



**A Multi-Client Study Prospectus
Evaluation and Outlook of the US Inland Barge Industry
Final Report Delivered June 2003**

The Sparks multi-client study, "Evaluation and Outlook of the U.S. Inland Barge Industry," was delivered to the clients in June 2003. While the study has been completed and delivered, its contents and conclusions are fresh and relevant and is available for purchase. Please review this prospectus that emphasizes the areas of major findings and development of the study.

Three important aspects were added since the study kick-off conference call in March 2003. Those aspects include: an adjustment for larger hulled barges; ton-mile analysis; and the implementation of an industry survey specifically designed for this study.

Background

The inland river dry cargo barge industry operates amidst a volatile revenue and rate of return environment moving commodities and products that not only respond to variations in tonnage and the supply of barges but to weather, policy, competing modes and a myriad of other factors. The multi-client study proposed in this document examined all of these factors and develop a coherent picture of the future of the dry cargo barge industry.

Over the past 2 decades, the barge industry has undergone significant changes due to consolidation, policy issues and changing barge ownership regulations. Gyration in barge construction have also had a profound impact. Moreover, the barge business has been subject to periods of extreme demand weakness and extreme demand strength. This has had an impact on all barge lines and manufacturers of barges and leads to critical questions such as how will changes in the industry affect the long-term outlook for the barge industry and what are the demand prospects for barge operators? Sparks addressed the long-term demand factors present in the barge industry as well as the structural factors (such as barge availability) that will impact the industry in the future.

Grain movements have a particularly strong impact on dry cargo barge rates and revenues. The primary reason for this is the volatility (e.g., short-term variation) and inherent cyclical nature (e.g., shifting long-term trends) in the grain trade. Sparks is especially suited to evaluate areas of fundamental analysis of agricultural markets and

What is the economic vitality of the US inland river barge industry?

What does the future hold for the barge industry?

U.S. grain flow patterns. Non-grain commodities were also evaluated to round out the demand picture. The non-grain commodities evaluated included: coal, all chemical fertilizers, iron and steel, nonferrous ores, soil, sand, rock and stone, and lime, cement and glass. Barge demand and supply were developed for covered and open barges. The study evaluated key financial factors as well. The principal objective of the study was to present a comprehensive outlook for the barge industry that serves as a guide for financial and strategic decisions.

The multi-client study approach was used so that individual firms will, for a modest cost, have access to resources and a knowledge base that typically would cost many multiples times the base cost of the study to each participant. Please review the following prospectus carefully and feel free to contact us (contact information and enrollment instructions are at the end of the document).

Specific Tasks

Sparks approached this project in terms of specific tasks, with the objective of pulling together individual task conclusions into a comprehensive outlook. The specific tasks and results are described below:

Task 1: Global Grain Outlook

The global grain trade (here grain trade refers to both grain and oilseed trade) environment over the next five (5) years were examined in detail with the objective of reaching conclusions regarding trade demand. Imports and exports from major countries or regions were projected for the 5-year period; with a special focus on identifying the critical drivers for import demand from the U.S., especially the U.S. Center Gulf where more than two-thirds of barge grain movements terminate.

Expected Result – This task identified the key world drivers of demand, made specific projections for each country and formed the base for making export projections from the U.S.

Task 2: U.S. Export Demand

Using the global outlook described in Task 1 as a base, the 5-year outlook for U.S. exports was constructed. Export projections for each commodity extending 5-years was prepared and, most importantly, exports by U.S. port region was determined. While the focus of this report was, of course, the barge industry, some consideration of rail factors were made, as this is a critical factor in determining internal U.S. grain flows. In addition, as barge movement is dependent on the supply of grain, the productive grain capacity of the U.S. will be determined.

Expected Result – The task resulted in a 5-year outlook for Center Gulf U.S. grain exports with trend assessments made for the 5-year outlook period.

Task 3: Non-Grain Movement

Movements of selected non-grain commodities on the river system were projected forward 5-years. These commodities included coal, all chemical fertilizers, iron and steel, nonferrous ores, soil, sand, rock and stone, and lime, cement and glass. The study team used in-house data and knowledge combined with Army Corps of Engineer (Corps) data as a base for making these projections.

Expected Result – Combined with the grain forecast, the non-grain barge movement completes the demand picture.

Task 4: Barge Supply and Industry Structure

The supply of dry bulk barges was assessed from an historical perspective and changes in the fleet explained. The supply of larger hull covered barges was determined and the covered barge fleet size was recalibrated as an equivalent or adjusted fleet size. A supplemental “Barge Fleet Profile Survey” of the industry was developed and used to identify the retirement intentions of dry barge operators over the next 5-years and the utilization of their fleets. A determination of the age of the current dry bulk fleet was made and past building programs described in terms of how they impact the composition of the current barge fleet. The composition of barge ownership by major operator was assessed and the implications to industry structure described. Three approaches were used to evaluate the long-term barge supply and included the results of the industry survey, a life cycle retirement pattern, and a fixed age retirement schedule. Four other scenarios were developed based on industry input and included a set retirement schedule; maintain retirements and new builds at 2002 levels; target a barge rate of 175 percent of tariff by adjusting demand; and target a 10,000 covered barge fleet. Changes in the ownership structure of the industry and the resultant impacts, if any, on rate structure were described.

Given the general supply-demand outlook for barges, the study team analyzed the current outlook for barge construction and projected the likely future build scenario.

Expected Result – This task provided the “supply side” of the supply-demand equation of assessing the prospects for the dry bulk fleet.

Task 5: River System, Infrastructure and Ocean Freight Issues

There are several systemic issues that impact the long-term viability of the barge industry. These include river system constraints, lock replacement, barge fuel tax, user fee issues, and budget cuts in government areas that deal with the river system. In addition, the effectiveness of the Panama Canal will have an impact on Center Gulf exports as well as variations in ocean freight rates. The study team addressed these issues and their impact on the long-term health of the industry.

Expected Result – This task resulted in an assessment of systemic factors on the long-term health of the barge industry. To the extent possible, efficiency impacts on the barge fleet that result from these factors were incorporated into the analysis.

Task 6: Reconciliation of Supply and Demand of Dry Bulk Barges

The previous tasks led to a comparison of the demand for dry bulk barges, covered and open, with the supply of barges in the fleet. For each type of barge a barge pressure index was determined. The impact on covered barge grain freight rates was accomplished in two phases. First, grain movement was combined with barge supply as variables and correlated against barge rates to develop a long-term covered barge rate outlook. Second, in order to incorporate non-grain demand into the dry bulk equation, the annual grain movement and non-grain movement was analyzed and incorporated in the outlook. Indexing and other analytic methods were used to incorporate this analysis into the overall barge supply-demand situation in order to gain further insight into future rate levels.

Expected Result – Using these two analytic methods, a clear picture of the outlook for covered barge demand, and consequently rate impacts were obtained.

Task 7: Conclusions and Final Report

The preceding tasks were summarized to obtain a full picture of the long-term outlook for the covered barge market. Different perspectives on the industry were discussed based on alternative scenarios and alternative outlooks. A key portion of this section was discussion of the critical factors in the outlook for barge freight including what future events could occur that would alter the outlook.

Expected Result – This task brought together all previous analysis and presented a comprehensive outlook for the industry.

Project Team

Mr. Tom Scott, Senior Vice President of Sparks' consulting program led the project. Mr. Ken Eriksen, Senior Analyst of Sparks' Transportation Services and Mr. Alan Barrett, Consultant directed the analytic effort, especially with regard to the barge demand factors. Dr. Don Frahm, Senior Vice President of Sparks' Acreage and Production program, and conducted the long-term global grain outlook. Mr. Scott, Mr. Eriksen and Mr. Barrett focused on barge supply, industry structure and competitive forces within the industry. A short biography of each individual is included in this proposal.

Methodology

Sparks employed a variety of techniques to complete this project. Tasks 1 (Global Grain Outlook), 2 (U.S. Export Demand), and 3 (Non-Grain Movement) relied on basic supply-demand analysis to obtain a picture of world and U.S. grain movement. Sparks used its on-going research and analytic capability to organize this effort. Task 4 (Barge Supply and Industry Structure) used the "Barge Fleet Profile" database. Task 5 (River System, Infrastructure and Ocean Freight Issues) relied on previous and current legislation governing the industry, and industry acquisition activity. Global impacts on the inland river system were assessed using Sparks' ocean rate databases and Sparks' on-going research of global impacts to the river system. Task 6 (Reconciliation of Covered Barge Supply-Demand) used statistical techniques such as regression analysis and indexing to develop the whole picture of the industry. It must be emphasized that throughout the whole project the extensive knowledge base of Sparks was employed.

Qualifications of Sparks Companies Inc.

Sparks is uniquely qualified to examine the long-term fundamentals that impact the barge industry. The Sparks' transportation consulting practice has an on-going analytic capability and contacts within the barge industry that provide a superior foundation for such a study. The "Barge Fleet Profile," an annual survey (released during March of each year) of the barge industry conducted by Sparks, provides an historical, detailed base of barge information from which a study can be constructed. Finally, for over 25 years Sparks has conducted detailed analysis of U.S. and global agricultural markets. The benefits of this extensive experience will be incorporated into this study. It is important to note that Sparks regularly conducts multi-client studies in a variety of related areas. Currently Sparks is conducting a multi-client study on the corn co-products industry and recently completed other multi-client studies including the competitiveness of the U.S. livestock industry, food traceability, regulatory issues, the global competitiveness of North American grains and the U.S. ethanol industry.

Project Timing, Deliverables And Cost

The timeliness of such a report as this was critical, as the recent volatility of the industry has raised concerns with respect to ownership issues among others, but also suggest potential opportunity. With this in mind, Sparks delivered the project at a results meeting in St. Louis, Missouri on May 8, 2003. Afterwards Sparks refined the study based on comments from the participants and delivered a final report in June 2003. The project started March 1. Prior to the project initiation, the study team welcomed client involvement with respect to the tasks or outline of the study. A kick-off conference call was held March 8, 2003 for clients to add input and specify the focus of the report. This study is available for purchase. Please respond by telephone, email, or fax using the contact information on the enrollment form.

The total cost of this project for current Sparks' clients is \$8,500 and for non-clients the fee is \$9,500. The project deliverable is an electronic format of the report in an Acrobat file that is readily available via e-mail or other data storage formats.

Further, for an additional fee of \$2,000, plus travel expenses, a member of the project team will deliver a half-day presentation of the results at the client's location. This added fee for the presentation is optional and would be billed separately from the base project fee.

It is our privilege to present this prospectus to you and look forward to the opportunity to assist you in your efforts in assessing the inland river barge system. Please contact Ken Eriksen or myself with any additional questions or requirements. Our contact information is as follows: Tom Scott (telephone 901-766-4586, email tscott@sparksco.com) or Ken Eriksen (telephone 901-766-4463, email keriksen@sparksco.com).

Sincerely,



Thomas P. Scott
Senior Vice President

ENROLLMENT FORM

- Yes, I want to purchase the special multi-client study entitled "Evaluation and Outlook of the US Inland Barge Industry." The cost of the study for current Sparks' clients is \$8,500 and \$9,500 for non-clients.

FAX to (901) 766-8158

- Please have someone contact me to provide additional information.

Name: _____ Signature: _____

Title: _____

Company: _____

Street Address: _____

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Telephone: _____ Fax: _____

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SPARKS COMPANIES, INC. BIOGRAPHIES

Thomas P. Scott, Senior Vice President. Mr. Scott is head of Sparks's Memphis-based Project Consulting Group. Specialized work has included business strategy, agribusiness economic development, feasibility and site selection work, and various market analyses. In addition to work in North America, Mr. Scott has extensive experience in the agribusiness sectors of Central Europe, Southeast Asia and South America. He has been involved in many training programs developed and delivered by Sparks and currently works with Kansas State University on the joint Sparks-KSU Agribusiness Education Program. Prior to joining Sparks, he had various assignments in management, trading, logistics and merchandising with Continental Grain Company. He received his bachelor's degree in agricultural economics and business from Cornell University and a master's degree in business administration from the Amos Tuck School of Business Administration at Dartmouth College where he was an Amos Tuck Scholar.

Donald G. Frahm, Senior Vice President. Dr. Frahm has been with Sparks since 1980 where his primary responsibilities are acreage and production research, client service and consulting as well as long-term forecasting and planning. Prior to joining Sparks, Dr. Frahm worked with two grain merchandising and brokerage companies and as a senior economist with the American Soybean Association. Earlier, he held positions at the University of Nebraska and Purdue University. He received his bachelor's degree at The Ohio State University and his master's and doctorate degrees from Purdue University, all in agricultural economics.

Ken A. Eriksen, Senior Analyst, Transportation. Mr. Eriksen is responsible for transportation research, service and consulting with the barge, rail, and liquid and dry bulk commodity industries. In this capacity, Mr. Eriksen works with major US providers of transportation services, especially in the areas of volume prediction and rate strategy issues. Prior to joining Sparks, Mr. Eriksen worked for the USDA's National Agricultural Statistics Service as an agricultural statistician. In that capacity, he conducted national surveys and set national estimates on chemical use in agriculture, oversaw the genetically modified organism and biotechnology NASS data, and released the annual Pest Management Practices report for the Integrated Pest Management program. Also while at USDA, he worked for the Agricultural Marketing Service on its transportation and marketing program conducting research and analysis on domestic and international transportation issues. Specifically, he did grain transportation modal share analysis and analyzed the ocean freight market. He also worked as an international longshoreman for the Pacific Maritime Association in Tacoma, Washington. He received his bachelor's and master's degrees in agribusiness and agricultural economics from Washington State University. While working on his master's degree there, Mr. Eriksen was a transportation economist for the Department of Agricultural Economics, performing economic transportation data analysis and modeling.

J. Alan Barrett, Consultant. Mr. Barrett's primary responsibilities have been futures and cash market commodity projects, including feasibility studies of soybean crushing

plants, grain elevators, flourmills and other processing facilities. Mr. Barrett also has directed Sparks's review of crop insurance policies administered by USDA's Risk Management Agency. Commodity analysis work has included studies of various fruit and vegetable markets and technologies that impact these markets. He also has considerable experience in conducting industry analysis efforts including studies in the areas of fertilizers and micronutrients. Mr. Barrett came to Sparks from Refco, Inc., one of the world's largest futures commission merchants headquartered in Chicago with a branch office in Memphis, Tennessee, where he advised clients on futures markets. Prior to his work at Refco-Memphis, Mr. Barrett was sole owner and president of Prophet, Inc., a registered commodity trade advisor. He also was a principal in two corporations that assisted in cotton merchandising. In addition, Mr. Barrett worked for the Tennessee Extension Service where he developed new enterprise budgets for different cropping practices. Mr. Barrett received both his bachelor's and master's degrees in agricultural economics from the University of Tennessee.