



Railroad Transportation Congestion and Outlook

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Key Points:

- *Rail traffic in the northern middle states of the U.S. was widely and severely disrupted during the winter months of 2013/14, due primarily to the surging demand for tanker car shipments from the Bakken shale formation.*
- *Shale oil and gas production from the Bakken formation and the resulting increase in rail shipments have occurred quickly and, when added to the shipping demands for grain, fertilizer, and coal, have overwhelmed the rail infrastructure in that part of the country.*
- *Rail service slowdowns began before the 2013/14 winter weather arrived, but were greatly exacerbated by the ensuing bitter cold and stormy weather.*
- *If they were free to choose, the railroads generally would opt to provide expanded service to the oil industry rather than to their grain customers, because the oil producers generate a steadier, non-cyclical, year-round demand for rail service.*
- *While the railroads have begun to step up their cap-ex spending to address these capacity problems, it will be several years before they have fixed the problems. Meanwhile, shale oil production continues to grow, and so does the oil industry's demand for additional rail service.*
- *With the record harvest this fall, the nation's grain merchandisers will draw on more rail resources in coming months. As a result, further rail constraints and congestion are in the offing for the 2014/15 season.*
- *Going forward, the uneven and unreliable rail service will continue to cause basis distortions and many shippers will have to scramble for the limited railroad service and cars.*
- *As it becomes politically acceptable, the Class I railroads will likely boost their prices to curtail demand from marginally profitable commodities and reallocate the increased capacity for shipments of crude oil.*

Preview

The expansion of oil and natural gas drilling in the Bakken shale formation is creating significant rail transportation constraints throughout the Northern Plains and Upper Midwest states. The impact is broad and affects all goods that are transported by rail in the region. The effects are particularly acute, however, for