



Testimony

Of

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“Domestic and Internal Supply Chains and Ports’ Critical Role in Keeping Goods Moving”

To the

Senate Subcommittee on Surface Transportation and Merchant Marine Infrastructure,
Safety and Security

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Thank you, Senator Fischer and Members of the Committee and Subcommittee, for inviting me to testify.

Cargill provides food, agriculture, financial and industrial products and services to the world. Together with farmers, customers, governments and communities, we help people thrive by applying our insights and 150 years of experience. We have 143,000 employees in 67 countries committed to feeding the world in a responsible way, reducing environmental impact and improving the communities where we live and work.

At Cargill, we believe the world will always raise the most food the most economically if farmers plant the right crop for their soil and climate, and then engages in trade with others. In essence, grow and produce what you are good at and export the

surplus. Honoring comparative advantage and trade is fundamental to ensuring abundant and secure food for the growing world's consumers.

This is also the way to maximize value for the products US farmers and ranchers produce and our employees make. We sell the food and food ingredients that we produce to the domestic and international markets where they are most valued. This creates the best long-term opportunities for Cargill, our customers, our farmer and rancher suppliers, our hard working employees, and the communities where we operate.

It takes infrastructure and a complex supply chain to achieve this. Ports are an integral part of this supply chain. Let me outline the beef and pork supply chain I work with every day and detail the challenges that occur when there are problems with port operations.

Cargill procures livestock from farmers and ranchers to be processed into fresh beef and pork in our plants located predominately in Nebraska, Kansas, Texas, Iowa, Pennsylvania, Illinois, Colorado and California. Customers from around the world depend on high quality fresh US beef and pork to sell in supermarkets, restaurants, and food processing plants. Fresh beef and pork have a relatively short shelf life (60 days for fresh beef and 45 days for fresh pork) and must be quickly packaged and shipped in temperature controlled trucks, railcars and/or containers to ensure product integrity and safety and to allow enough shelf life to sell or process the product once it arrives. Under normal circumstances, a container of fresh pork destined for Asia is usually trucked to the west coast (2-3 days), loaded onto a container ship (3-6 days), in transit on the water (15-18 days), unloaded/clears customs (1-2 days) and then delivered to customer's warehouse for distribution. In this case, our customer would have approximately 25 days shelf life left on the product.

Recently, the industry has been experiencing delays of 2-3 weeks on chilled product as ships and product have backed up in the West Coast Ports. With this delay, our Asian customers cannot count on a dependable supply of US beef and pork, so they have started

to cancel orders and are looking to suppliers in Chile, Australia and the European Union to meet their needs.

Customers usually have a month's supply of product in inventory and another month's supply in the distribution pipeline. Delays or temperature changes in the distribution chain devalue the product and can easily make it worthless to customers. A timely supply chain is critical to our business.

Today, about 10% of US Beef is exported and 25% of US Pork is exported. These exports increase the market value of US farmers' and ranchers' products. Additionally, the revenue added by many exported items—such as hides and skins which are processed abroad and some variety meats which do not have a high-valued market in the US— increase the value to farmers and ranchers while helping hold down the cost of beef and pork to US consumers.

The North American Meat Institute estimates that the current West Coast Port situation has had the following impact upon the meat and poultry industry as a whole:

- The cost to meat and poultry companies losing sales or facing unanticipated port charges is in excess of \$40 million per week on top of initial losses which exceeded \$50 million.
 - These estimates are on the low side because of limited industry-wide data.
 - Also, lost hides and skins export sales alone are estimated at an additional \$40-45 million per week.
- Increase in transportation and port-related charges include:
 - Removing chilled product containers from terminals and sending by air increases shipping costs dramatically and reduces profit margins.
 - Cold storage while the backlog continues also adds costs.
 - Exporters are facing container plug in charges, truck waiting time, truck dry runs, truck detention, and chassis usage charges.
 - Exporters are additionally charged “demurrage” or rent for every day a container sits, unshipped, at the terminal.
 - Steamship line costs are at a premium due to “congestion surcharges” imposed at the present time.

- Chilled meat/poultry is most at risk. More than 10,000 MT of U.S. beef and 16,000 MT of U.S. pork is exported as chilled to Asia each month. Product sales are stalling under the current situation.
 - Some U.S. exporters report they have containers held up that were there at Christmas. The short shelf life of chilled beef and pork make timely delivery critical.

Unfortunately, despite strong and growing export demand for US meat protein, the long-term negative impact of these delays falls on the producers who supply the livestock and the employees who process the livestock into meat.

The US Meat Export Federation (USMEF) estimates that the global demand for US beef and pork will reach 17.6 billion pounds in 2024, up 50% for beef and 42% for pork, with most of that growth coming from the Pacific Rim. Future growth to serve these markets depends on an effective, efficient and reliable supply chain capable of moving an incremental 162,000 containers per year (3,115/week).

Cargill exports many other products that have also been recently delayed. These products include cotton, canola meal, soybean meal, whole grains, syrups, sweeteners, distillers dried grain, food ingredients and others. The impact has been significant. We ship in excess of 1,000 containers per month through the West Coast depending on the season, market conditions and other factors.

It is important for policymakers to understand the decisions and decision making process that a firm confronts during disruptions to a supply chain. The more protracted a transportation disruption, for any reason, the more prolonged and extensive the damage may be. Commerce does not automatically go back to normal as soon as the disruption ends. That is because the disruption likely caused impacts throughout the domestic and international supply chain during its duration. Individuals likely changed their behavior to account for the disruption. Truckers that had hauled goods to the port may have changed their routes to avoid long wait times and to ensure a more reliable income. Railroads may have adjusted their schedules to keep their cars from getting stuck in port. Companies that

manufacture goods may have changed how they ship and to whom they sell. Most importantly, buyers may have changed to suppliers with more predictable logistics. Ship owners may avoid certain ports altogether. The longer the disruption lasts, the more behavior and patterns of shipments change and the longer it takes for normalcy to return. This makes it hard for one to be a long-term reliable supplier to customers when confronted with uncertain supply chains, particularly for perishable products.

This has severe implications for companies desiring to make long-term sales to customers whose contracts are normally predicated on shipping in the most efficient means possible but now are facing expensive and extensive congestion and disruption. Consider the following: When will the ports return to normal? Will the situation get worse before it gets better? Can the buyer count on the product arriving on time? In the case of uncertainty, the customer may choose to purchase from a competitor or a supplier in a competing country who has a more reliable supply chain.

Shipping through alternative ports may not be a viable option either. A Washington state supplier cannot easily nor cost effectively ship product to the Gulf Coast of Texas for shipping through the Panama Canal when the normal best option is direct from Washington to Asia. In this case, the business may simply be lost. Additionally, there are not enough days to allow perishable product like meat to be shipped to Asia via East Coast or Gulf Coast ports. These are simply not options. For all these reasons, we urge Congress to do what it can to resolve the current dispute affecting West Coast Ports.

It takes infrastructure to get our nations' goods to market. If we want to continue moving the bounty of America from the cornfields of Nebraska or Iowa, from the ranches of South Dakota, or the manufacturing plants of the Northeast, we need to continue focusing on infrastructure. If we do not, our international competitors will serve our global consumers faster and more efficiently.

The U.S. has challenges when it comes to the quality and longevity of our infrastructure. We are appreciative of the bold step taken by Congress last year to pass the

Water Resources Development Act and the user fee for the Inland Waterways Trust fund. Nonetheless, the inland waterways system is living on borrowed time. It needs investment to ensure it can serve the needs of our country for the rest of this century. With the now completed expansion of the Panama Canal, ports must be dredged so that the larger ships that transit the canal can dock at many of our Gulf Coast and Atlantic ports. The impact of the Panama Canal is not the only challenge at our ports. Maersk has a new ship called the “Triple-E” that routinely travels between China and Europe, but because of its draft reportedly cannot dock at a single US port. This is a huge advantage to Asia and Europe who have access to such efficient transportation. Efficient highways are also critical and some countries have addressed these in unique ways. For example, Changdong province in China is building interstate quality truck-only lanes that have weight limits of 200,000 pounds.

Our nation’s advantage has always been having a fair, robust, competitive transportation system with access to truck, rail, waterways, air, and inter-modal options with a connection to well-functioning ports. This ensures we can compete in global markets. We must look at our situation not simply as manufacturers, shippers, labor and capital, but through the lens of global competition. We ignore it at our collective peril.

Ports are where the goods we make are loaded and exported for the world’s consumers. Functioning ports are imperative from both a labor and operational perspective. When ports don’t operate, the supply chain backs up causing long-term problems for us, our industry, our farmer and rancher suppliers, our customers, and our employees. We ask you to take the steps needed to address the challenges I have outlined today so that we can continue helping the world thrive by meeting the needs of consumers around the globe. I look forward to your questions.