Written Testimony Submitted by
National Barley Growers Association and American Malting Barley Association
to the Senate Committee on Commerce, Science and Transportation on U.S. Rail Issues
June 21, 2006

Mr. Chairman and Members of the Committee, the National Barley Growers Association (NBGA) and American Malting Barley Association (AMBA) are pleased to submit this written testimony on behalf of their barley producer and processing members concerning impacts of rail rates and service on the U.S. barley industry.

We estimate more than half of the U.S. barley crop moves to marketing positions by rail. The majority of our barley production region is now captive to one railroad and we pay freight rates well above those rates paid by other grain suppliers who have competitive transportation options. For example, rail rates in North Dakota (largest barley producer) and Montana (third largest producer) are between 250 to 450% of the railroad's variable cost – far in excess of the Surface Transportation Board's threshold of unreasonableness of 180%. Because of these higher rates and often unreliable service, it very difficult for barley from our traditional production areas to compete with other suppliers in both domestic and foreign markets.

We pride ourselves on producing some of the highest quality barley in the world, but if we cannot get our product to market competitively then our quality advantages won't matter. U.S. negotiators are trying to help us be more competitive in world markets through the WTO trade negotiations, but again it won't matter if we get the best trade deals if we can't ship our products competitively.

The following are specific rail issues that have directly impacted U.S. barley competitiveness.

Ten years ago, barley comprised about 20% of the grain fed to dairy cattle in the large California and western U.S. dairy shed. However, we have lost these once large barley markets to corn because of deliberate decisions by the two dominant western railroads to price unit trains of Midwestern corn into these western feed markets at rail profit levels well below the 180% threshold of variable cost.

Captive rates and service have prevented the movement of western U.S. malting barley east to malt processing plants, forcing these plants to source a portion of their needs from Canada. These processing plants need specific varieties of malting barley that are only grown in the western states

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and Canadian provinces due to agronomic factors. Furthermore, Canadian barley currently moves to west coast export points at about two-thirds the cost of similar westbound movements in the U.S.

Loss of short lines has become a significant factor in Washington barley competitiveness.

We believe that the unrestrained monopoly power that exists in the U.S. rail industry today has led to inferior service and excessive freight rates, particularly in captive areas. This lack of competition has allowed monopoly railroads to short-change both feed and malting barley, which typically move in smaller volumes to multiple destinations, in favor of large movements of a single grade crop (like corn) from a single origin to a single destination.

Without a doubt, the U.S. economy relies on a healthy and competitive rail industry. However, we believe that both shippers and railroads will directly benefit from competition in the marketplace. Therefore, we support provisions in Senate Bill 919 that address current abuses of monopoly power in the rail industry and promote a competitive balance between shippers and railroads without increasing regulation.

Thank you for your consideration of our concerns with rail service in the U.S. barley industry.