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Written Testimony

on *The State of Infrastructure in Rural America*

Before the

House Committee on Agriculture

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on Behalf of

National Grain and Feed Association

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Good morning, Chairman Conaway, Ranking Member Peterson and members of the House Committee on Agriculture. Thank you for the opportunity to testify at this important hearing examining the *State of Infrastructure in Rural America*.

I am Rick Calhoun, the immediate past Chairman of the Waterborne Commerce Committee of the National Grain and Feed Association (NGFA), on whose behalf I testify today. The NGFA was established in 1896, and consists of 1,050 member companies that operate 7,000 facilities that handle approximately 70 percent of the U.S. grain and oilseed crop. NGFA also consists of 34 state and regional associations. I also previously served as NGFA's elected industry Chairman and am a past Chairman of Waterways Council Inc., the national organization representing barge and tow-boat operators, shippers, conservation groups, as well as labor organizations that focuses on the modernization, rehabilitation, and operation and maintenance of our nation's inland waterways' locks and dams. I retired June 30, 2017, after working my entire 41-year career at Cargill Inc., most recently as President of Cargo Carriers, the company's barge and marine business, and as Senior Vice President of Cargill's Grain and Oilseed Supply Chain North America.

Throughout my industry career, I witnessed first-hand how important infrastructure is to the success of U.S. farmers, ranchers and agribusinesses in competing to provide America's agricultural bounty to U.S. and world consumers. But over the last decade, I also have witnessed an alarming decline in historical competitive advantage that our transportation infrastructure has provided U.S. agriculture, and the corresponding increase in investment in critical infrastructure being made by our foreign competitors.

The NGFA appreciates and agrees with the renewed sense of urgency by this Congress and the Trump Administration to enact a comprehensive infrastructure package that includes a

predictable and reliable funding mechanism to recapitalize our dilapidated inland waterways system, as well as to restore our rural roads and bridges. Both are essential to the future vibrancy of rural communities and competitiveness of U.S. agriculture.

I want to focus primarily on the 12,000-mile inland waterways system, which supports more than 540,000 jobs and provides the lowest-cost, most fuel-efficient and most environmentally friendly and sustainable way to transport grains, oilseeds and other agricultural products. The U.S. inland waterways are used to transport about two-thirds of the U.S. grains and oilseeds destined for export while U.S. ports help move more than 90 percent of U.S. grain and oilseed exports. In addition, U.S. inland waterways and ports are essential arteries for farm inputs. For example, 33% of fertilizer relies on this infrastructure in order to get essential nutrients to farmers for their crops. Our country exports about 25 percent of its total grain production, with nearly 50 percent of U.S. soybeans, more than 40 percent of U.S. wheat, and about 15 percent of U.S. corn exported each year. On the meat and poultry side, the U.S. exports approximately 10 percent of its beef, 20 percent of its pork, and 15 percent of its poultry production.

The U.S. transportation system is used more by agriculture than any other business sector. In 2012, agriculture accounted for 22 percent of all tons transported, and 31 percent of all ton-miles moved. Thanks to our transportation system, U.S. agricultural exports will contribute $21.5 billion to the U.S. balance of trade this fiscal year. Exports invigorate the rural economy, support more than 1 million jobs on and off the farm, and provide farmers with 20 percent of net farm income.

The Challenge

Earlier this year, during testimony before the House Transportation and Infrastructure Committee on the importance of infrastructure, Cargill's Chairman and CEO referenced a ***BusinessWeek*** article from 1964 that still rings true today about the indispensable role transportation infrastructure plays in the success of U.S. agriculture. The excerpt reads, "What the grain division does is buy grain at a point of surplus and carry it to a point of deficit. Or buy it at a time of surplus and carry it over to a time of deficit. Our profit comes from being able to do this at a lower cost than our competitors."

Historically, the United States has been blessed with a transportation system where the four major modes (truck, rail, barge and ocean-going vessels) complement and to an extent compete with one another. Utilizing the inland river system relieves congestion and wear and tear on our highways and helps discipline rail rates. The result is a highly efficient, balanced system that provides an edge in a fast-changing market which saw U.S. agricultural exports double from 2006 to 2016. For America to avoid losing this edge, we must be strategic and willing to make stronger investments in our transportation system. However, as a percentage of gross domestic product (GDP) the U.S. is spending less on its transportation infrastructure than at any point since World War II and our major trading partners are besting us when it comes to infrastructure investment.

As a result, our competition is catching up. USDA data show that in 2007, the total transportation costs to move a metric ton of soybeans from Davenport, Iowa, to Shanghai, China, was $82.83. That compared to a total transportation cost of $161.30 to get that same metric ton of soybeans from North Mato Grosso, Brazil, to Shanghai.

Fast forward a decade and our competitive advantage is slipping. In the first quarter of 2017, it cost $90.83 to ship a metric ton of soybeans from Davenport to Shanghai and $111.80 to transport a metric ton from Mato Grasso to Shanghai. Brazil has closed the transportation cost gap by $57 or 73 percent per metric ton! Also of concern, Brazil and China just announced a joint $20 billion effort in which China will invest billions in Brazilian infrastructure projects.

By numerous markers, America's infrastructure is falling farther and farther behind. For instance, the United States has declined to 11th in infrastructure in the World Economic Forum's most recent Global Competitiveness Report. We were seventh as recently as 2008. The American Society of Civil Engineers' 2017 infrastructure report card doled out the following grades to American Infrastructure: Roads, "D"; Inland Waterways, "D"; and Bridges "C+". I wouldn't have fared very well bringing home a report card with those kinds of grades.

A sense of urgency also is warranted given most of our inland waterway locks and dams were built in the 1930s and have far exceeded their 50-year design life. We're in a high-stakes game of rolling the dice:

- During the past decade, there has been a 700 percent increase in unscheduled work stoppages for repairs.
- A recent University of Tennessee study concluded that disruptions at Mississippi River Lock 25 would result in a loss of 7,000 jobs and $2.4 billion in reduced economic activity.
- Hurricane Katrina in 2005 also demonstrated the economic damage that results when the ability to ship on the inland waterways and ports is halted, as barge rates increased by as much as 50 percent (to 900 percent of tariff) and basis values on corn declined 40 to 70 cents per bushel, and rippled temporarily throughout the country – affecting not just farmers located near the Mississippi River and the tributaries that feed into it. Higher transportation costs resulted in significantly lower prices paid to farmers, and complicated rail and truck movements, as well.

We appreciate that Congress has begun to respond! Congress is to be commended for enacting Water Resources Development Acts (WRDA) in both 2014 and 2016 to help streamline inland waterway renovation projects, as well as consistently increasing operations and maintenance funding for locks and dams stewarded by the U.S. Army Corps of Engineers. President Trump also is to be applauded for recently visiting the Ohio River to put an unprecedented presidential spotlight on the dilapidated state of our locks and dams and the need to fix them.

But to truly bring our waterways system in to the 21st century, a new approach is needed. Thus, as Congress develops priorities for an infrastructure package with up to $1 trillion in public and

private funds, I'd like to take this opportunity to share several ideas on where we believe it could get the biggest bang for the buck:

Priority #1: Supporting Stronger Federal Investment in U.S. Locks, Dams and Ports

Currently, there exists a portfolio of 25 critical inland waterways modernization projects that need to be funded to modernize the system at a cost of $8.75 billion.

This includes a project of utmost importance to American agriculture: The Navigation and Ecosystem Sustainability Program (NESP). NESP already has been authorized by Congress and includes construction of seven top-priority 1,200-foot locks (LaGrange, Peoria, Upper Mississippi River Locks 20, 21, 22, 24 and 25) at the most congested locations on the Upper Mississippi River System and Illinois Waterway.

In addition, the Harbor Maintenance Trust Fund (HMTF) which is supported via a 0.125% tax on the value of shipped cargo has a $9 billion surplus. Unlike the highway trust fund, the HMTF can only be drawn on when Congress makes an appropriation. We believe Congress should direct that these funds be spent to maintain U.S. ports and harbors, including dredging activities. We appreciate that Congress, through WRDA 2014, is directing that an increasing percentage of these funds be used for their intended purpose.

Priority #2: Supporting the Existing Public-Private Partnership to Finance Renovation of the Inland Waterways Locks and Dams without Imposing Counterproductive, Inequitable and Ultimately Unworkable Tolling, Lockage or Tonnage Fees

Since 1978, the inland waterways system has benefited from a successful public-private partnership through the Inland Waterways Trust Fund (IWTF). The barge and towing industry (but ultimately mostly the U.S. farmer) pays 50 percent of the cost of inland waterway construction and major rehabilitation projects, while federal appropriations are used to finance the remaining 50 percent.

The private sector's contribution is made through the assessment of a 29-cent-per-gallon diesel fuel tax paid into the IWTF. In the highly competitive global agricultural market, transportation costs typically cannot be passed on to the ultimate customer, so they are reflected primarily in the price paid for commodities at the point of production – the U.S. farmer. It's important to emphasize that in 2014, U.S. farmers, agribusinesses and the barge industry raised their collective hands and successfully advocated that Congress approve legislation to increase this user fee by 45 percent to increase private-sector investment in the inland waterways system.

Unfortunately, commercial users of the inland waterways locks-and-dams are the ***only*** private entities that pay into this trust fund, even though the benefits of the inland waterways are enjoyed freely by numerous other stakeholders, including recreational users, those who receive

hydropower, municipal and agriculture water systems, and those who benefit from flood control.

As this committee is painfully aware, no effort to contribute more to deficit reduction or offer to have your user-fees raised to support the system goes unpunished. Perennial calls to impose lockage fees and tolling on the inland waterways date to the Clinton Administration. The Agricultural Transportation Working Group which is comprised of 40 diverse associations representing the ag value chain, including NGFA, believe this is a mistaken approach for several reasons.

First, the waterways system differs from the highway system, where a driver can choose between the new capacity provided by a toll road or continue to rely on previously existing non-toll roads. Further, unlike highways, major beneficiaries of the inland waterways noted previously would not be subject to tolls.

We encourage Congress to continue its bipartisan opposition to such a concept. Imposing additional costs on those utilizing commercial barge transportation – on top of the 50 percent cost-share that farmers and the private sector already pays into the IWTF – would risk diverting traffic from the most efficient mode of transportation available to U.S. agriculture, further congesting U.S. highways and resulting in higher rail freight rates ultimately paid by farmers.

In 2015, the Illinois Corn Growers Association conducted a study to examine alternative private financing options for Illinois Waterway Projects and determined that this could result in an additional user fee or lockage fee of $0.014 to $0.036 a bushel. This means that one 15 barge tow carrying 875,000 bushels of corn could cost an additional $31,500 per lock. Again, this would be on top of the fuel tax industry already pays.

As Congress and the administration debate how to finance infrastructure projects, the NGFA believes the question should not be “how much can we extract from those who already pay?” but rather, “how can we get other beneficiaries of the system to support it financially?” That is the essence of equity and provides an opportunity to greatly modernize the inland waterways system to benefit all users.

Finally, to enhance efficiency and reduce costs of upgrading the inland waterways, it will be important that any future funding mechanism be reliable and predictable. Projects that are plagued by stops and starts because of funding shortfalls create inefficiencies that dramatically increase total costs.

Rural Roads and Bridges

Rural America, the home of 60 million Americans, also relies heavily on roads, highways and bridges, which constitute the first step in transporting agricultural products from farm to market and provide access to education, jobs, health care and other social services, and encourage

tourism and movement of goods and services. Transportation also is a critical factor in a company's decision on where to locate new businesses.

The nation's rural areas account for 97 percent of America's land mass and are home to the vast majority of the nation's 2.2 million farms. As this committee knows well, production agriculture, by necessity, is geographically dispersed because the sources of production cannot simply be relocated to be closer to customers. Without functioning rural road and bridges, farmers and ranchers cannot get their harvests to consumers both domestically or internationally.

Roads and bridges that serve and connect the country's rural areas face several significant challenges, including inadequate capacity to handle growing levels of traffic and commerce, heavier truckloads, limited connectivity, deteriorated road and bridge conditions, and a traffic fatality rate that is far greater than more urban roads and highways.

Funding and Overall Condition

Road construction and maintenance primarily is a function of government, with more than 80 percent of the financing derived from fuel taxes, other fees and tolls. Needs and demands for maintenance and construction of roads and bridges are outpacing current and projected funding, creating a need to identify additional funding sources.

According to 2012 federal data, 74 percent of bridges, 73 percent of the 4 million miles of public roads, and 33 percent of all vehicle miles traveled (VMT) are in rural areas. But only 44 percent of rural road mileage is eligible for federal grants, with the rest maintained by state and local funding. Meanwhile,15 percent of the nation's major rural roads consists of pavement rated in poor condition, while an additional 21 percent is rated in mediocre condition.

Of the more than 445,000 bridges in rural areas, only 43 percent are eligible for federal aid. More than 20 percent of rural bridges are rated either structurally deficient or functionally obsolete. Combined, nearly 69,000 bridges on local and minor collector highways in rural areas (not eligible for federal aid) either are structurally deficient or functionally obsolete. More than 32,000 bridges in rural areas that *are* eligible for federal aid either are structurally deficient or functionally obsolete.

Potential Solution for Rural Roads and Bridges

To ensure rural Americans have access to adequate and safe bridges and roadways, Congress should explore prioritizing increases in federal funding, and/or reclassification of rural roads and bridges to be eligible for funding. One concept that may warrant consideration is to develop a system of block grants with guidelines under which states and localities could prioritize those road and bridge projects that they deem most important. The NGFA would recommend that local rural and agricultural stakeholders be required to be consulted as part of a state's deliberations to ensure that the needs of farmers, ranchers and rural communities are considered fully. Congress also should direct agencies to account for the unique needs those rural roads and bridges present to ensure they are eligible for federal grants and funding. Finally, identifying adequate long-term

funding sources would provide certainty, enable better long-term planning, and improve efficiency in road maintenance and construction.

Conclusion

I'd close with a final thought. As you know, by 2050 the world will be challenged to feed 9 billion people. If the United States maintains the status quo on maintaining our transportation infrastructure, it will fall far short of meeting that demand. The critical waterways projects I've discussed today will take several years to construct and complete. So, we cannot wait until the moment is upon us to get started. The road to feeding a growing country and world population will be met by looking forward, not through the rear-view mirror. Let's not allow just under $9 billion stand in the way of our ability to feed our country and the soon to be 9 billion people around the globe.

Thank you for this opportunity to provide our thoughts on the current state of the transportation supply chain and its infrastructure that is of vital importance to rural America. We look forward to working with this Committee, Congress and the Administration to pursue enactment of a comprehensive infrastructure package that will make a real, positive difference to rural communities, U.S. economic growth and job creation, and world food security for decades to come.