

EXPORTING

BY R.G. EDMONSON

Bill Dankbar entered the grain business just after the U.S. and Soviet Union completed a deal that opened the Soviet Union to millions of bushels of U.S. export grain. “This country invested significant amounts of capital in developing infrastructure to move grain in bulk to export ports, the Gulf and the East Coast,” he said. Railroads could move unit trains from the Midwest to terminal elevators at ports that would transfer grain to bulk ships for overseas transport.

“Containers didn’t exist at that time. Today people would prefer to export commodities in containers,” Dankbar said. “Shipping an export commodity in a container is the cheapest method of exporting grain out of this country. It’s cheaper than bulk,” although he admitted that rail executives might dispute that claim.

Containerization of agricultural products is a small but growing segment of U.S. exports. According to the U.S. Department of Agriculture, just 15 percent of U.S. agricultural exports by weight were containerized in 2002, but that represented 52 percent of the value of all U.S. agricultural exports.

Peter Friedmann, executive director of the Agriculture Transportation Coalition, said the trend toward containerization has grown dramatically in the last three years. “The shift is dramatic and it will continue,” he said. “We have members in every part of the country who are shipping by container.”

Dankbar, vice president and chief operating officer of North Star Rail Intermodal LLC in Medina, Minn., believes containers on rail can open a new region to export markets that were inaccessible because of high transportation costs. Beginning in March, North Star will offer rail intermodal service from Montevideo, Minn., to Minneapolis. At Minneapolis, the boxes will be transferred to CP Rail for shipment to Vancouver or Montreal.

Montevideo is 130 miles west of the Twin Cities. North Star will offer intermodal service on the Twin Cities



North Star will use RailRunner technology to offer intermodal service to Minneapolis.

Big gain for grain?

Minnesota company believes intermodal rail service will open new export markets for agriculture

& Western Railroad, a regional hauler. “The folks in western Minnesota and the eastern Dakotas have been looking for a lower-cost method of moving product, because a lot of times the cost got so high, it made their product uncompetitive, or they just moved it into the local commodity market.” The cost of trucking to a mainline intermodal hub has prevented local farmers and businesses from tapping the international market.

“It allows us to put containers onto truck chassis, and we’re able to roll them over the railroad into these remote rural areas,” Dankbar said. “We can utilize the economies of scale associated with moving lots of trucks with a single locomotive, as opposed to moving lots of trucks with lots of tractors.” North Star will use RailRunner technology, which mounts a container and chassis directly on a specially designed rail truck, eliminating the need for flat cars.

Four months before the service starts, he said demand at Montevideo is higher than the company will be able to handle. “We will not pre-book any-

thing with anyone through the first three months of our operation. We have demand that’s greater than the inventory of containers that we’re going to be able to provide when we begin. We have more than enough demand to satisfy everything we can produce in the first two years.”

The demand for transportation is being driven by international demand for high-value specialty agricultural products. Food processors want corn, wheat or soybeans that meet exacting specifications. There are also concerns about “Frankenfood,” mingling genetically modified foodstuffs with natural products in the food chain. Farmers who can guarantee their crop’s pedigree, or meet a buyer’s standards, can command a premium price — \$5 to \$20 per hundredweight above the bulk commodity price, the USDA says.

“People come out from Japan, they say, ‘We like your corn.’ It’s loaded on a unit train, it goes through a terminal where it’s blended before it goes onto a vessel. It gets blended again at the destination port,” Dankbar said. “What comes out looks

pretty much like yellow corn, and it did come from the United States, but a lot of the qualities that were so appealing to them when they visited Minnesota are not necessarily the qualities they get at the other end.”

To avoid the mixing, “identity-preserved” crops must be segregated in storage and transport, to assure that their desirable characteristics aren’t lost in the stream of many crops from many farms. The volumes of such products are too low to benefit from bulk handling. “The whole nature of identity-preserved doesn’t talk about unit train economics. (Identity-preserved) products don’t move in train-load quantities. It’s always smaller amounts,” Dankbar said. This is why containerization is desirable.

Minnesota has made the marketing of identity-preserved foods a high priority in its strategy to increase exports. North Star is building an intermodal terminal at Montevideo

under a state development zone program that exempts the company from state and local taxes until 2015.

Identity-preserved grain is a niche within a niche. Containerized exports of agricultural goods totaled nearly 22,700 TEUs in 2002, according to the USDA. Nearly 16,000 of the boxes were loaded with soybeans, so North Star has set its sights on another potentially lucrative market. Montevideo is at the center of the growing ethanol industry. Production of ethanol from corn or wheat produces a byproduct, dried distiller’s grain (DDG), which has become prized as animal feed.

Dankbar said ethanol producers are locating in rural areas to benefit from low prices for corn, “but they have these huge residual amounts of these dried distiller’s grains. There is such a surplus that people are looking for homes for it. There isn’t a big enough local feed market so it can’t all be trucked away, so some

of it is being moved off via railcar.”

When the ethanol industry started, producers thought DDG could be handled in bulk. In practice, Dankbar said, DDG marketing has taken on the nature of identity-preserved products. “Three or four years ago, everybody thought that DDGs would become a commodity. What has happened is that there has been significant divergence. There are emerging technologies with each ethanol plant. As you change the processing of corn, you come out with a different DDG product.”

Some of the biggest names in agriculture, including ConAgra and Cargill, are marketing DDGs overseas. “They are all loading containers today in a fairly inefficient manner. They are looking for a way to reach further out into areas where they can buy product at lower cost. The fact of the matter is that there’s a large demand for capacity to load containers, and the infrastructure doesn’t exist.” ♦



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