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Bill Mongelluzzo, Senior Editor | Sep 05, 2013 11:57AM EDT

The high cost of shipping Midwest grain by rail to the West Coast is restricting containerized grain exports to Asia, according to a Cargill executive.

Union Pacific Railroad last year opened a grain transload facility in Yermo, Calif., and the Port of Long Beach intends to build a transload facility at the Total Terminals International container terminal, but Duncan McGrath, Cargill's container freight manager for the Americas, said he is not bullish on either operation.

Many Midwest farmers dream of shipping corn, soybeans, wheat and other agricultural commodities in rail hopper cars to transload facilities in Southern California.

Westbound freight rates in the overtonnaged trans-Pacific are highly competitive, vessel capacity in Los Angeles-Long Beach is ample, and Southern California always has a surplus of equipment for transloading grain from railcars to marine containers.

However, bulk rail rates from the Midwest make the transloading option in Los Angeles-Long Beach uncompetitive compared to shipping grain in bulk vessels from the Gulf Coast, and even shipping grain that has been source-loaded into containers in the Midwest via intermodal rail to Los Angeles-Long Beach. “I just can’t make it work because of the cost on carload,” McGrath said.

It costs about $70 a ton to ship Midwest grain exports to Asia in bulk vessels from Gulf Coast ports. Grain exports for Asia loaded into containers in Joliet, Ill, and shipped via intermodal rail to Los Angeles-Long Beach costs $72 ton, but shipping the grain in hopper cars to Southern California and transloading the product into containers there costs $90 a ton.

Certain operational factors in Los Angeles-Long Beach, such as PierPass fees to support extended gate operations at the marine terminals, inflate the cost of transloading, but it’s the rail move from the Midwest that kills the deal. “It’s really driven by rail costs,” McGrath said.

Shipping grain in containers is price-sensitive, so any added costs can be enough to cause a shift to bulk vessels. Ocean carriers of late have been discouraging inland movement of their containers, so equipment shortages occasionally surface in the heartland. “Chassis conversion chaos” as carriers steadily exit the chassis business is aggravating equipment shortages as well, McGrath said.

Also, “rogue labor actions” by longshoremen and harbor truckers in Oakland hurt agricultural exports in July, he said.

A persistent problem that grain shippers face as they plan their transportation costs each year is volatile pricing in the liner trades. Grain shippers can hedge against pricing volatility of their products in the commodity markets, but there is no protection from pricing volatility in containerized shipping, McGrath said.

However, the nation’s port, rail and road infrastructure is superior to the transportation infrastructure in many countries, and this is a competitive advantage for U.S. exporters of containerized agricultural commodities, he said.

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