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SOUTH AMERICAN INFRASTRUCTURE IMPROVEMENTS

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U.S. agriculture is currently at a crossroads. In agriculture, we depend on foreign trade for our prosperity. We have enjoyed an immense advantage over our competitors for many years. Today, we are on the verge of losing that edge and plunging our agricultural sector into an economic crisis that makes the effects of the Carter embargo of the eighties look like a minor correction in the futures market. The competitive advantage I am talking about is our transportation infrastructure. As we in the U.S. argue about the relative merits of rail Vs. barge, and the potential economic gains Vs. the environmental costs, the governments of South America are busily eroding our competitive advantage, and not slowly either.

The areas that I want to discuss with you today are Production Practices, River, Rail and Road improvements, primarily in Argentina, but the same changes are taking place throughout most of the South American Continent.

Production Practices:

The South Americans have the ability to dramatically increase production virtually any time they want to. Increasing acceptance of commercial fertilizers primarily Phosphate and Nitrogen combined with new varieties of corn bred especially for Argentine growing conditions will soon increase national average yields from the 90 Bu/a. they now produce to close to the 130 Bu/a we enjoy here. As yields improve and the income stream increases, less land will be seeded to alfalfa or pasture, and put into grain production. The construction of what will be the worlds largest nitrogen manufacturing plant soon to be completed in Bahia Blanca south of Buenos Aries on the coast will provide Argentine farmers with a inexpensive supply of a domestic fertilizer critical to corn production.

Increased availability of storage, both on-farm and commercial, will give the Argentine grain industry much needed flexibility on when and how they market their crops. This will primarily impact corn and wheat exports as soybeans are crushed or processed locally at the ports and shipped out of the country primarily at harvest. The Argentine government offers significant credits for the export of processed soybeans. Their goal is to keep the economic development inside their own borders. There are no incentives for corn. Corn is exported as a whole grain with little or no processing. Currently virtually none of the domestic corn production goes into cattle feeding. This may change, but right now all domestic beef is grass fed.

As the Argentine economy recovers the larger farms formed by small farm failure will have easier access to capital. (In December 1997 when I was there farmers were able to borrow Pesos for the first time in years.) These larger farms will use that capital to increase inputs such as fertilizer, better seed genetics, more herbicides and larger more efficient equipment to further increase production. Expanding market access through Mercosur will reward them handsomely for the risks and the investment.

Road and Truck Improvements:

The main road system in Argentina is little different from what we enjoy in our country. The fact that many of the side roads are dirt and unpaved is not significant. Most of the grain is transported at harvest and the weather window for harvest is much wider there than it is here. The roads are passable when they need to be and an inconvenience, no more during the off seasons. The majority of the corn is grown within 300 km. (200 miles) of the ports. Trucks are the main method of hauling grain that distance. Other people who have been in Argentina have laughed at the trucks that haul the grain from the fields and farms to the export terminals. I was not amused. Their system works quite well for them and everything is designed around the trucks which have no hydraulic dumping system. The trucks and trailers are relatively simple and inexpensive. And most importantly, they work. Numerous trucking firms exist and requests from a farmer who is in harvest for 150 to 200 trucks is not uncommon and easily filled. The truckers live in their trucks and a wait of one to three days at the terminal to unload is not remarkable.

Rail Improvements:

The Argentine government has undertaken a major project to privatize the railroads in the country. While maintaining ownership of the tracks and land, fifty-year leases are being let on a competitive basis. One of the conditions of the lease is that the track is in better condition at the end of the lease than at the beginning. Most operators are not finding this hard to do. The railroads are building alliances with U.S. companies to improve their ability to offer service. This sector of transportation is still somewhat slow but gaining momentum rapidly. The difference in track gauges is being overcome with a number of ingenious methods. They have developed a method of lifting the cargo boxes off of the trucks (railroad wheels) and placing them on trucks of another gauge with a crane, another method is to use pits and conveyer belts to rapidly off-load one train onto another. The largest Argentine railroad recently merged with a Brazilian railroad company.

Ports and Deep Draft Channel Improvements:

Argentina has undertaken a $650 million dredging project to allow Panamax (50 K metric ton) vessels access to interior ports at Santa Fe and Rosario. The export terminals at Buenos Aries that once served the ocean vessels are gone. Up-river competition has ended their usefulness. Additional dredging will allow even Cape sized vessels (110K to 120K metric ton) access to these ports as well. The grain export terminals have been privatized and investment for improvements and upgrades are pouring into this sector of their economy. These ports are operated in a highly efficient manner at a good profit margin. Additional soybean crush capacity is being added. There is a competition going to determine who will process and ultimately export the additional soybean acres being grown in Brazil. The Brazilian government would like to move those beans east to their coast and process them in Brazilian plants. The Argentines' are making every effort to entice them south. In addition to the growing acres in Central Brazil, the soybean regions of Bolivia and Paraguay are now connected to Argentine processors by barge.

River and Barge Improvements:

The governments of Argentina, Brazil, Paraguay and Bolivia have formed a partnership to improve navigation on the Parana and Paraguay rivers. $60 million dollars have been invested in these river systems to enhance navigation. Currently a towboat can travel 1800 miles without lock delays. There are no locks. A U.S. based company, American Commercial Barge Lines is the largest barge line operating in South America. Many of the new barges manufactured in the U.S. over the last 5 to 7 years have gone to South America. ACBL has initiated round-the-clock navigation on the river system. Operating 15 barge tows for most, if not all of the river system. Shipments that used to take 10 to 12 days now take 4 to 5 days. Soybeans from the above mentioned countries all flow by barge to Argentine crushers in a very cost competitive manner.

U.S. Shortcomings:

Where does that leave us? The majority of the locks and dams on the Mississippi and Illinois River system surpassed their useful life 20 years ago. Improvements in towboat capacity and improvements in other areas of the navigable river system have rendered them obsolete. They are too short, too slow and over utilized. Delays on the river system cost producers over $20 million dollars a year in higher shipping costs and the number continues to climb.

Rail consolidation and increases in movements of competing commodities will quickly drive grain-shipping rates skyward. We have already experienced this with the UP SP merger that left us with only two viable railroads west of the Mississippi River.

The U.S. is in very real danger of becoming a residual supplier of food and fiber to the world. The past year has taught us that the export market is vital to the health of agriculture and rural America. As our competitive edge erodes, other countries like Argentina will quickly step in and fill the voids with cheaper commodities due to their more efficient transportation systems.

What can we do???

There are seven locks that need to be upgraded five years ago. They are Lock and Dam 25, 24, 22, 21 and 20 on the Mississippi River and La Grange and Peoria locks on the Illinois River. These locks need to be upgraded to 1200 foot chambers to allow a barge tow to pass through intact without making two passes as they are currently forced to do. We need to ensure that the COE maintains the mandated channel depths that allow the most efficient loading of all barge traffic. This includes proper management of the Missouri River and the waters that feed it as well. We also need to support the COE budget for current and deferred maintenance. We need funding, authorization and a commitment to build these structures in a timely and cost efficient manner that is not possible under current budget processes. And we need to pursue this agenda aggressively and constantly until we achieve these goals.