

2015 Wisconsin Crop Management Conference



Transportation: Rail, Barge, & Truck

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DISCUSSION TOPICS

- **Rail**

- *Macro rail industry view*
- *Key longer term drivers for rail*
- *Items to watch*

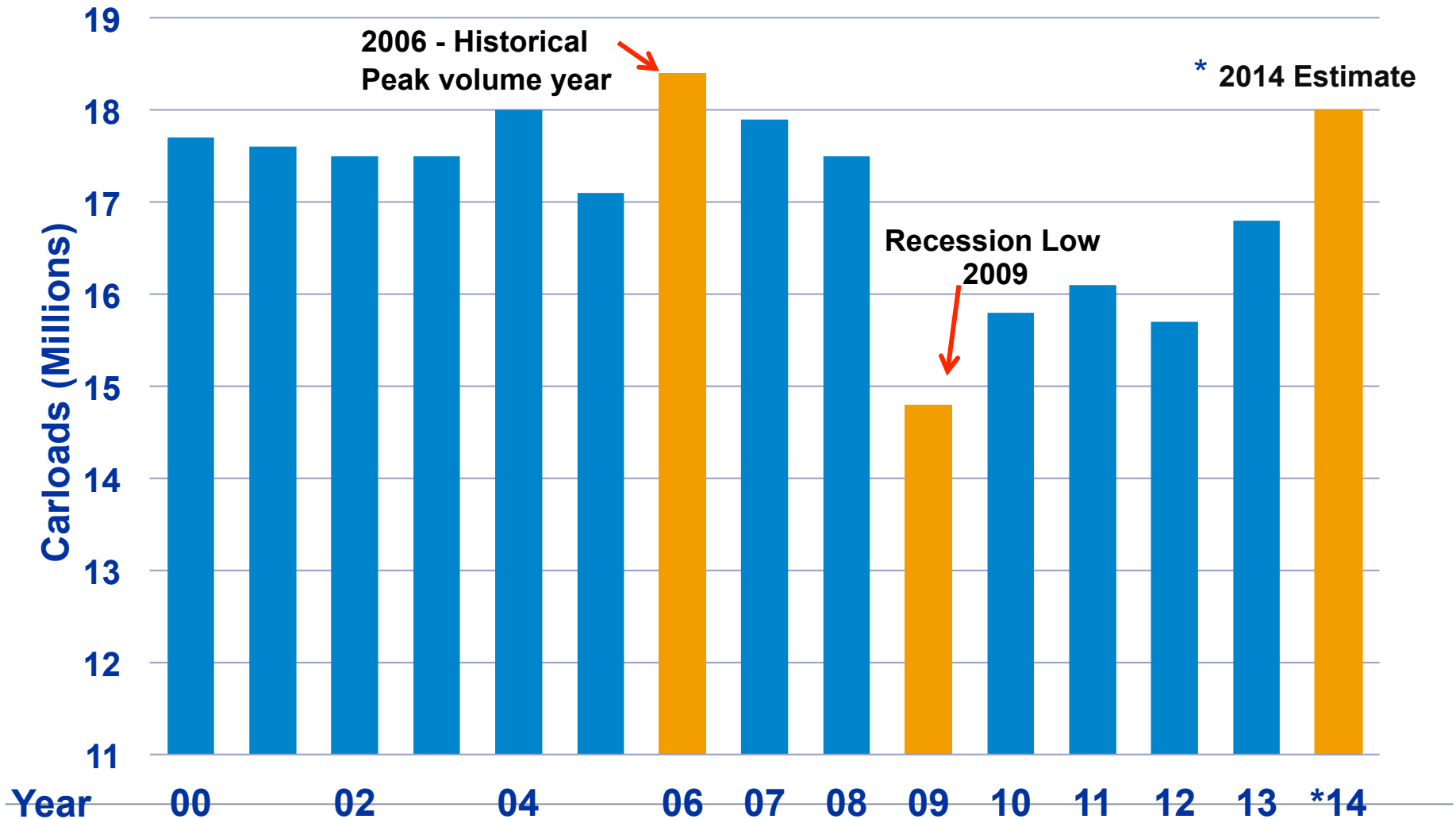
- **Barge**

- **Truck**



HISTORICAL US CARLOAD VOLUME

(LESS INTERMODAL UNITS)



US AND CANADIAN 2014 YEAR OVER YEAR RAIL VOLUME GROWTH



Carload YTD: +3.69%
Intermodal YTD: +0%
Total YTD: +1.9%
Petroleum & sand: +17.9%



Carload YTD: +6.1%
Intermodal YTD: +5.7%
Total YTD: +6.0%
Petroleum: +60.4



Carload YTD: +1.2%
Intermodal YTD: -3.0%
Total YTD: -0.4%
Sand: +77.2



Carload YTD: +6.7%
Intermodal YTD: +11.5%
Total YTD: +8.4%
Grain: +22.6%



Carload YTD: +4.4%
Intermodal YTD: +5.8%
Total YTD: +5.0%
Grain: +19.6



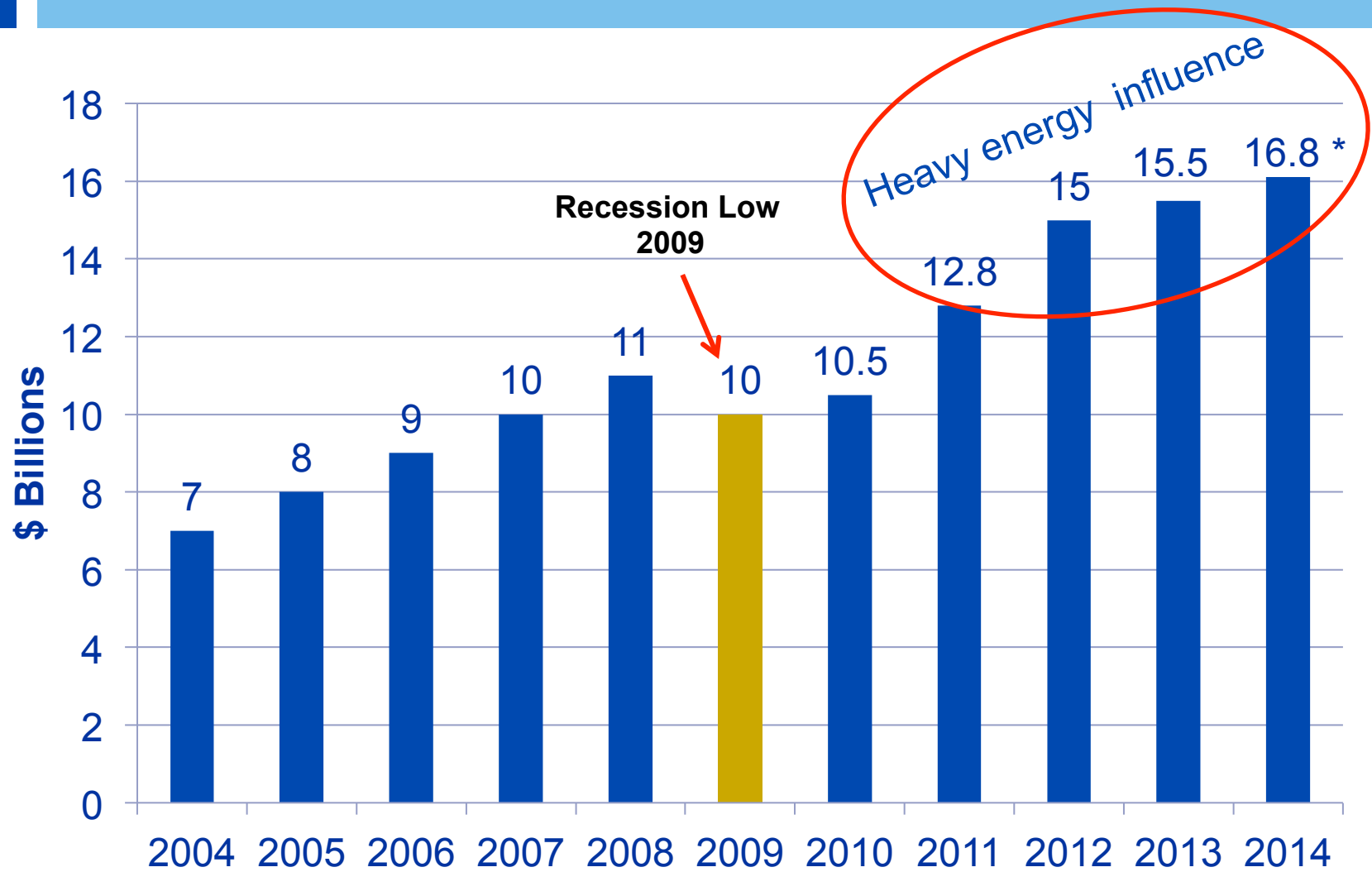
Carload YTD: +5.8%
Intermodal YTD: +7.9%
Total YTD: +6.7%
Grain: +25.7



Carload YTD: +1.8%
Intermodal YTD: +7.7%
Total YTD: +4.7%
Petroleum: +30.6%

All Class 1's YTD: Carload: +4.5% (+ 1.1 million cars)
Intermodal: +5.2% (+ 1 million units)
Total: +4.8% (+2.1 million cars/units)

CLASS 1 RAILROAD ANNUAL CAPITAL INVESTMENT (\$ BILLIONS)



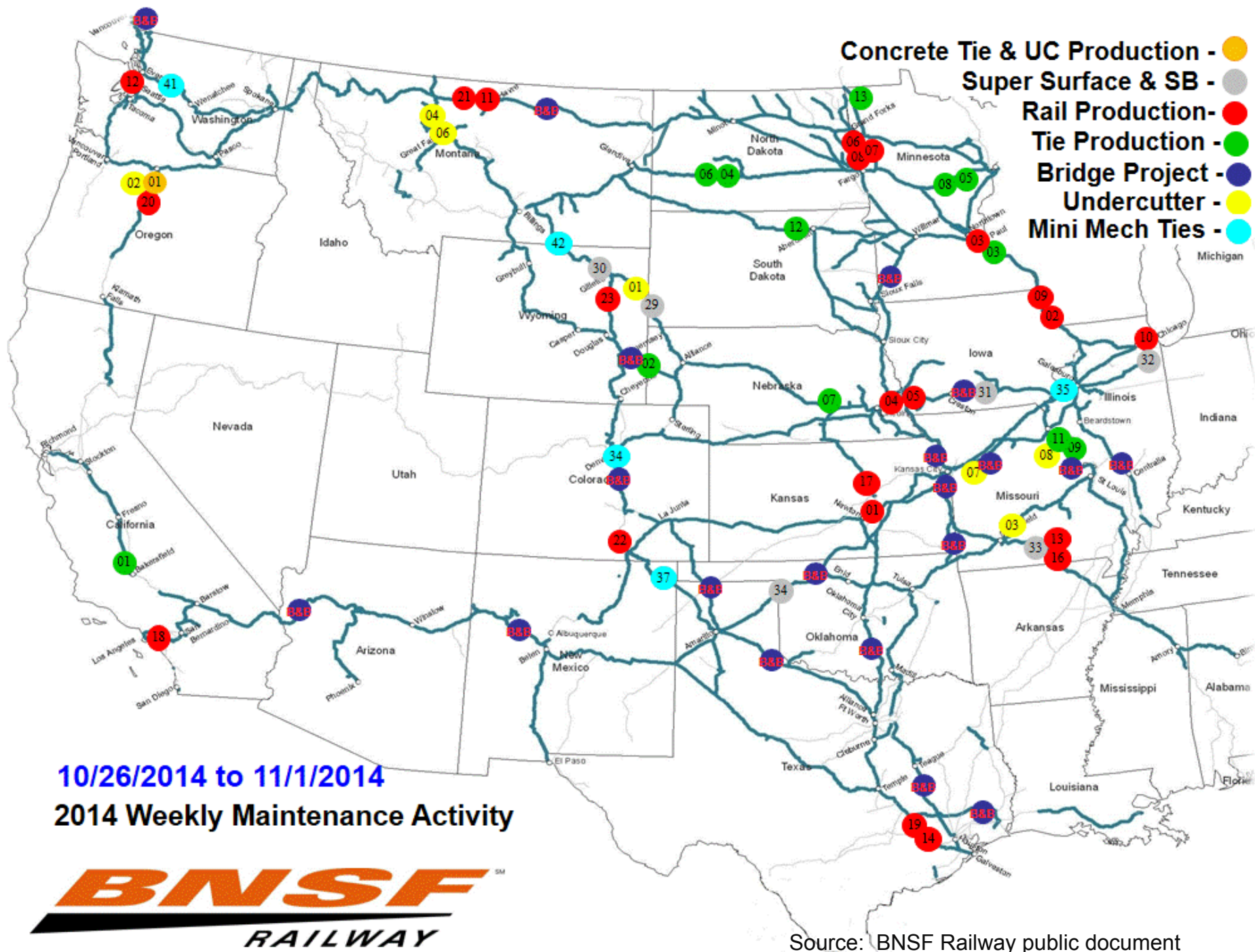
* 2014 estimate

KEY DRIVERS OF CURRENT & FUTURE RAIL CHALLENGES



- 1) Demand Growth & Mix**
- 2) Infrastructure expansion**
- 3) Resources**
- 4) Unpredictable events**
- 5) Private rail car challenges**





CURRENT RAIL SERVICE SITUATION

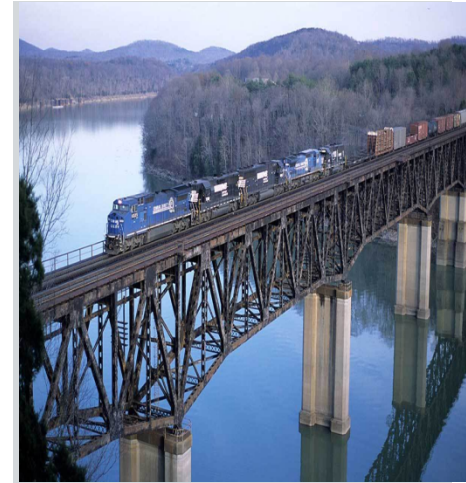
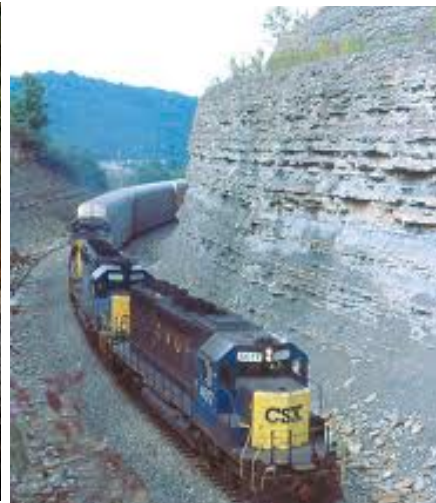
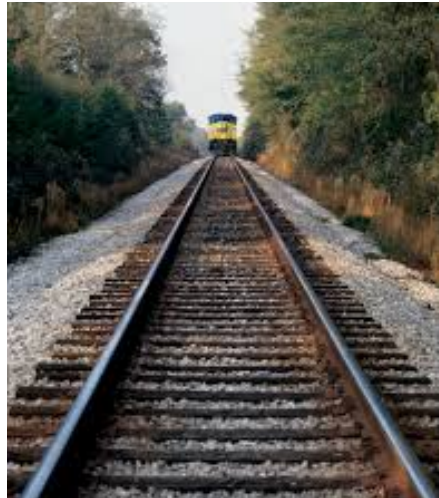
- **Overall, service has improved over the past few months, however, expectation is for some continued variability in service and logistics**
 - Market circumstances have also changed significantly
- **Resource deployment is improving with strong hiring and locomotive purchasing initiatives, but more yet to be completed**
- **Significant incremental infrastructure has been put to use.**
- **Cycle times are improving; but still not back to normal - units, privates, etc.**

WHAT TO KEEP YOUR EYE ON IN 2015

- **Service volatility - Units vs. singles**
- **Rail economics**
 - Rates
 - Capacity valuation volatility
 - Accessorial charges
- **Chicago gateway**
- **Rail infrastructure expansion continues into 2015.....**
- **Rail car availability – railroad and private**
- **Areas of demand growth – North is the key barometer**
- **Shipper/receiver facility development costs**
- **Canadian rail situation**

POLICY AND POLITICAL ACTIVITY – NORTH AMERICA

- ☐ Federal and state legislator engagement
- ☐ Surface Transportation Board
- ☐ Industry association engagement
- ☐ Canadian government



WHAT IS GOING ON WITH THE RIVER?

- **Recent awakening that the river system is vital to a robust US economy**
- **Investment in the river system**
 - Historical challenges of investment in infrastructure
 - Barge user fee/fuel use tax increase of \$.09/gallon
- **Lock & dam work**

TRUCKING: TIGHT U.S. TRANSPORTATION CAPACITY

- Underinvestment during recession
- More than 10% of workforce left industry (2008 – 2012)
- National shortage of transportation employees at over 125,000 and growing
- Changing regulatory climate
 - HOS rules adding to capacity constraints
 - Potential to weed out 5%-10% of labor force



SUPPLY CHAIN TRENDS

- **Fundamental shifts in supply chains**
- **Infrastructure not keeping up**
- **Creating logistics imbalances and increased risk**



DEMAND GROWTH: RETURN OF U.S. MANUFACTURING

- **U.S. Industrial Production Growth**
 - 4.7% in 2014
 - 2-3% in 2012-2013
- **U.S. Manufacturing Activity at Three-Year High**
- **Global manufacturing also shifting to Mexico**



CHANGING AGRICULTURAL LOGISTICS

- **Supply chains increasingly truck dependent**
 - Rail challenges
 - Pipeline infrastructure
 - Lower pipeline system inventories
- **Increased demand volatility**
 - Larger farming equipment; higher yields
 - Shorter, more intense harvest seasons
 - Concurrent with peak logistics season



MANAGING SUPPLY CHAIN RISK

- **Growing importance of what is done before the season**
- **Emphasis on planning, forecasting, and risk management**
- **Must look at all aspects of supply chain: supply, inventory, transportation**
- **Develop partnerships . . . before you need them**
- **Review operations and business practices**
- **Local and producer inventory investments critical**

HEEDING OUR OWN ADVICE . . .

- **Capital investments**
 - Transportation assets
 - Grain, fertilizer and energy terminals and storage
- **Investments in human resources**
 - Growing focus on logistics management





**Farmer-owned with
global connections**