National Corn Growers Association).

Nibarger, Daniel. July 2, 2009. "Basis and Transportation Cost Primer." Grain Transportation Report: pp. 2-3.

Review of the Current Impact of Mississippi River Transportation on Agricultural Markets, Hearing Before the Committee on Agriculture, House of Representatives, One Hundred Ninth Congress, First Session, October 26, 2005 Serial No. 109-18.