

Outlook for Inland Ag Container Exports

Presentation by Bruce Abbe, Executive Director
Midwest Shippers Association

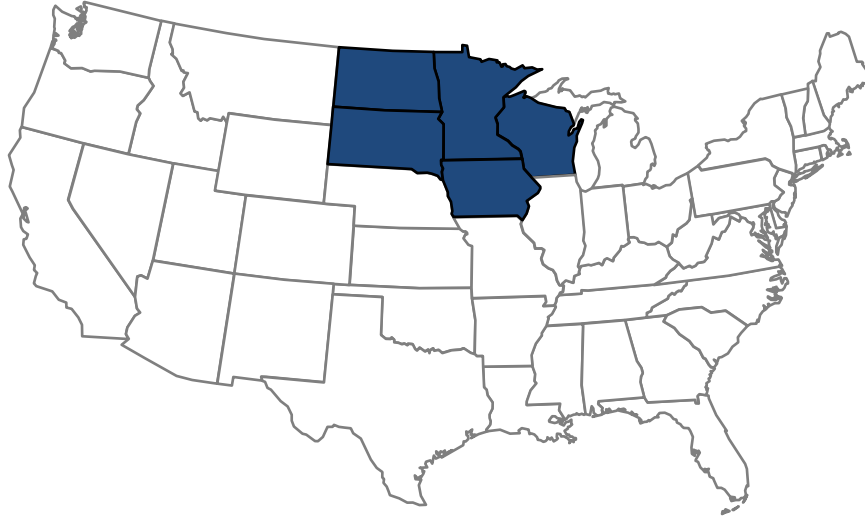
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Overview

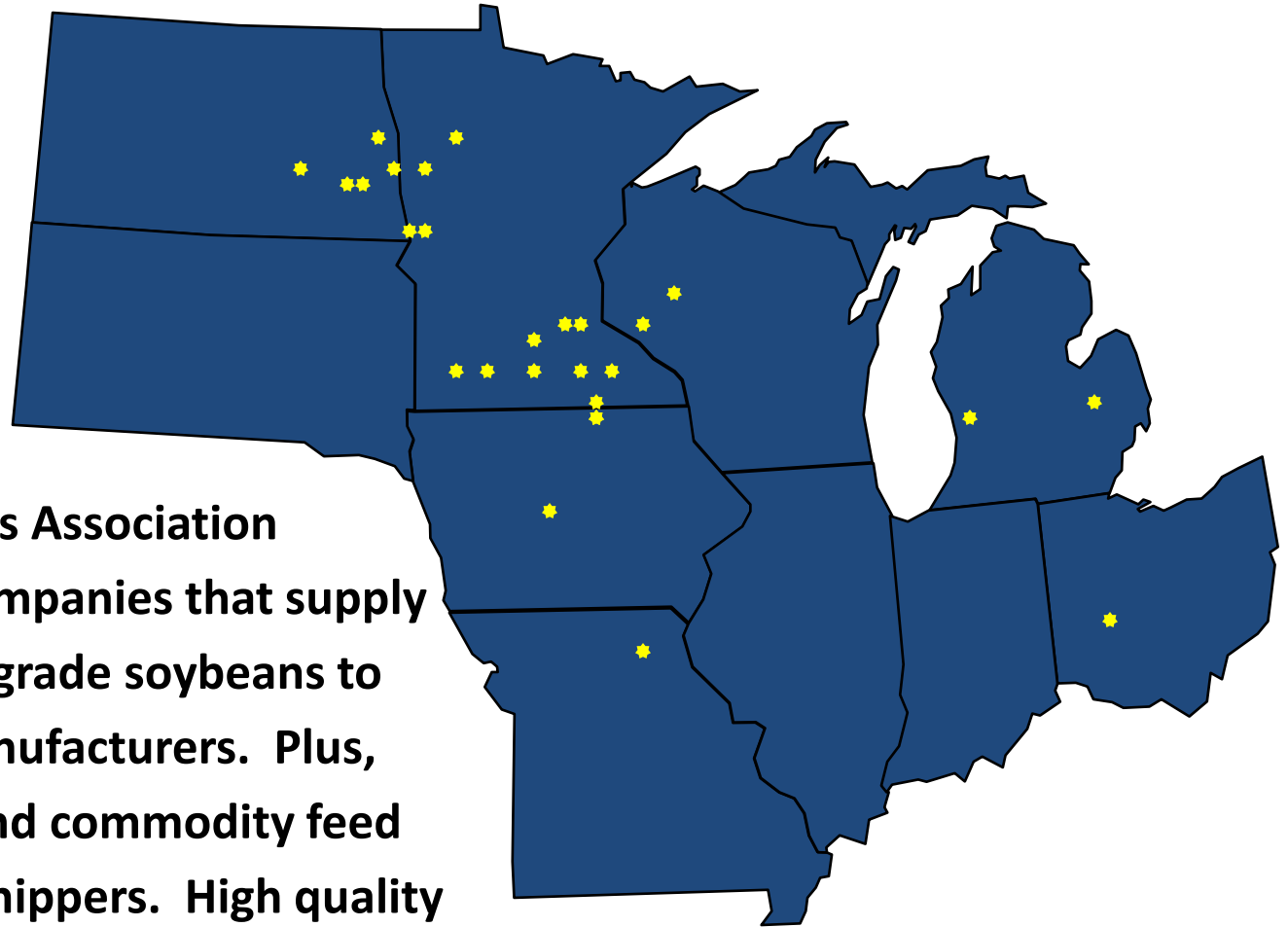
- About the Midwest Shippers Association –
- Grain export markets, outlook
- Recent developments - U.S. grain export shipping system – bulk and container
- Trends in global food industry that *Could* lead to growth for container shipping....if intermodal industry responds
- Challenges inland ag shippers face, key needs & some positive signs
- Common interests we have in addressing imbalances of system to realize sustained container grain export 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**
- **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 23 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.**

Snapshot – Grain Markets, Grain Exports

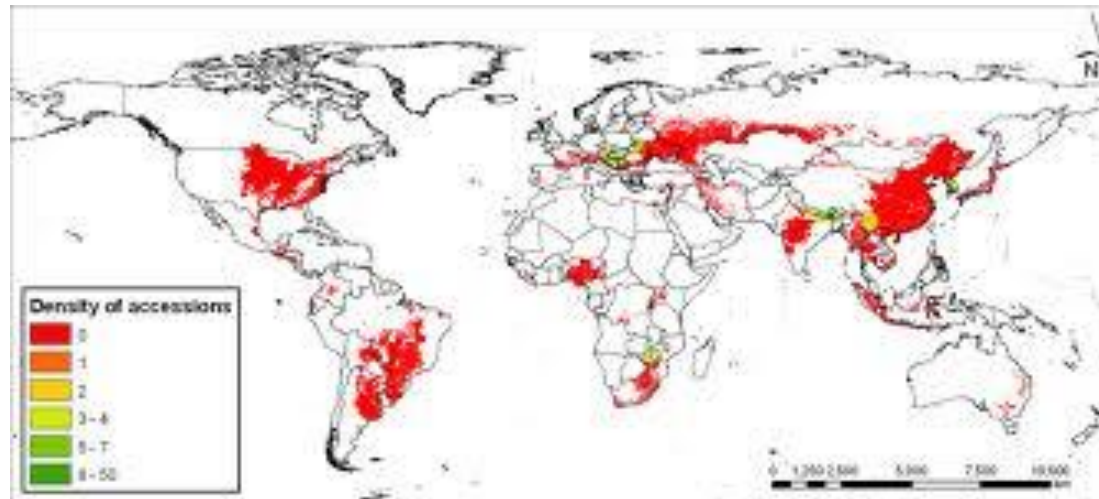
- We're coming off an unusual year. USDA projects overall grain exports to be sharply down for current crop marketing year (*Through August*).
 - Europe recession. Econ slow down in Asia. Effects of worst drought in U.S. in 30+ years. Corn belt, plains hit hardest.
 - Corn exports forecast only 900m bu. through Aug., lowest since 1972. Was 1.54 bill bu. previous year. Since Sept. 1, exports of corn off 52% from prior yr.
 - Yet USDA forecasts record yr. for exports overall -- \$142 billion.
 - Total value of ag exports looks to be higher -- Higher grain prices, plus other high-value products – fruits, nuts, meat, poultry. Horticulture – record \$32 bil.
 - USDA is projecting rising grain & oilseed inventories now, due to continued weak demand. Strong Brazil production also pushing prices down recently. Lower prices could spur more overseas buying.
 - USDA projects big 96 million acre corn crop planting for 2013-14. If return to normal weather patterns....yields will replenish stocks above 2 bill bu.prices could fall from \$7.20 bu. range to \$5.65 next Dec. Soybeans, other crops will follow suit. Lower prices to help keep exports flowing.
- **I.E. weather cooperating -- expect a return of strong exports next year.**

Container Grain Exports

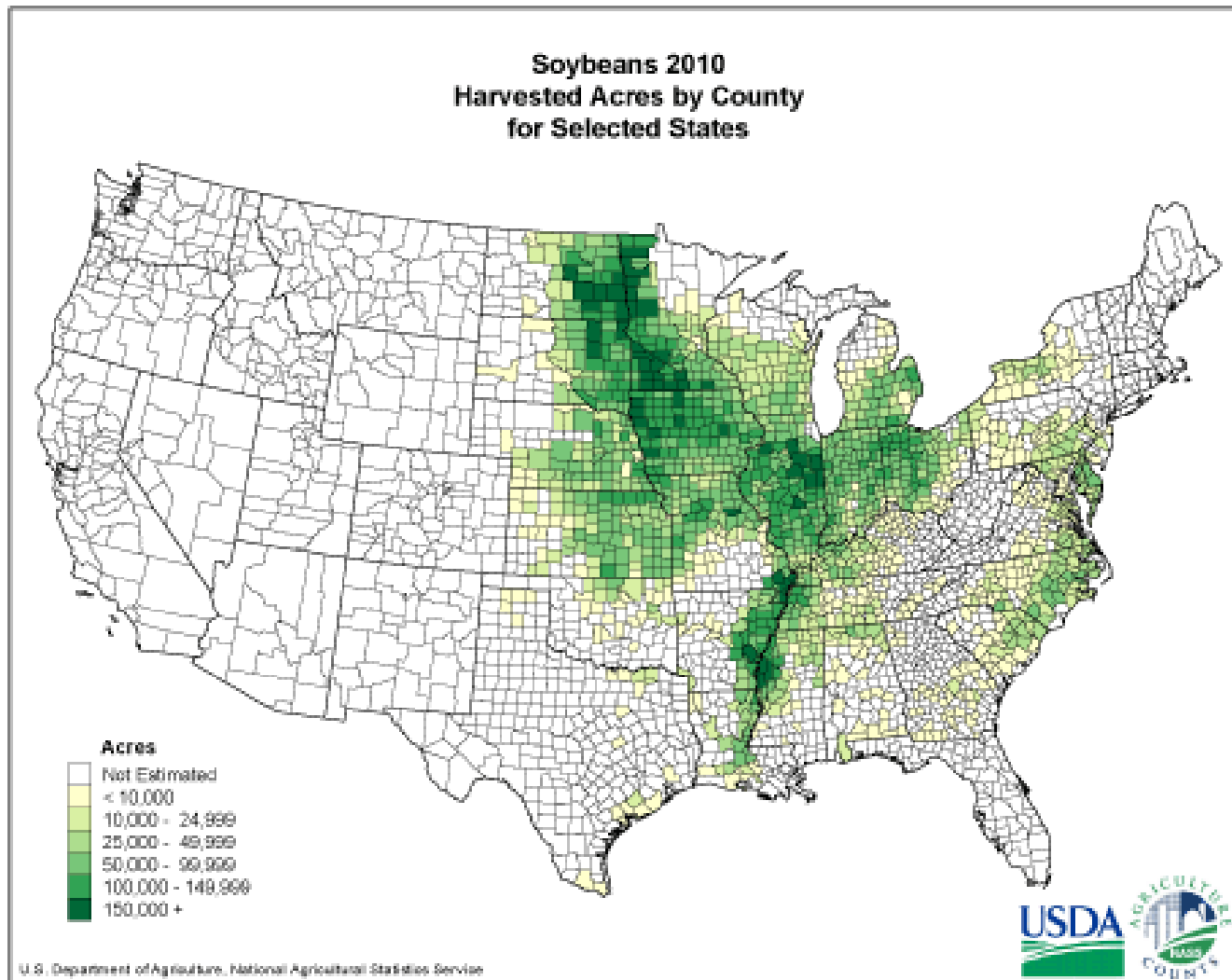
- Despite slow yr for exports in 2012, overall U.S. container grain exports were up 2% above 2011 through Nov., according to USDA/Piers, after running higher. Container grain shipping continues to make steady gains.
- DDGS remain top grain export commodity. Bounced back in 2012, after China anti-dumping case subsided. 6.89 MMT. 37% of all U.S. container grain exports.
- Soybeans -No. 2 for container exports. 133,873 TEUs, 31% of total. 2.164 MT.
- Other animal feed (mix). 54,136 TEUs, 10% of total, 690K MT
- Corn – 39,075 TEUs, 10% of total. 672K MT
- Soybean Meal – 28,343 TEUs, 5% of total. 375K MT.
- Other – 496,785 TEUs, 7% of total. 497K

Overall U.S. Soybean Production & Exports

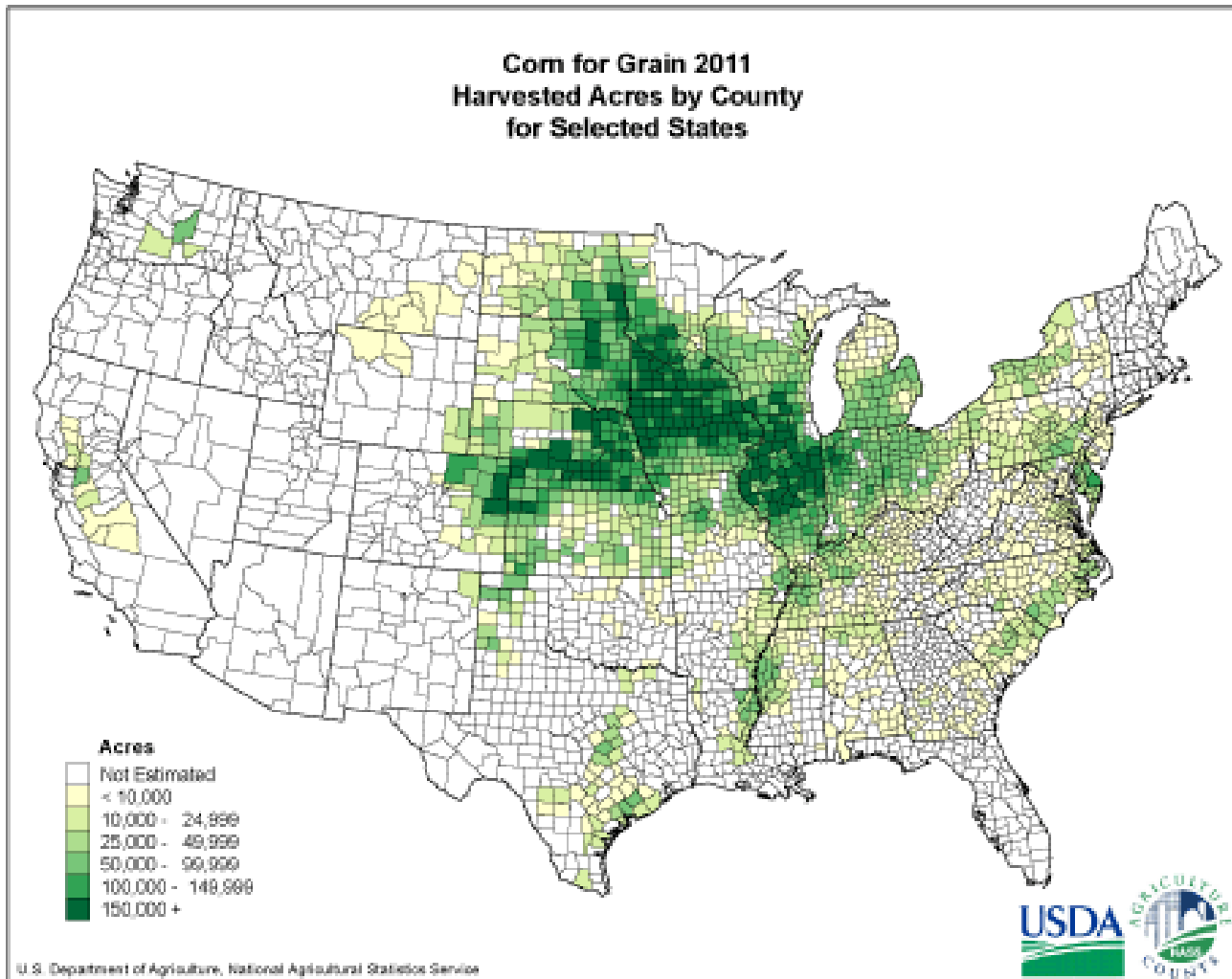
- U.S. produces 35% of Worlds Soybeans – USDA
- Soybeans are highest value export crop for U.S. – 60% are exported
- 41 million metric tons of soybeans were exported overseas in 2011
- 1 of every 4 rows of U.S. soybeans goes to China
- Experts project exports to grow to over 66% by 2020 *(source U.S. Soybean Export Council)*



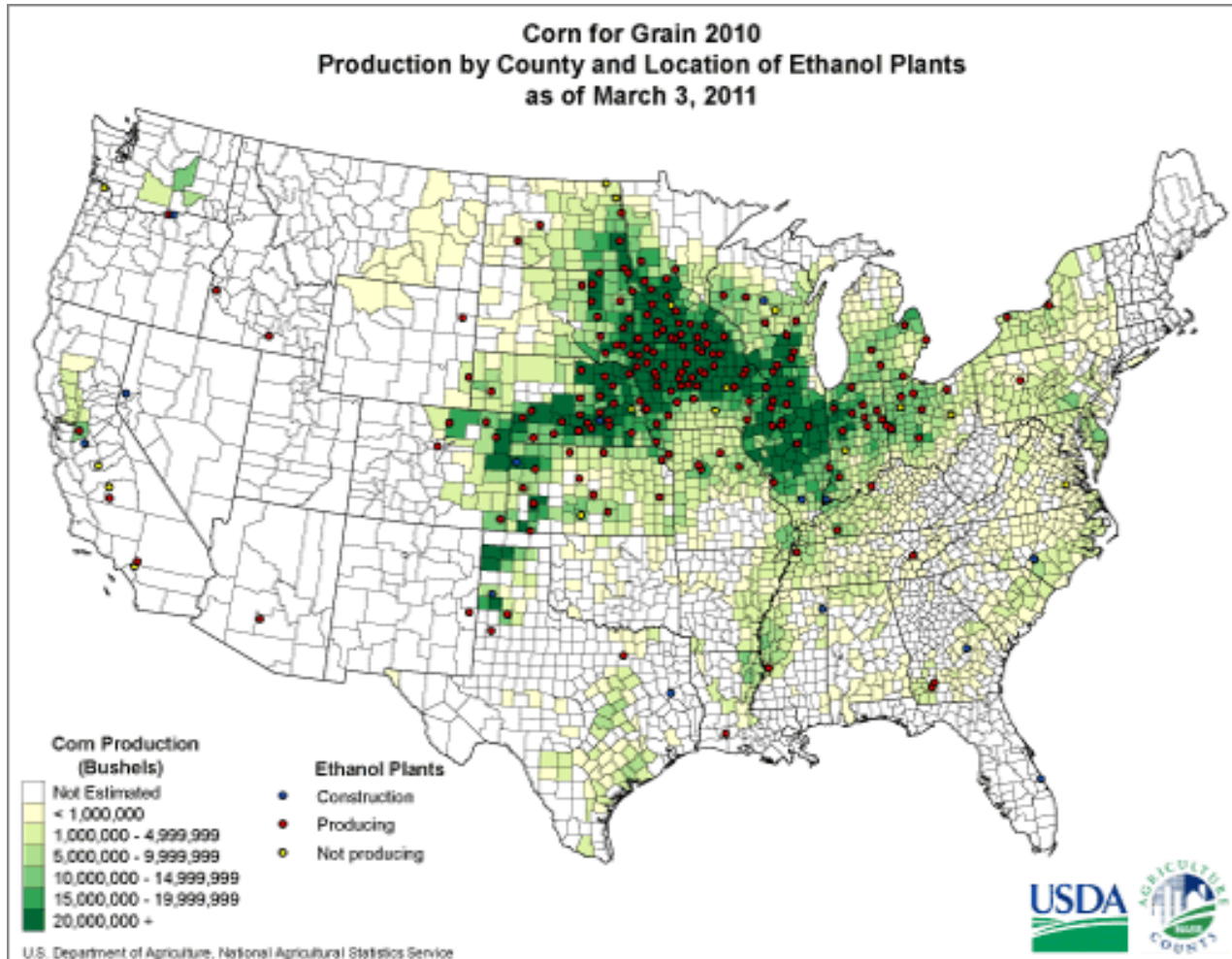
U.S. Soybean Production Regions



U. S. Corn Production Regions



U.S. Corn Ethanol Plants – DDGS Source Locations



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.

Understanding Differences - Bulk & Container Grain Shipping

- Bulk vessels, bulk grain systems far and away handle most U.S. grain exports.
- Container grain shipping steadily growing, but still around 10 %.
- Bulk grain transportation offers greatest economies of scale, cost efficiency for moving large volumes of grain. Require major handling systems, storage infrastructure at exporter and importer locations that buyers and sellers must use.
- Major growth in new rail unit/shuttle train facilities – geared for vol. efficiency.
- Bulk shipping systems best suited for just that – bulk commodity feed grains.
- Container grain shipping -- once a niche market, or an economical back haul alternative in select locations – has grown to become a significant, steadily growing component of U.S. grain export transportation.
- **Container shipping offers distinct advantages for where global food manufacturing is going – Food Safety & Quality Assurance. Traceability. IP product segregation from field-to-the shelf.**

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.
 - Scalable 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 container 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. How will bulk shippers respond? Changes are coming.
 - Food Safety is increasing global concern, with 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, Problems for Inland Container Grain Shipping

- **Wide imbalances in service, costs among grain export regions.**
- **Ag is seen as simply backhaul option.** *Observation - Container carriers often seem to be chasing bulk grain business – not their best suit.*
- **Frequent inadequate supply of containers where they are needed for grain exports** – *Less of a problem this season, common most years.*
- **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 higher than southern California.**

Price Disparities

- Recent rate comparison – Feb. 15 – by MSA freight forwarder member showed:
 - Average of 6 major ocean carriers; rates from different locations to Kaohsiung, Busan, HCMC, Tokyo.
 - Compared to Chicago's current 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.

Container shipping price disparities are simply preventing some major U.S. grain production regions from serving certain overseas markets, that otherwise could yield sustainable export growth.

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 –
- 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
- Southern Cal. – big container hub... but very limited for transloading.
- Minot – promising. Still new. *Will Minot get benefit of 2-way rates?*



Positive Developments – Container Grain Shipping

- **Canadian National** railroad becoming major new container rail player in Midwest. Large transload operation Chicago area.
- 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 matchback terminals new model to be watched.***



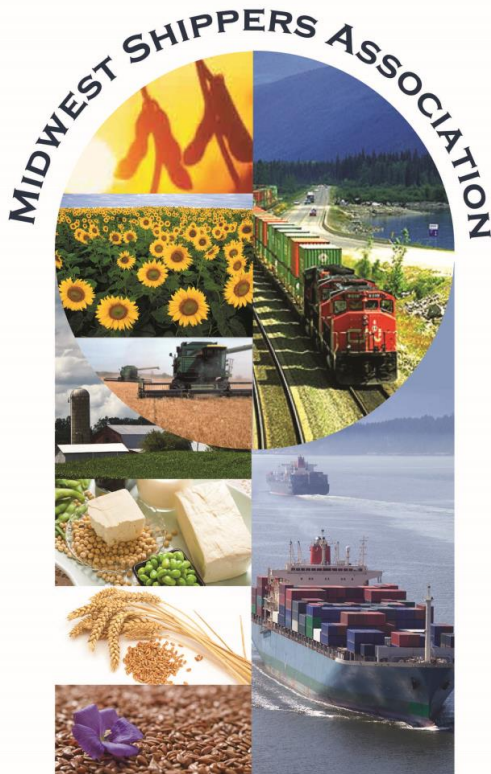
Common Interests

- To grow sustainable, increased ag exports, container carriers and shippers should have common interests:
 - **Work to reduce the wide rate disparities** among inland intermodal rail shipping locations.
 - **Seek matchbacks** wherever they can be found.
 - 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
 - **Understand and build on intermodal's strengths** – shipping cargo that demands higher quality, food safety, product segregation and traceability. You'll find a bit more margin compared to bulk.
 - U.S. food and ag exports will become increasingly important in serving the REAL major population centers of the world – those in Asia, Africa. More than just the backhaul.

Key take-away points

- Exports are THE key to U.S. economic growth. Food & ag exports can lead way – meeting demand of growing global middle class.
- We must improve our physical transportation infrastructure (U.S. ranked 19th in port efficiency, says World Economic Forum)-- but also the functioning of our transportation systems to maintain growth and U.S. agriculture's competitive advantage. Fix or ease the imbalances in container shipping.
- Bulk grain handling – larger shuttle trains, bigger consolidated elevators, improved bulk ship loading – serve generic commodity feed grain exports well – will always have the advantage for volume exporters.
- Intermodal container shipping is far and away better suited for segregated handling and IP quality control of grains for food manufacturers. And new trends point to growth in that market...*if*...
- U.S. inland container shipping must broaden its reach, capacity, and competitive pricing to more regions – those now at a disadvantage -to realize the huge growth potential that exists. We should work together to get this done.

Thank You



- www.midwestshippers.com
- www.grainconference.org
- staff@mnshippers.com
- bruce@mnshippers.com

***Midwest Shippers Association
7500 Flying Cloud Dr., Suite 900
Eden Prairie, MN USA 55435***