



What Changes with the Implementation of Bill C-49 and How Might it Impact Producers

CropSphere 2019
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Why?

“The first step in solving a problem is recognizing there is one”



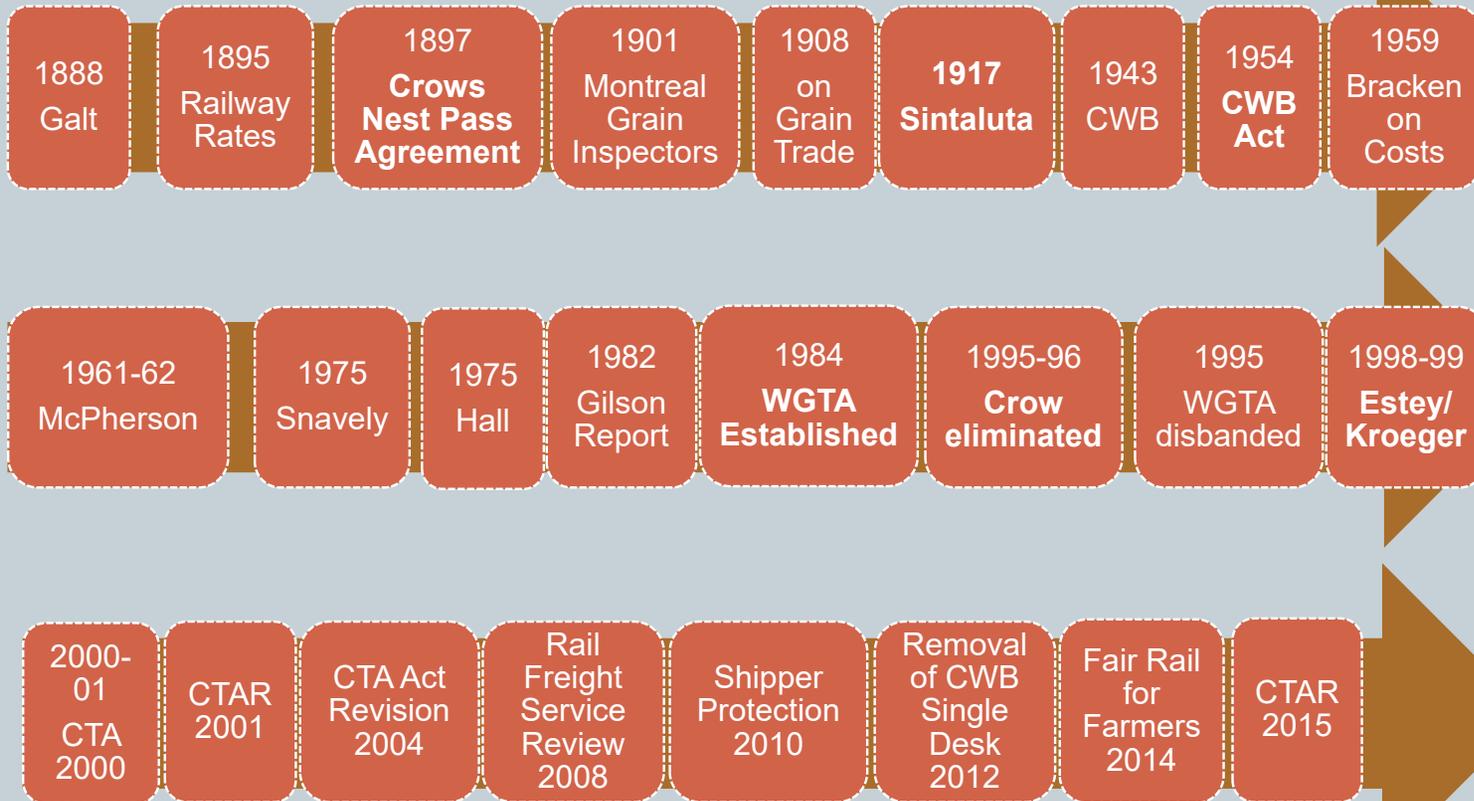
Background



- Transportation has been a public policy matter from the earliest days of Confederation
 - Began with canals and railways
 - Expanded as technology fostered new modes of transport
 - ✦ Road, air and pipelines
- Activity overseen through government regulation
 - Government charters and licensing (federal and provincial)
 - Rooted in common-carrier obligations
 - ✦ Focused on rates and service standards



A Brief Regulatory History ...



1/17/2019

Grain Transportation in Canada



- Heavy government involvement in rail movement
 - Crowsnest Pass freight rates (1897)
 - Inflation steadily eroded grain's profitability
- Slow to respond to changing circumstances
- Crisis of the 1970s led to sweeping reforms
 - US - Staggers Act (1980)
 - Canada – National Transportation Act (1987)
- Railways were refusing to invest in grain-related plant and equipment (circa 1960)
 - Led to government assistance: public hopper-car fleet; branchline rehabilitation
 - Rate reform: Western Grain Transportation Act (1983)
 - ✦ Gradual increase in “Crow Rate” and direct government subsidies
 - ✦ Eliminated with a one-time payout to farmers (mid 1990s)





So What is Driving the most recent Legislative Change?

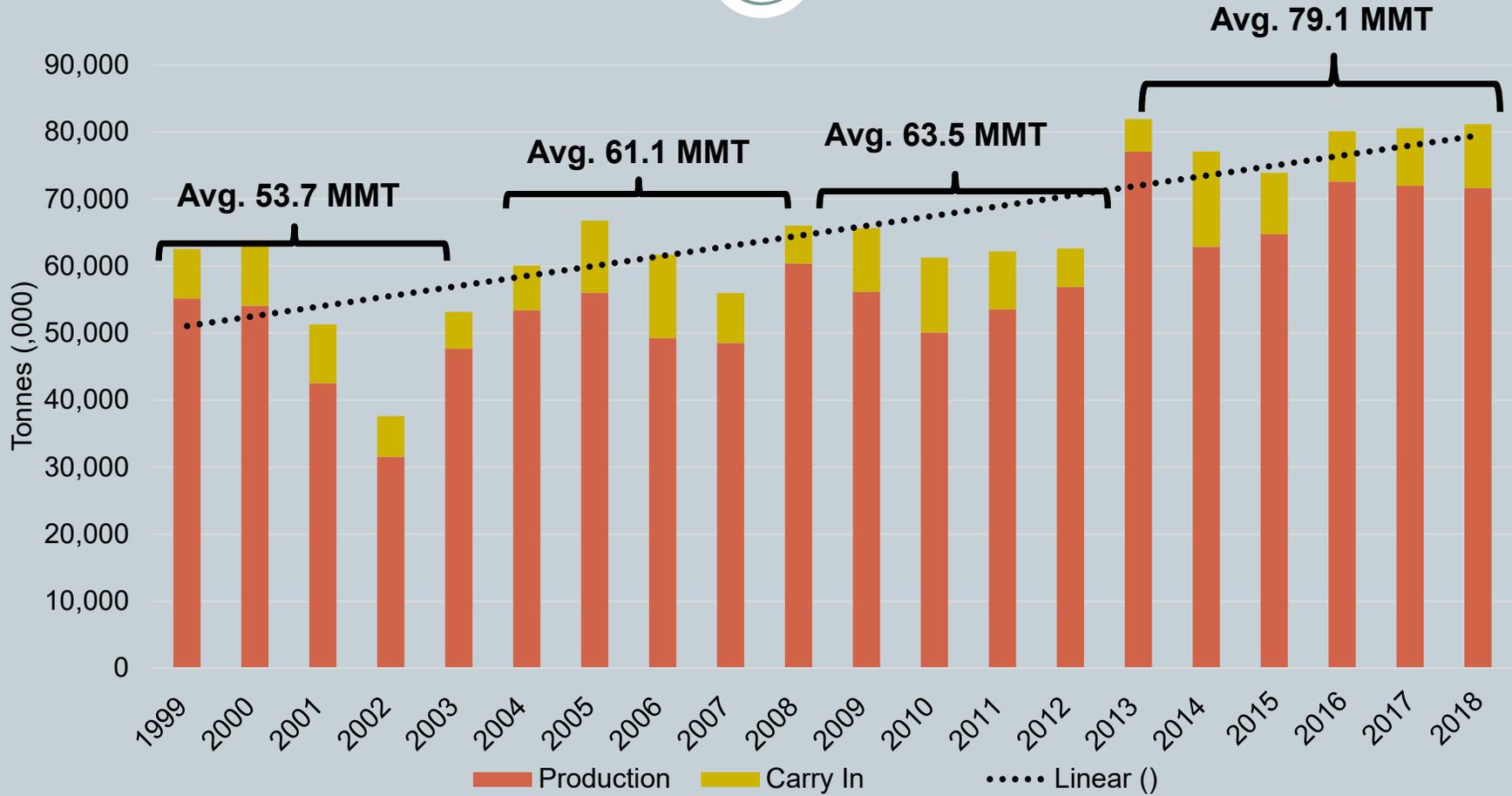


Issues

- *Availability of Railway Capacity*
 - Grow the pie – don't split it differently
- *Railway service: Consistency, Timeliness and Resilience*
 - The need for reliable and consistent service
- *Access to broader markets*
 - An economic means to reach untapped US markets
- *An approach to measuring Railway performance (Data)*
 - Only the Grain industry has it
- *The replacement of the Federal Gov't hopper car fleet*

Total Grain Supply

(Western Canada Production and Carry-In Stock)

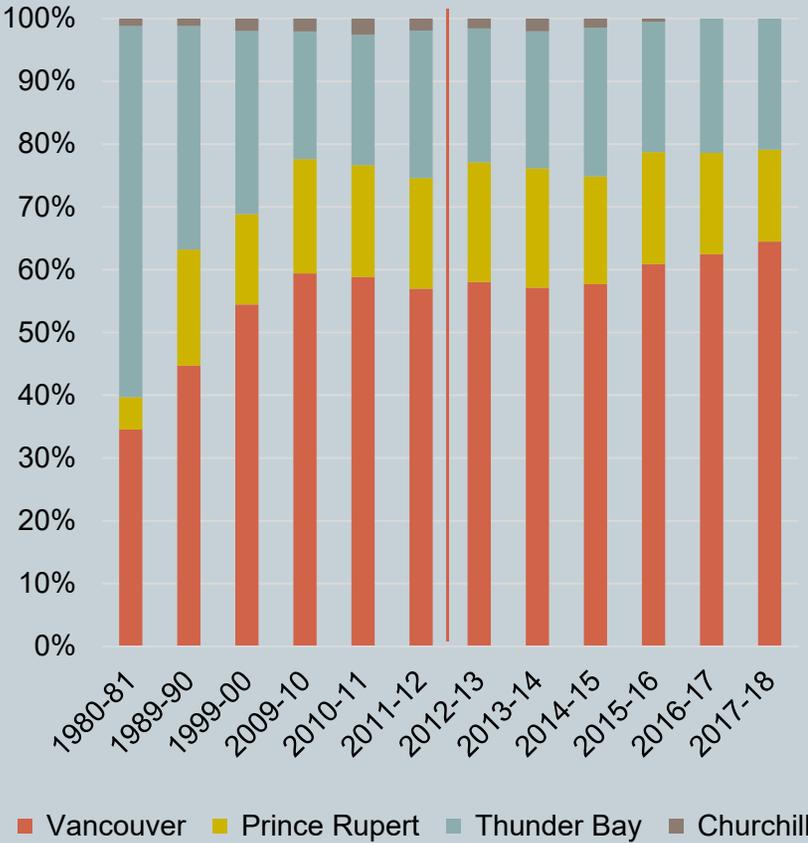


Western Port Volumes

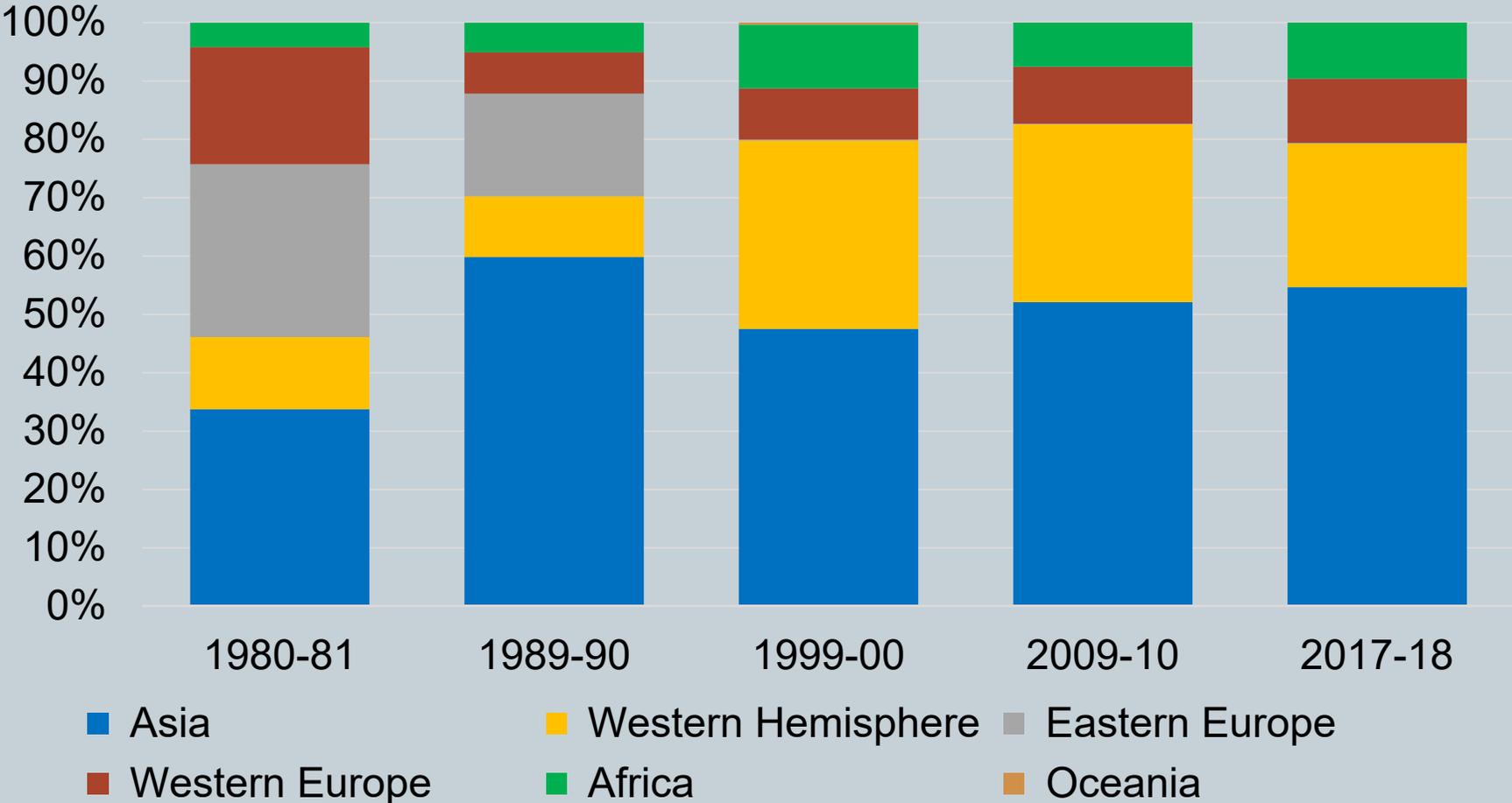
Tonnage by Port



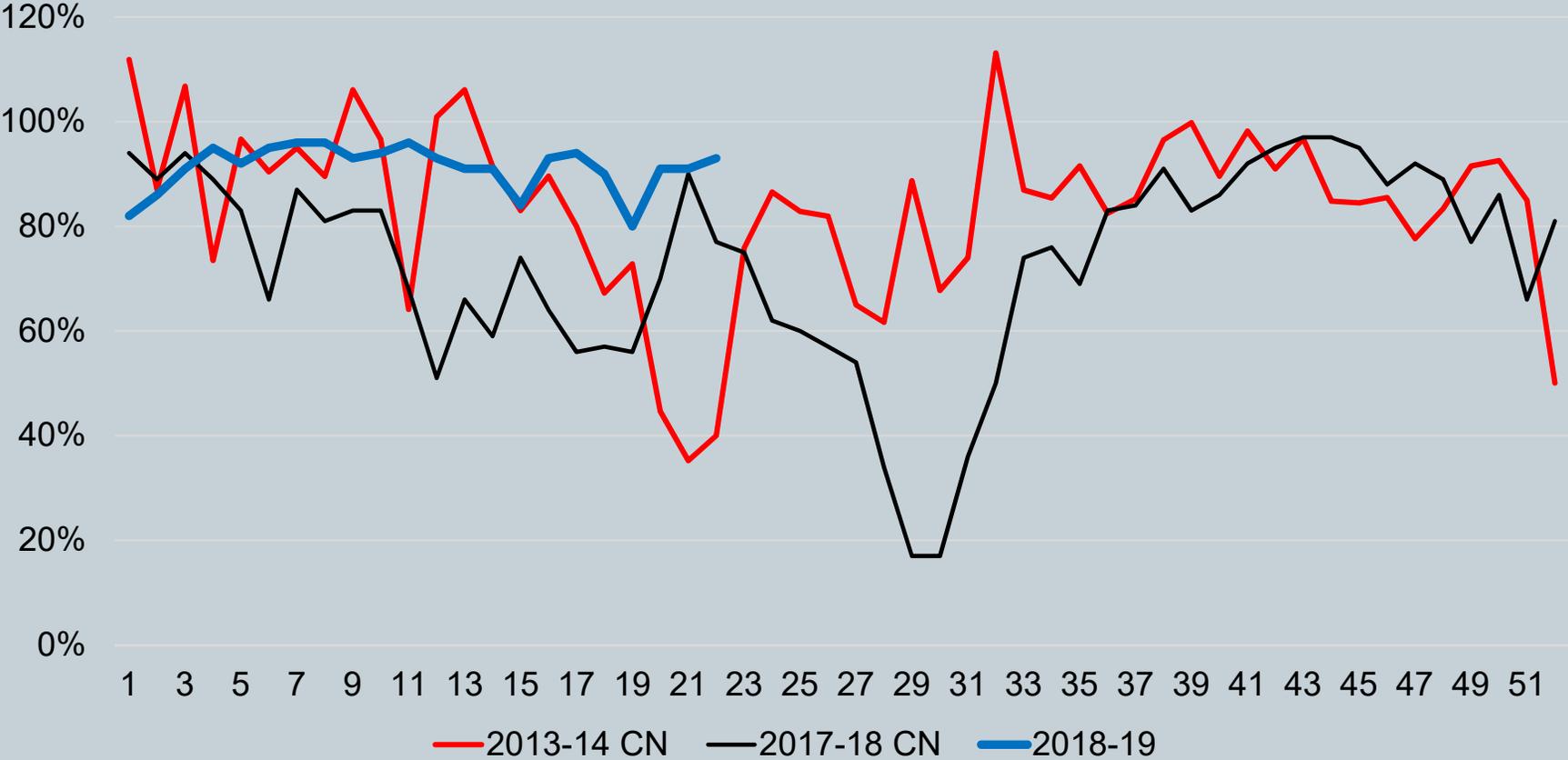
Western Ports



Canadian Grain Markets



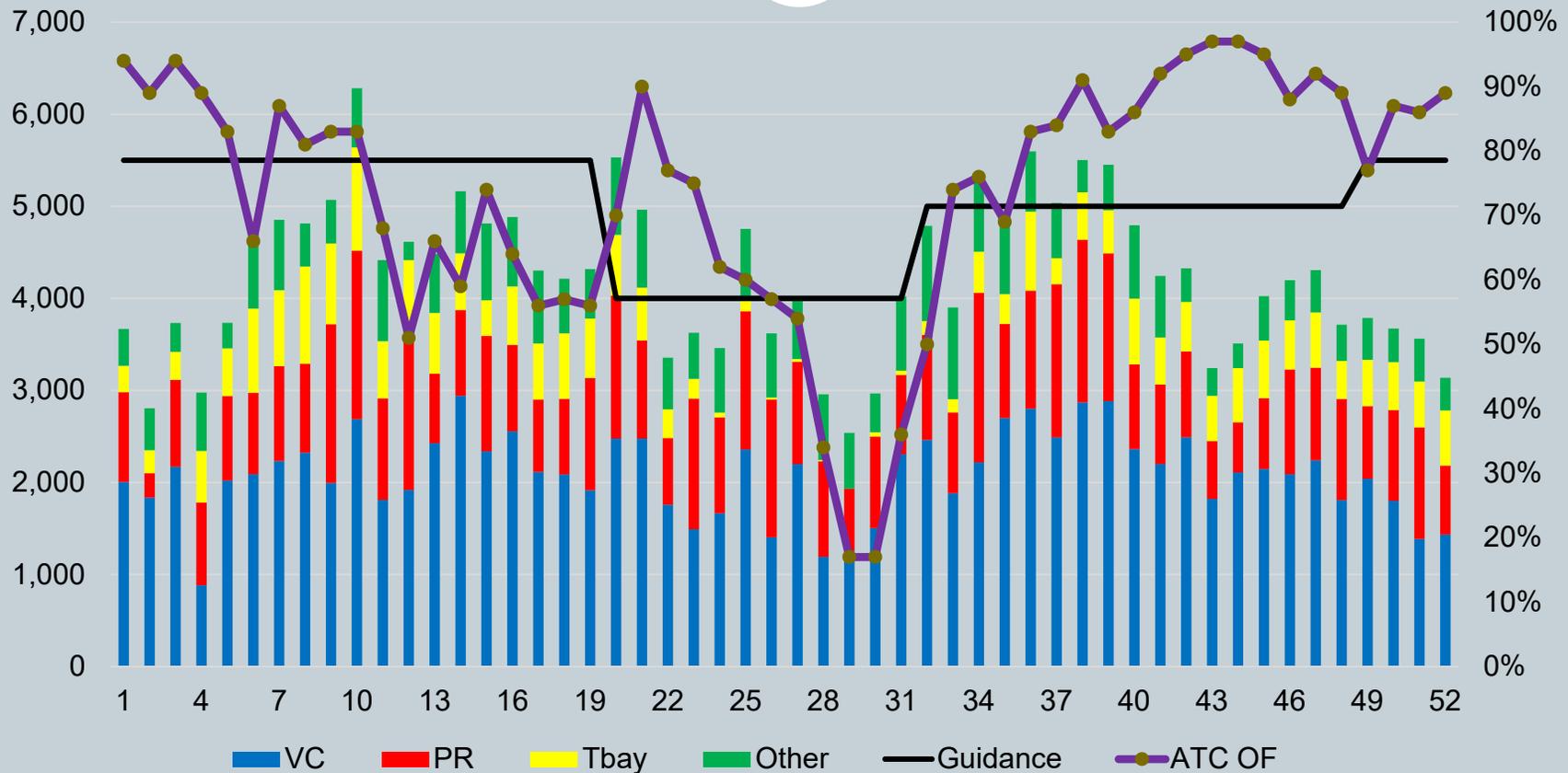
Order Fulfilment – CN



2013-14 – Railway Reported; 2015-18 – ATC Reported



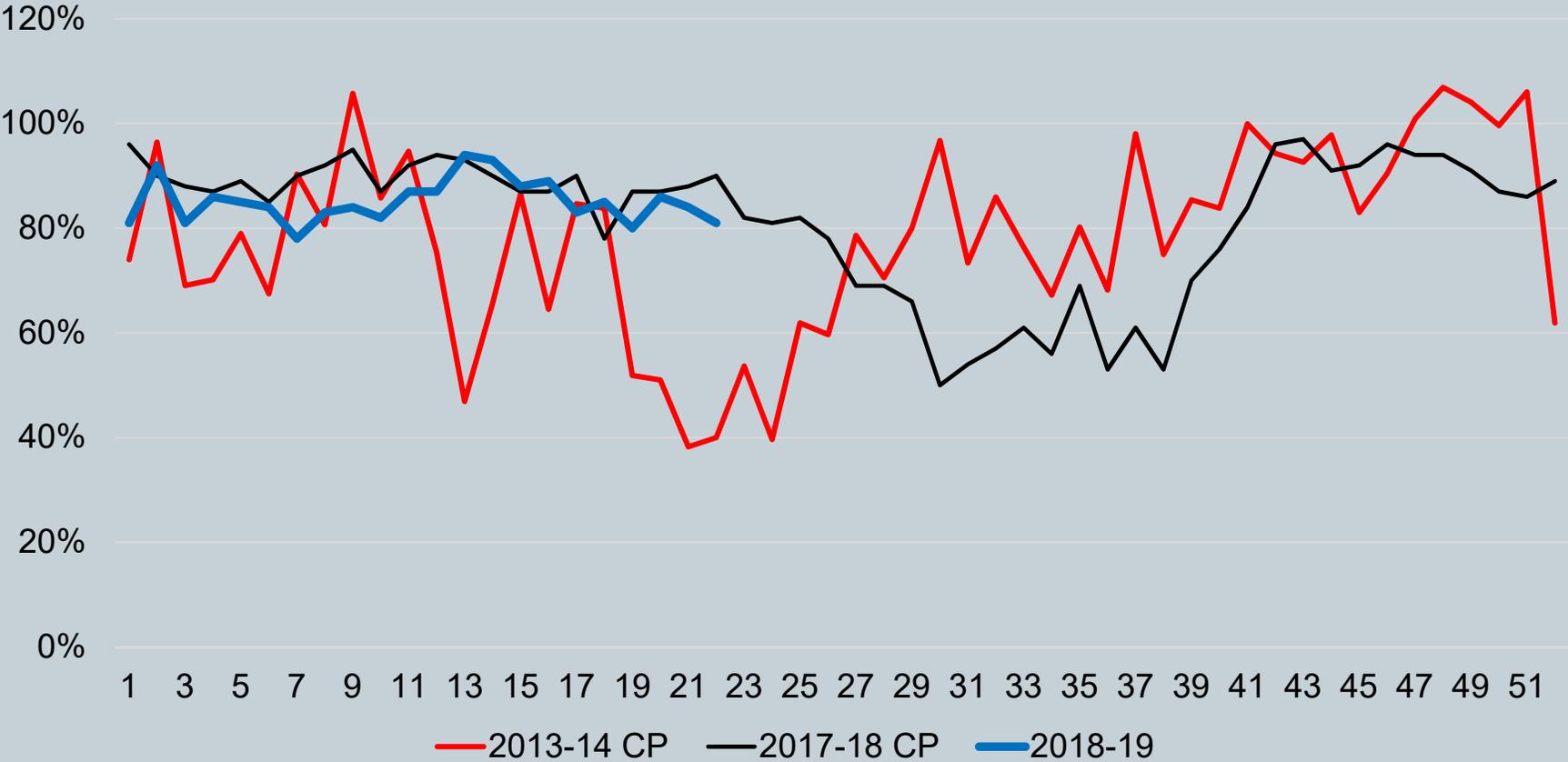
CN Supplied Cars – 2017-18 CY



Source: CN weekly supply reports; ATC Weekly Reports



Order Fulfillment - CP



2013-14 – Railway Reported; 2015-18 – ATC Reported



What was Bill C-49?

- The Transportation Modernization Act
 - *An Act to amend the Canada Transportation Act and other Acts respecting transportation and to make related and consequential amendments to other Acts*
 - *Covers both Rail and Air legislation*
- Impact on Grain industry
 - Rail Service Issues
 - Railway investment
 - Transparency (data)

Reciprocal Accountability



- Presently there is little or no accountability for railways to perform
- Service Agreements between Shippers and the Railways with penalties for non performance
 - Includes service standards
- Mediation processes in development

Railway Investment

- **Modify the MRE**
 - Split the VRCPI to two railways (rather than blended)
 - Allow greater advantage for depreciating/ including cost of new cars
- **Removes risk of complacency - Increases incentive to invest**
- **In place for 2018-19 Crop year**

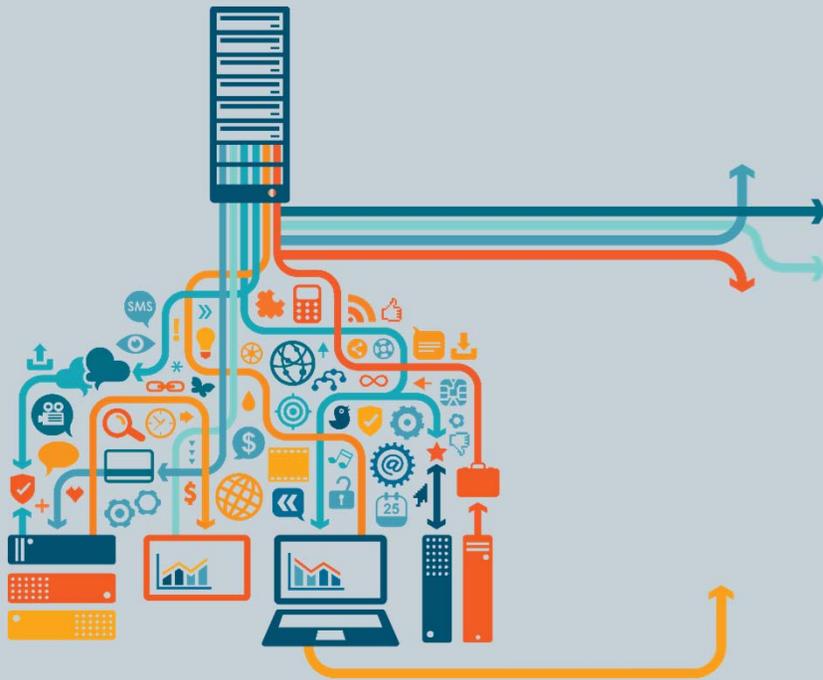


Long Haul Interswitching (LHI)

- Extended Interswitching was introduced as part of the “Fair Rail for Farmers” Act in 2014.
- As emergency legislation, required to be renewed after 2 years, and was extended to August of 2017.
- LHI was the replacement
- Allows, under tighter conditions, for a shipper to apply for rate from the CTA for the movement of traffic to a second carrier
- Dependent on the failure to reach an agreement with the serving carrier and subsequent approval from the CTA
- Approval processes still in development



Data Transparency



- Reporting in line with STB approach
 - Published weekly on TC website
 - Includes basic volume and performance stats
 - To be refined over the next 18 months
- Waybill data reporting for the CTA to use in developing LHI rate structures

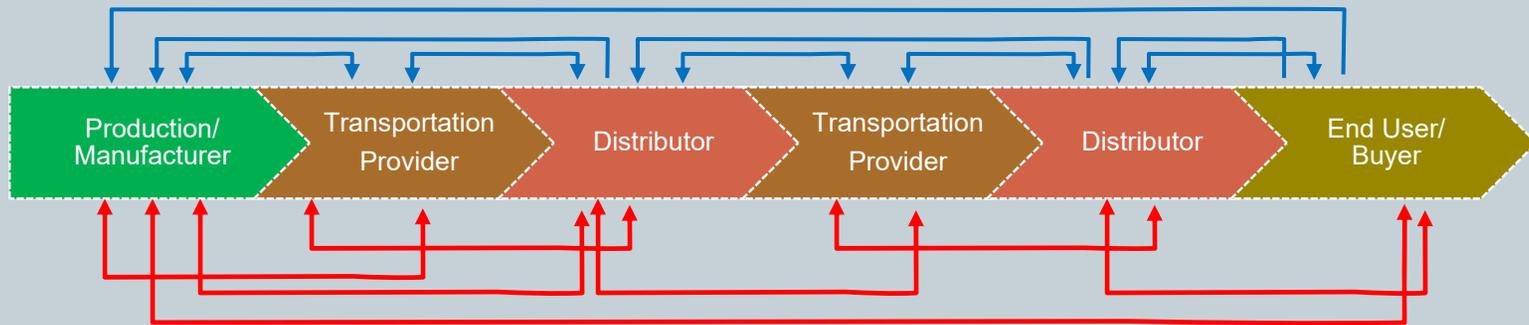
What does this mean for Producers?

- Increased Rail Capacity ?
- Greater reliability in Rail Service ?
- More competition between Grain Companies?
- Greater confidence in Canada as a supplier of grain products ?

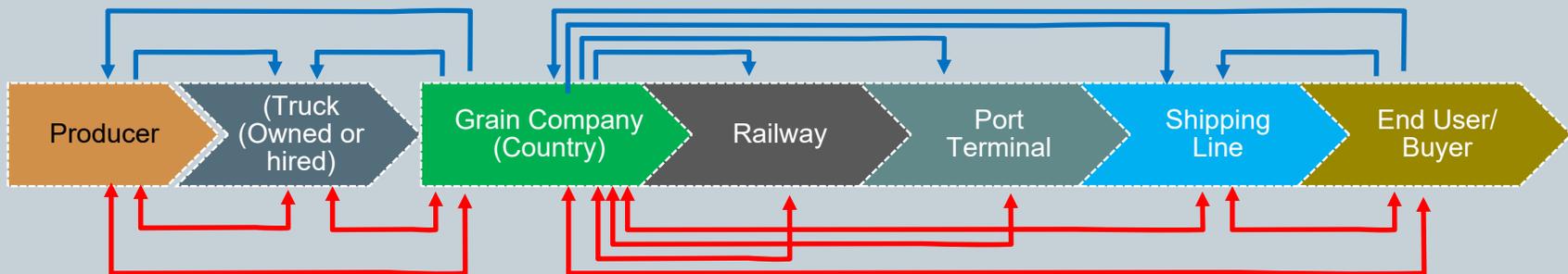
Supply Chain Relationships

Generic Supply Chain Model

Relationships 
Money Flow 



Canadian Grain Supply Chain Model (*Bulk through Grain Company*)



Grain Companies position in the Market

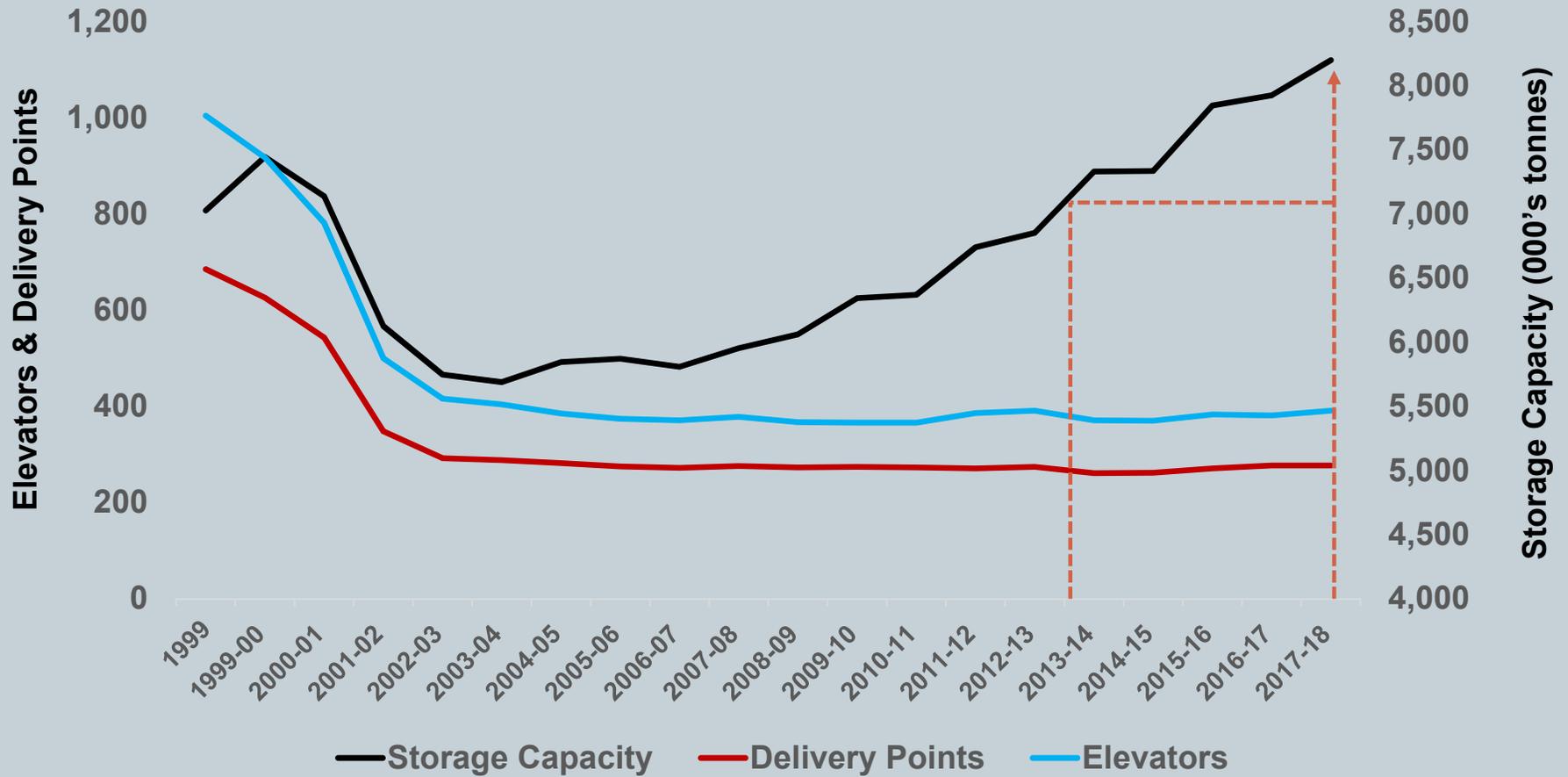


- Grain companies generally do not market grain based on global market demand but on what rail capacity they think they can obtain.
- By extension, the competition for producers grain is impacted by what cars their local elevator is allocated by the railway that serves them.
- *Will the advent of greater accountability on the railways increase rail capacity, and consequently greater competition between grain companies for producers grain?*



Country Elevator Network

(Primary and Process)



Canadian Grain Logistics in the Global Market



Length of haul to port of export

- Brazil: 100 – 150 miles (Truck 90% ++)
- Australia: 150 – 250 miles (Truck 50%/ Rail 50%)
- United States: 350 - 600 miles (Rail 60%+, Truck –Barge)
- Canada: 790 – 1,150 miles (Rail 95%, Truck 5%)



Agriculture dependency on Exports (% of Crop Exported)

- Brazil: 39% (74 M of 187 M)
- Australia: 23% (17 M of 74 M)
- United States: 16% (82 M of 500 M)
- Canada: 55% (52 M of 95 M)
- *Covers all field crops exported against total grains production)*

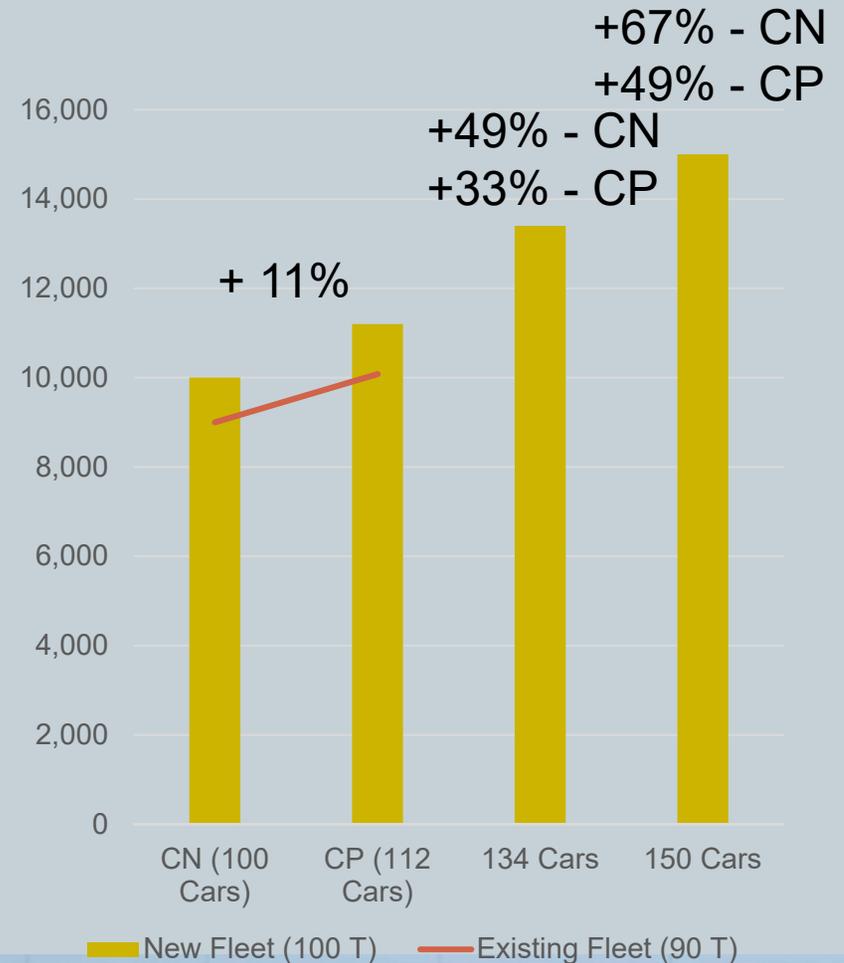


Other Issues

- Climate
- Distance to market (ocean)
- Relative market position (size)

Impact of New Hopper Cars and Operating Plan

- New car fleet will provide higher loading capacity
 - Shorter cars 57 ft vs 60 ft (more cars/ train)
 - 3 hopper vs 4 (less maintenance)
 - Centre sill vs box sill (greater stability)
 - 5,300 cu ft vs 4,750 cu ft
 - 100 T per car vs 90 T
- New operating scenario sees CP moving to a 8,500 ft train (from 7,000); CN to 134 – 180 cars
- Loop track design in country for 134 to 150 cars
- G3 Terminal is designed for 150 cars



System Improvements/ Changes



- Prince Rupert Indexer replacement
- AGT Gallery and loader replacement
- G3 startup
 - Access to North Shore
 - Capacity through the tunnel
- P&H/ Grains Connect terminal at FSD
- Increase in country primary elevator capacity and facilities
- Churchill line and terminal purchase



Key Observations from the GMP



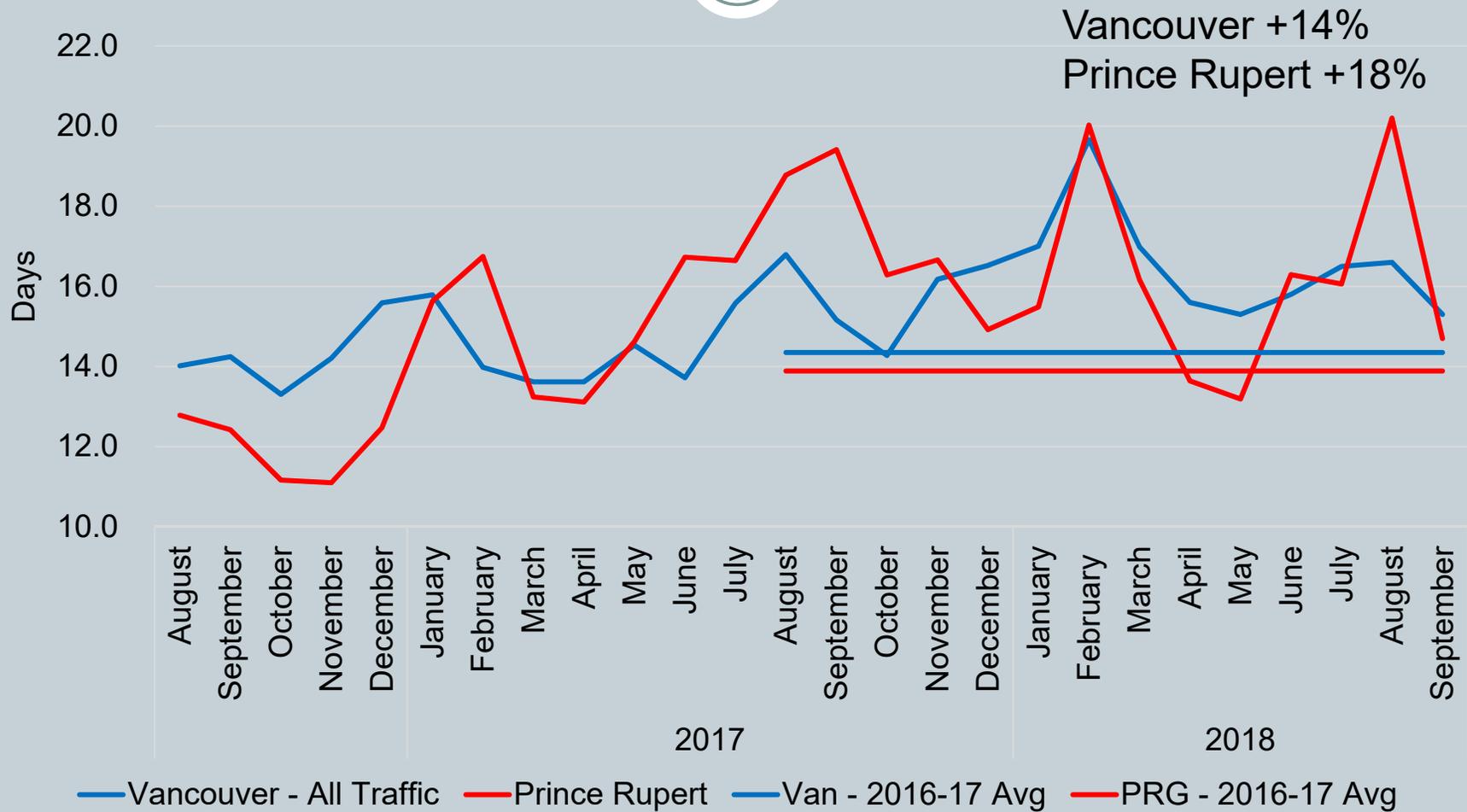
- 2018-19 Second highest grain supply ever at 81.2 MMT
 - 2017-18 now the third highest at 80.5 MMT
- Despite that, 17-18 volumes were down from previous year:
 - Elevator throughput down 3.2%
 - Rail movements down 4.2%
 - Shipments down 6.2%
- Rail Performance fell:
 - Car cycles and loaded transit has increased – 14.7% & 18.7%
 - Most predominant component is origin dwell – increased 116.5%
 - Order fulfillment rates have fallen
- Vessel time in port increased 4.7%
- Stock in country have held at over 4 MMT, highest ever



Issues of Concern



Car Cycles – West Coast



Railway Capacity

- Rail performance:
 - Increased car cycles/ dwell times/ reduces capacity
 - Reduced capacity impacts order fulfillment potential
 - Constricted rail volume impact vessel time in port
 - Railways are addressing issues:
 - ✦ Increased running trades hiring
 - ✦ Purchase of locomotives
 - ✦ Capital programs increasing track capacity
- Competition with other commodities by corridor

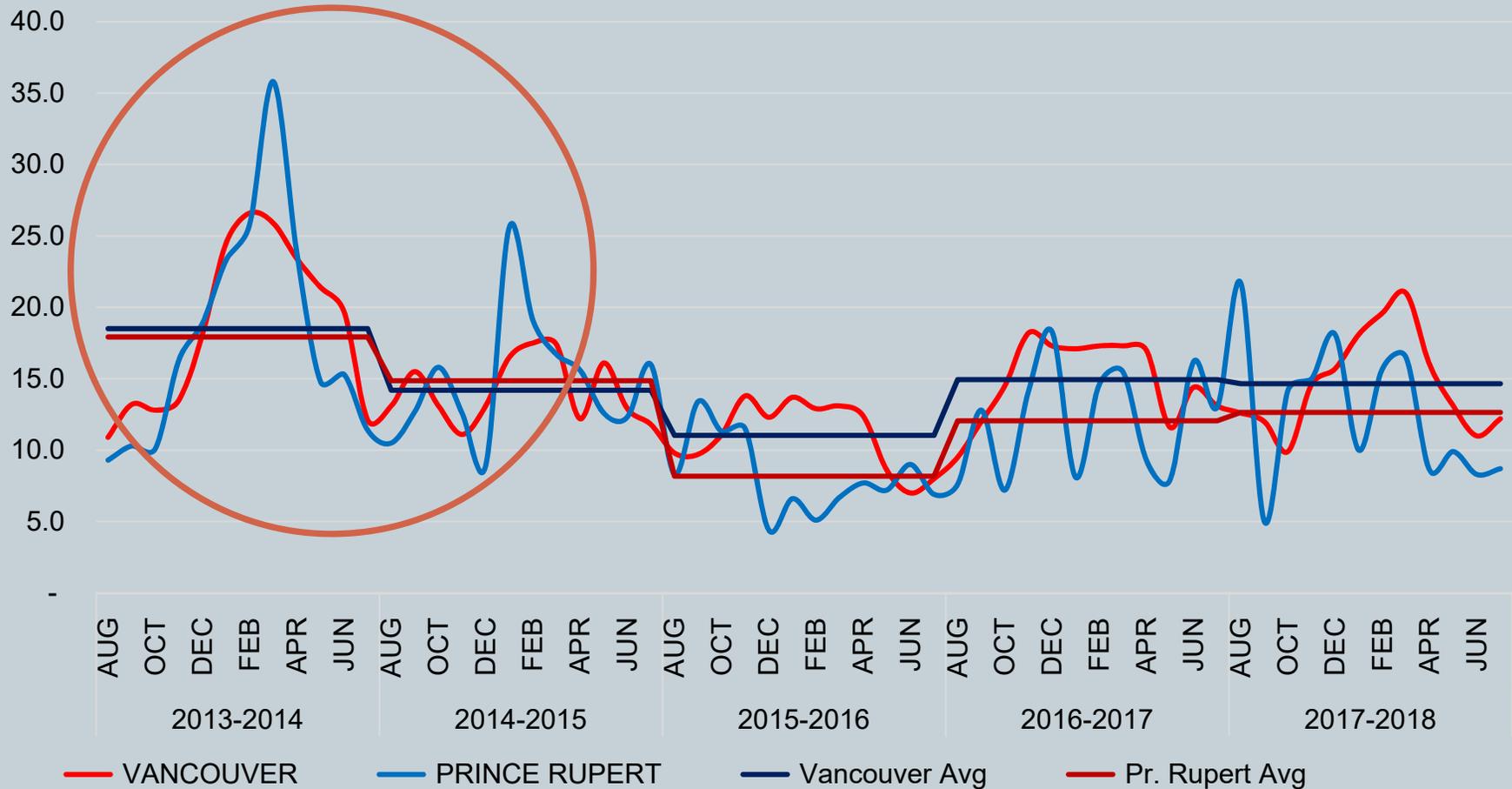
Fleet requirement for 5,500 cars/ week (based on variable car cycle)

Cycle Time	Required Fleet
18.00	14,709
16.00	13,074
14.00	11,440

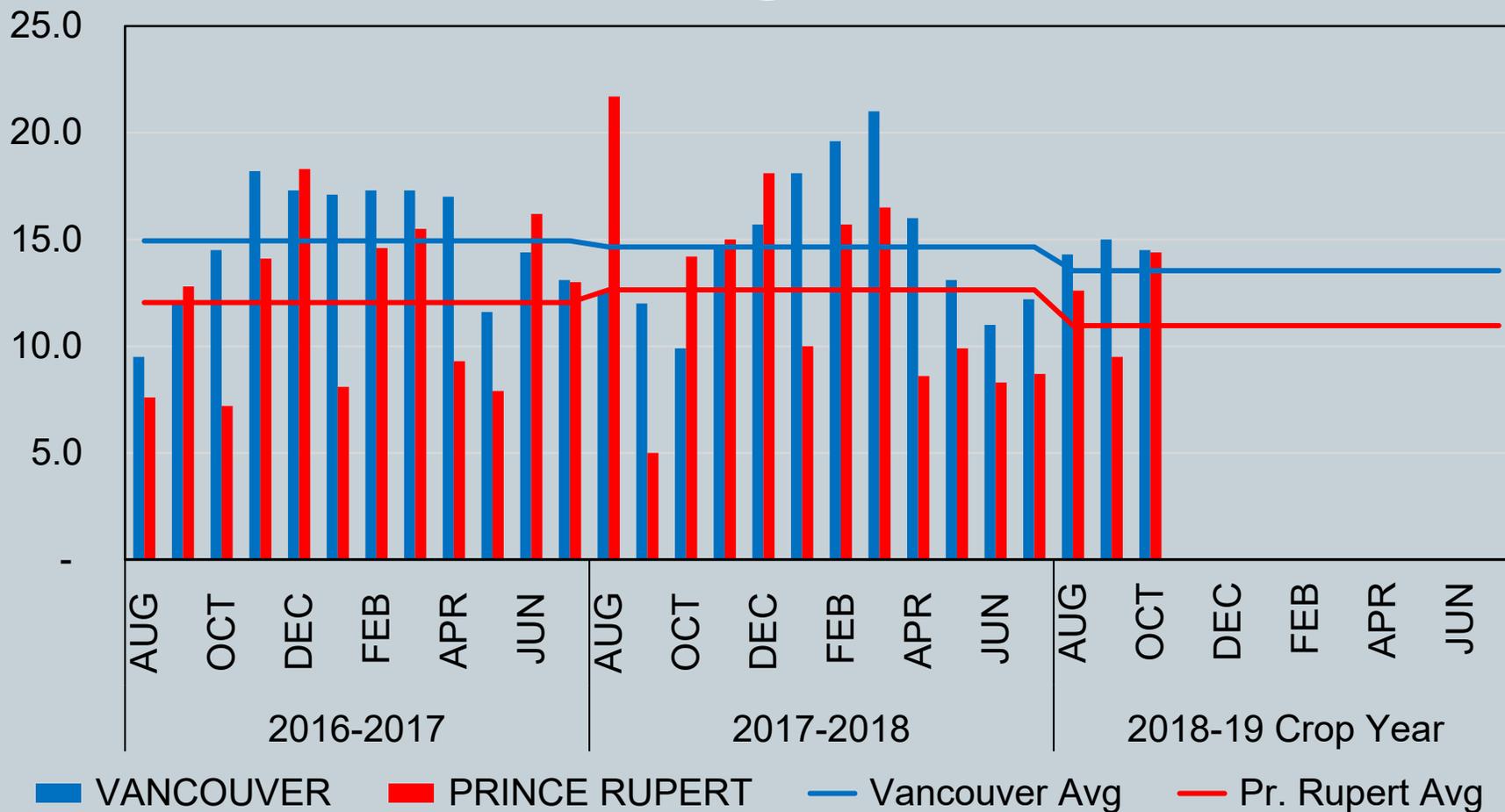
Present Fleet

CN	12,100
CP	11,400

Average Vessel Time in Port



Average Vessel Time in Port



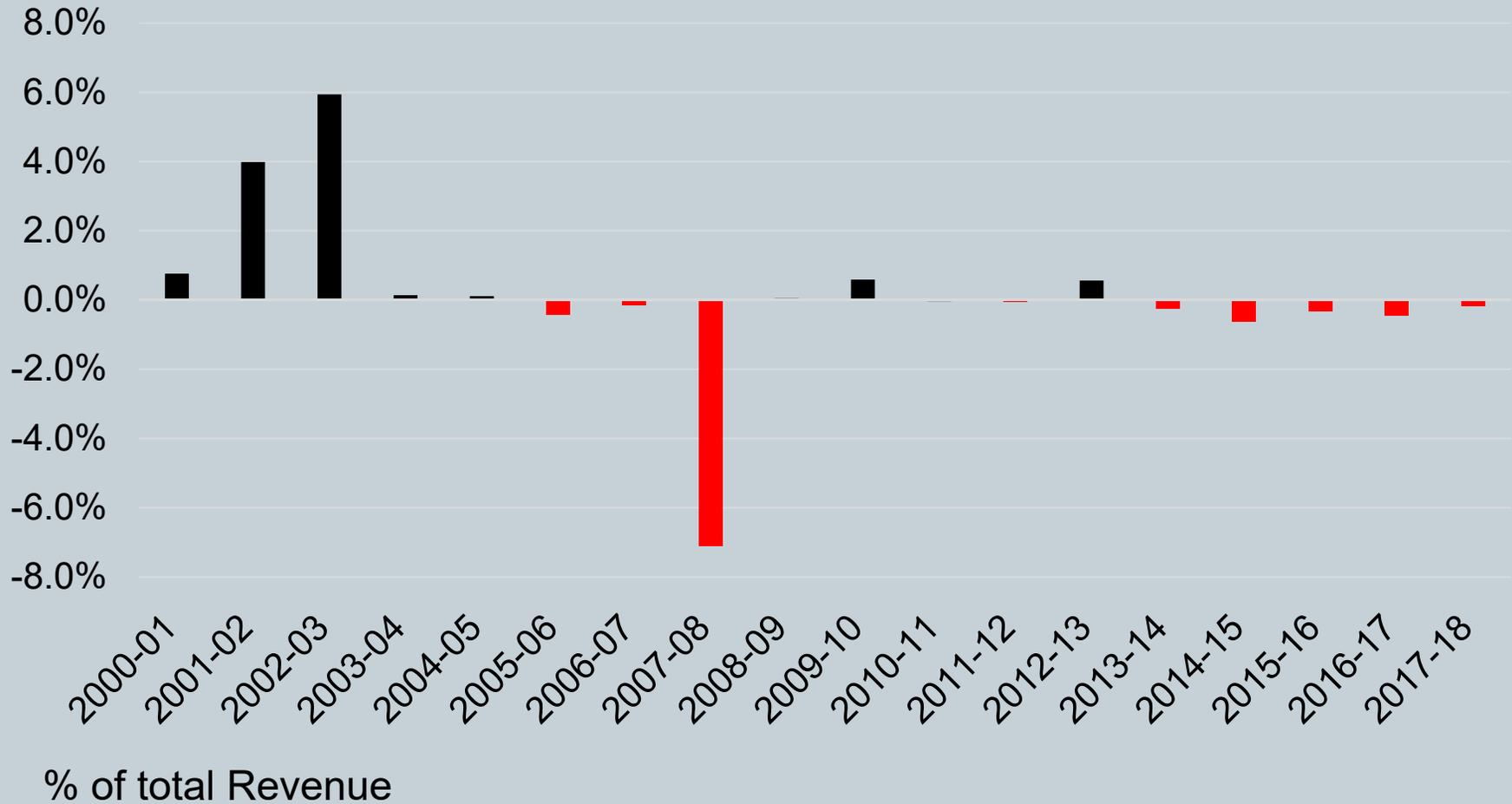
Other Issues



- Loading in the rain (Vancouver)
 - ILWU contract negotiations
- Impact of pilotage review on Seaway movements
- CP elimination of 56 car rate
 - Part of CP's 8,500 foot train strategy
 - May give allowances to certain shippers
 - Approximately 12% originates from 56 car loaders
 - Impacts 34 facilities

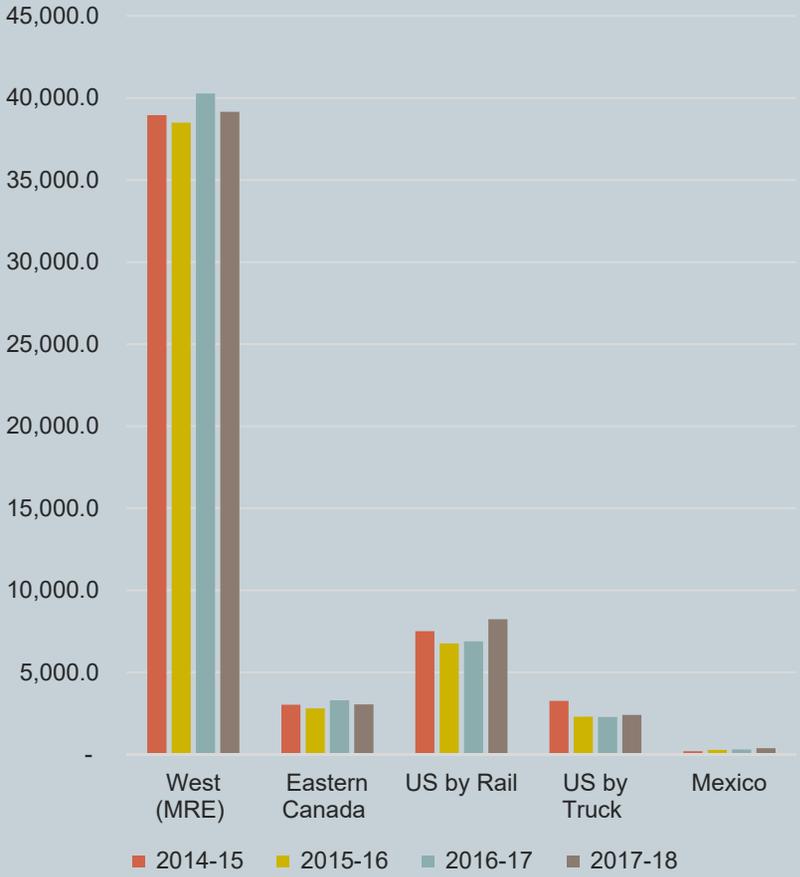


MRE Differentials

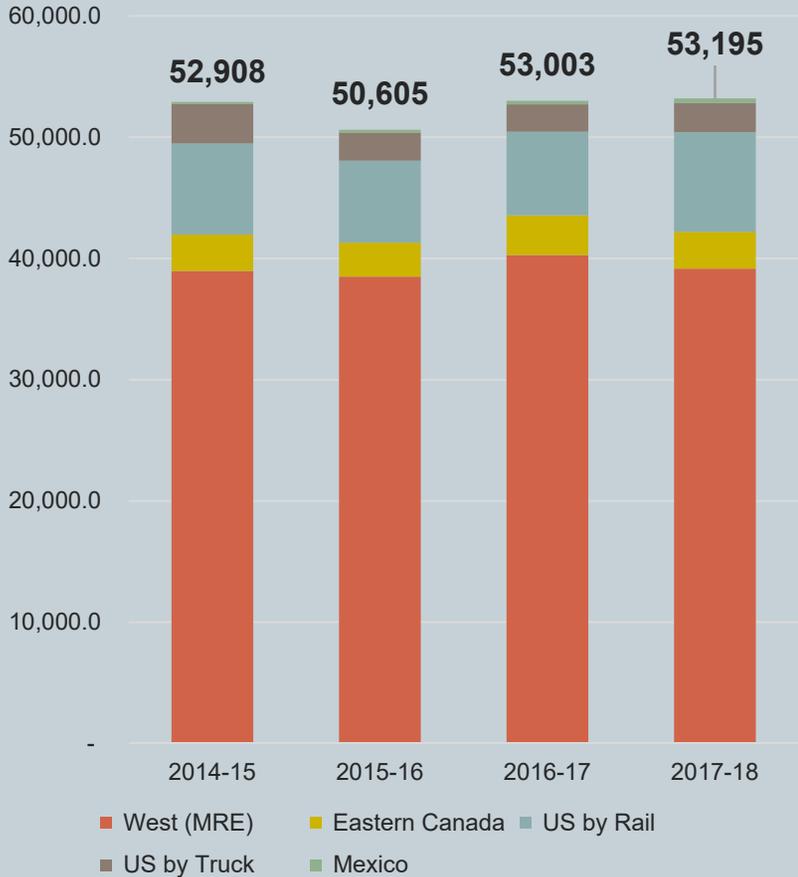


Shipments from Canada

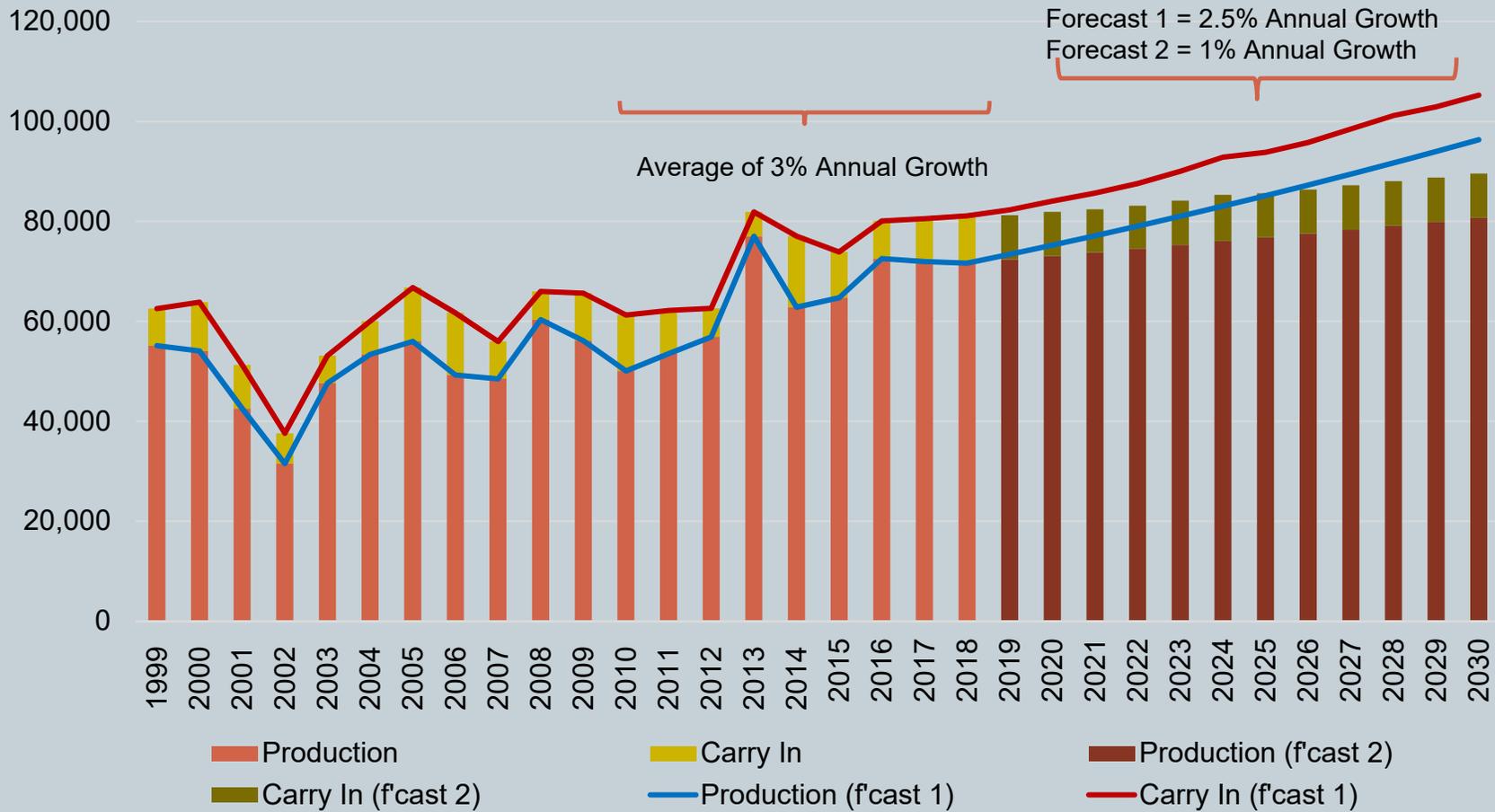
Corridor/ Mode (tonnes 000)



Year (tonnes 000)

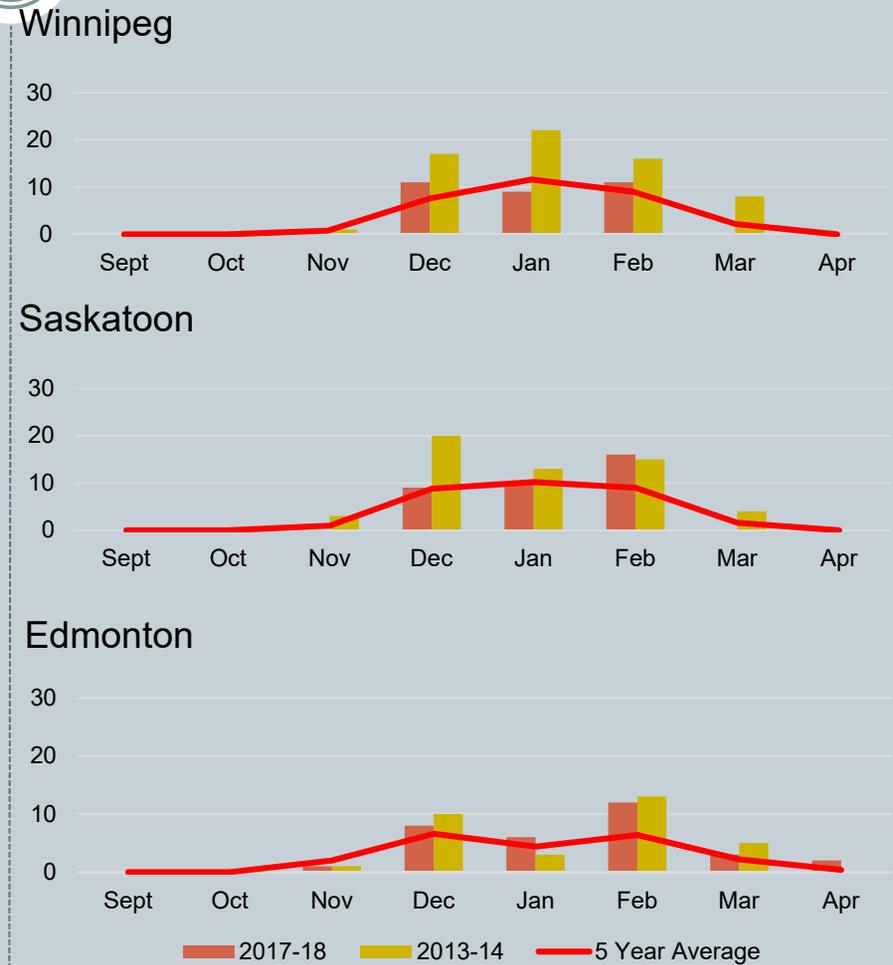


Western Canada Grain Supply 1999-2018 Actual; F'cast to 2030



Weather

- The number of days temperature levels fell below -25 C (Railway Level 1 Winter operations) was at or near average *with the exception of February*
- Levels in 2017-18 were far less drastic than those seen in 2013-14



Summary



- Too soon to tell if the C-49 amendments will make a difference.
 - Processes have yet to be defined
 - Will be followed with legal challenges setting precedents for future use
- Impact on producers is not clear
 - Dependent on how the competitive marketplace evolves
- The greater impact for producers will likely be the expansion of the country network by both existing grain companies and new entrants.





Thank You

Reports Available

Website: www.grainmonitor.ca



1/17/2019