



The Western Canadian GHTS 2013-14 Update

April 2014



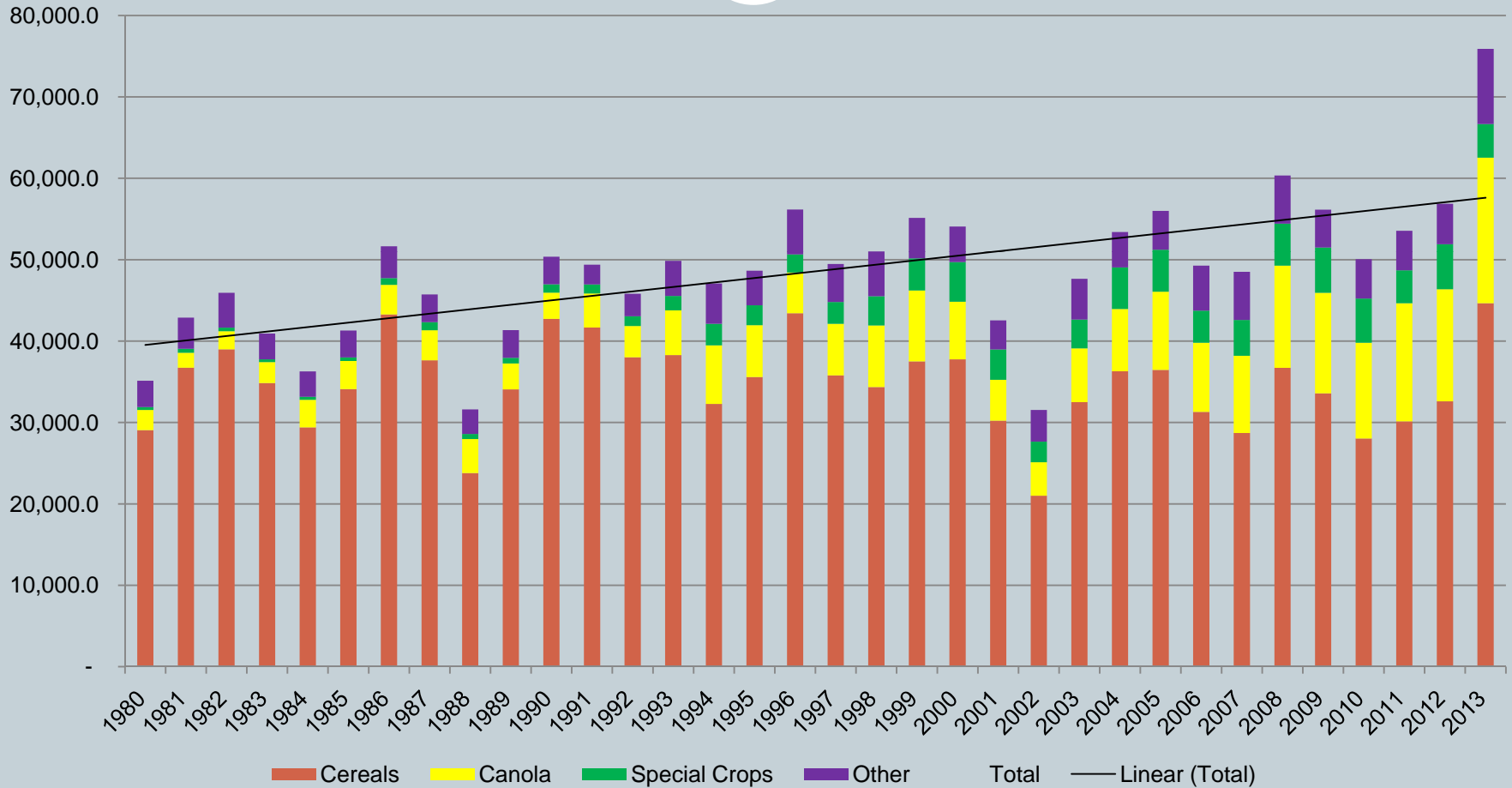
Overview

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- **GHTS Background**
 - The Playing Field
 - Performance History
- **GHTS This Year**
 - Production
 - Performance
 - Challenges
- **Other Issues**
 - Revenue Cap

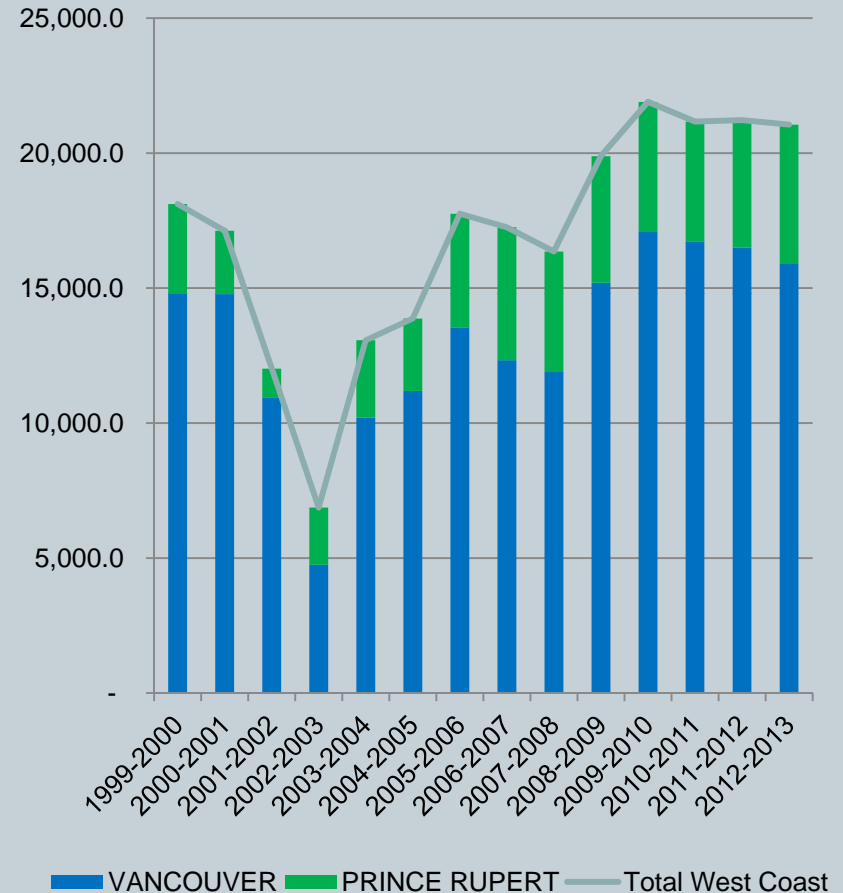


Production – 1980 -2013 (Tonnes)

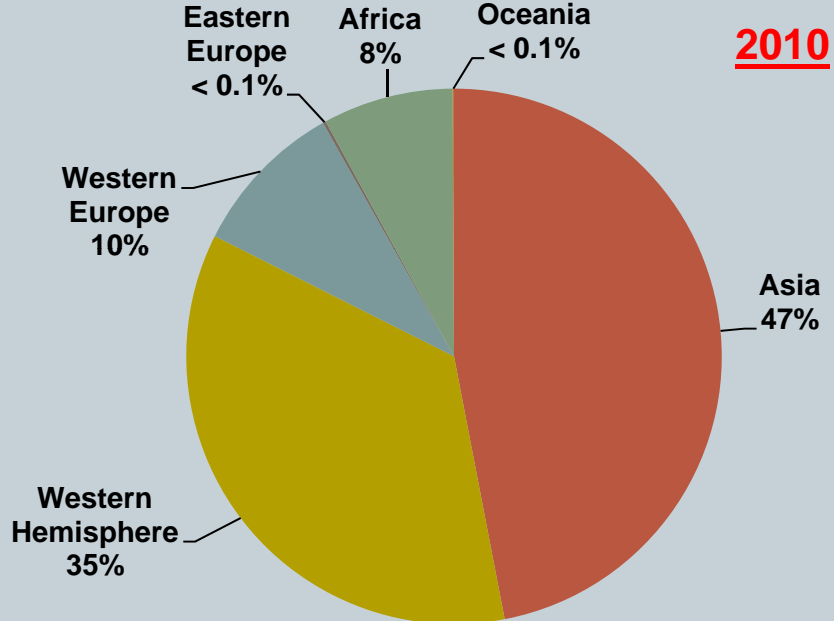
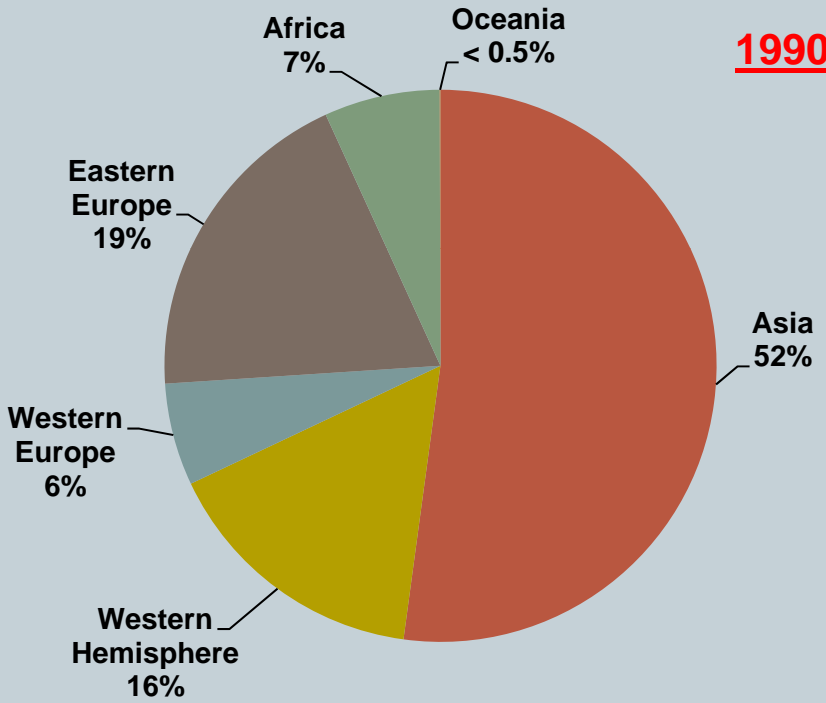


West Coast Volumes

- Last four years averaged 21.3 MMT – up 58% from the average 12 years ago and about 30% the 25 year average
- Is this the new normal?
- How much can it grow?



Changing Markets



Last 20 years has seen the decline of trade with Europe and growth of Western Hemisphere

Increased focus on West Coast ports



West Coast Drivers



- **Changing Global Demand:** Depleted global reserves, rising standard of living in Asia Pacific markets and fluctuating production levels in competitor countries
- **Logistical Economics:** Spreads on ocean and rail freight are significant drivers on the routing choice for sellers of Canadian grain, making West Coast routing a preference.



GHTS Performance



2013 Production and Logistics



June	July	August	September	October
<ul style="list-style-type: none">• Concerns about late seeding/ slow development / late harvest• Expectation of an average Crop• Sales and Traffic volumes tail off	<ul style="list-style-type: none">• Good Moisture• Relatively mild temperature• Prolonged reproductive stage for most crops	<ul style="list-style-type: none">• Ripening delayed, grains continue to fill• Expectations of a bumper crop• No early frost• Traffic volumes begin to rise	<ul style="list-style-type: none">• Continued good harvest conditions• Recognition of a record level crop (Stats Canada states 65 MMT)• Grainco's signal enhanced forecasts to railways	<ul style="list-style-type: none">• Railway movements start well, then fall off at months end• Harvest continues unabated• First signals of logistics issues



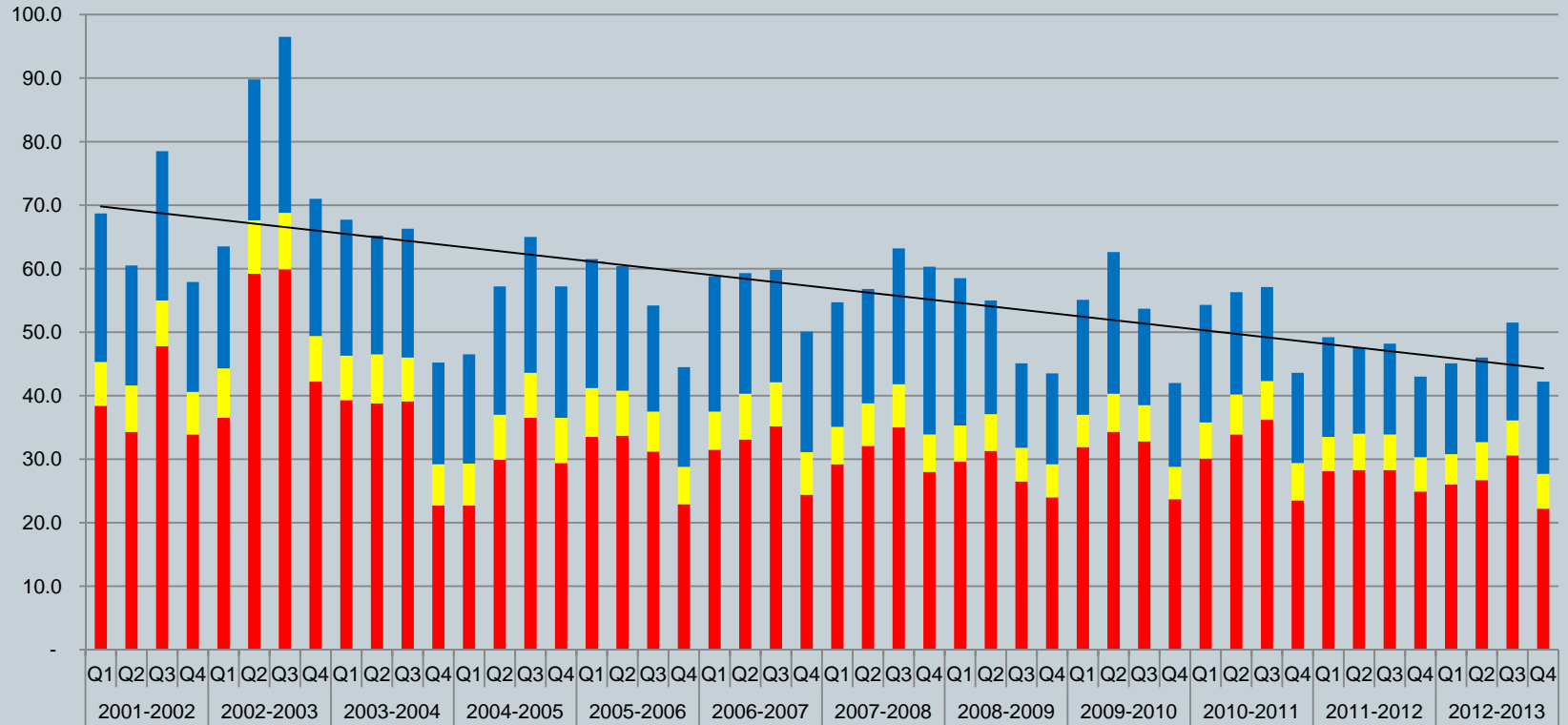
Record Breaking Crop and Capacity Planning



- Stats Canada September Estimate = 65 million tonnes in Western Canada
- Railways and Shippers meet to discuss capacity – railways plan for 5,000 – 5,500 cars/ week per railway
- Stats Canada November final estimate = 75.9 MMT in Western Canada



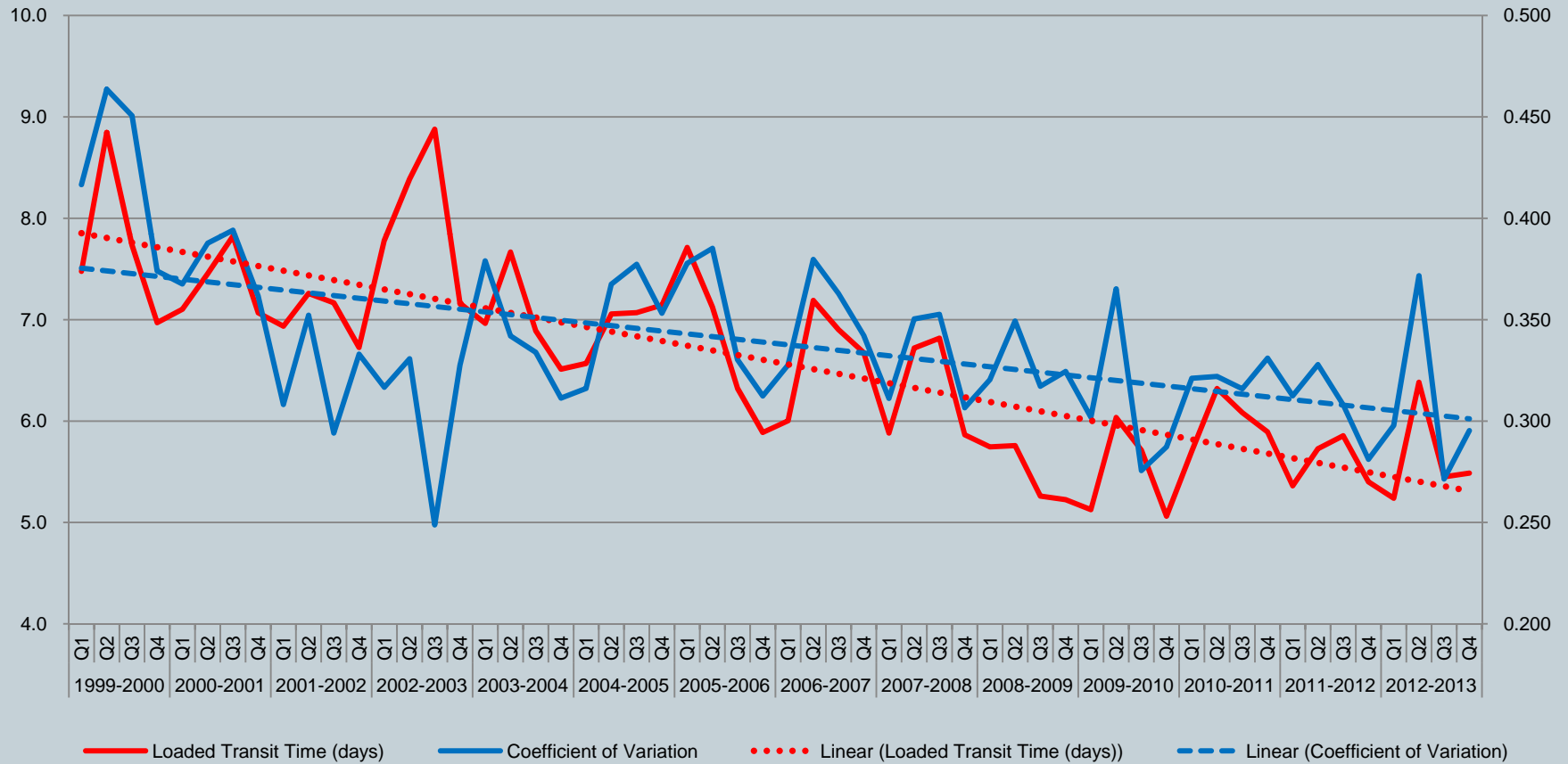
Time in the System



■ Country Elevator Storage Time (days)
 ■ Railway Loaded Transit Time (days)
 ■ Terminal Elevator Storage Time (days)
 Total (days)
 — Linear (Total (days))



Railway Loaded Transit



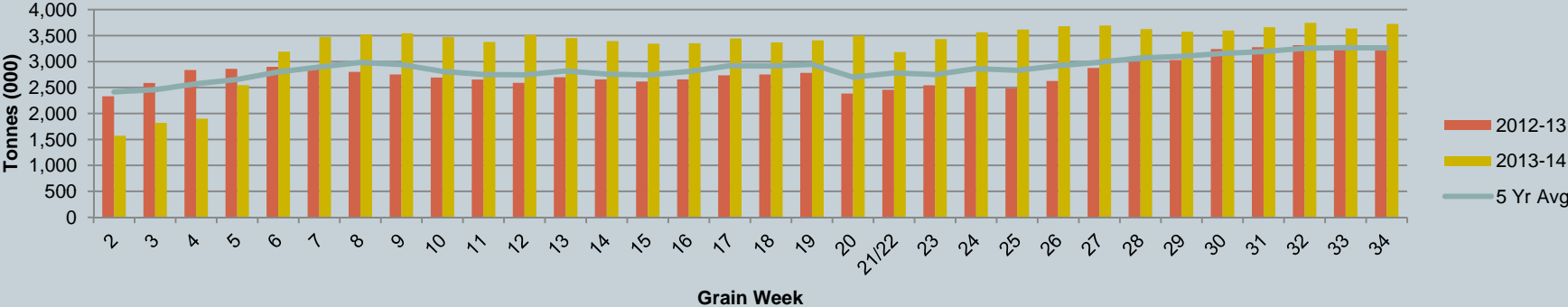
The Current Issues



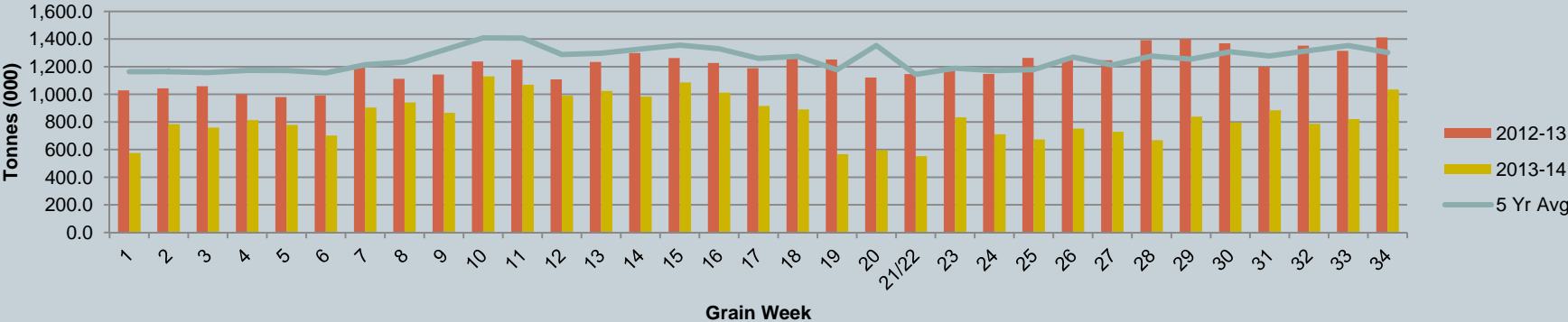
Average Weekly Stocks in Store (March 30, 2014)



Country Stocks



Terminal Stocks



Total Unloads – YTD Week 34(Cars)

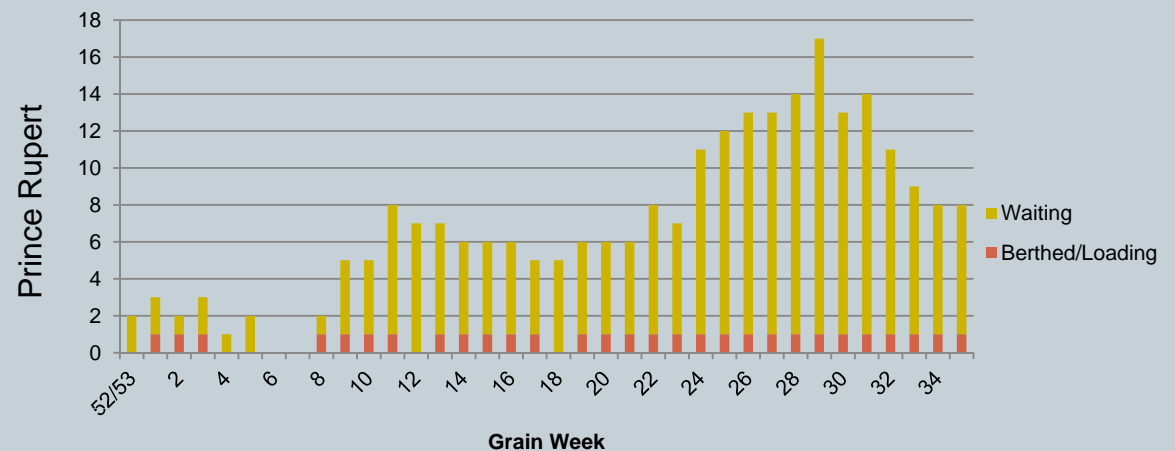
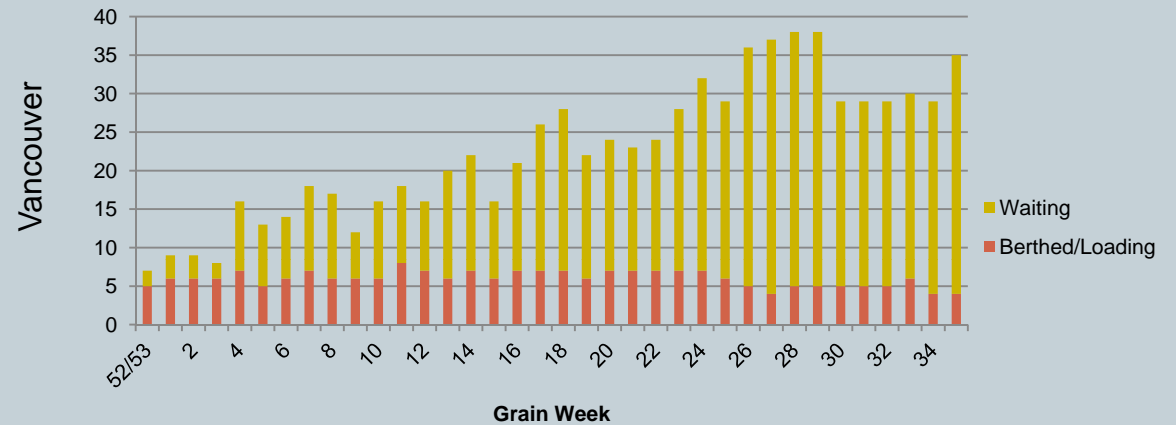


	Vancouver	Prince Rupert	West Coast	Thunder Bay	Churchill	Total
5 Yr Avg	116,272	34,400	150,673	36,681	5,574	192,928
2012-13	122,466	37,397	159,863	43,905	4,906	208,674
2013-14	121,364	37,704	159,068	35,689	6,156	200,913
Var % to 5 Yr Avg	4%	10%	6%	-3%	10%	4%
Var % to Last Year	-1%	1%	0%	-19%	25%	-4%

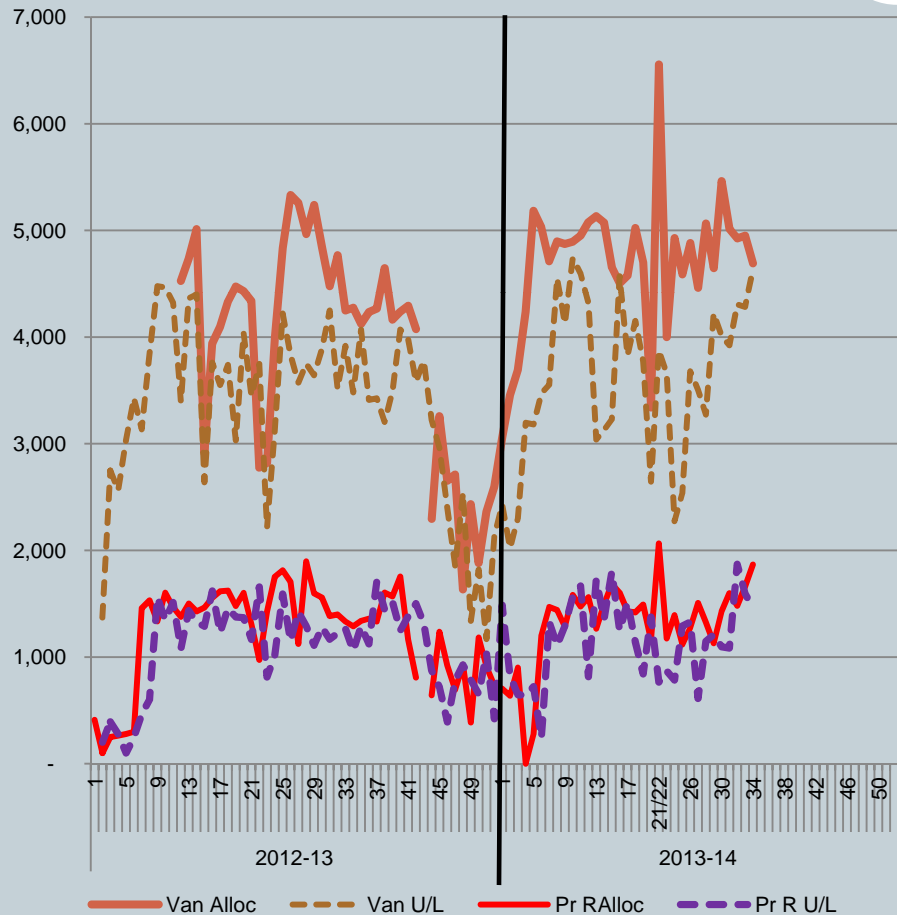


Vessel Lineups (to week 30)

- Vessel lineups have grown rapidly since new crop availability.
- Reports from terminals at Vancouver would indicate that rail pipeline coordination of product to vessel is sub-optimal creating problems in terminal operations and extending loading times and increasing vessel wait times.



Railway Allocation vs. Unloads (to Week 34)



- A critical issue is the numbers of cars allocated by the railways (committed to the grain companies for country spotting) as compared to the numbers of cars unloaded at port
- YTD in 2013-14 CY, actual cars unloaded in the Vancouver corridor for both railways is 23% lower than the cars allocated and 9% lower in the Prince Rupert corridor



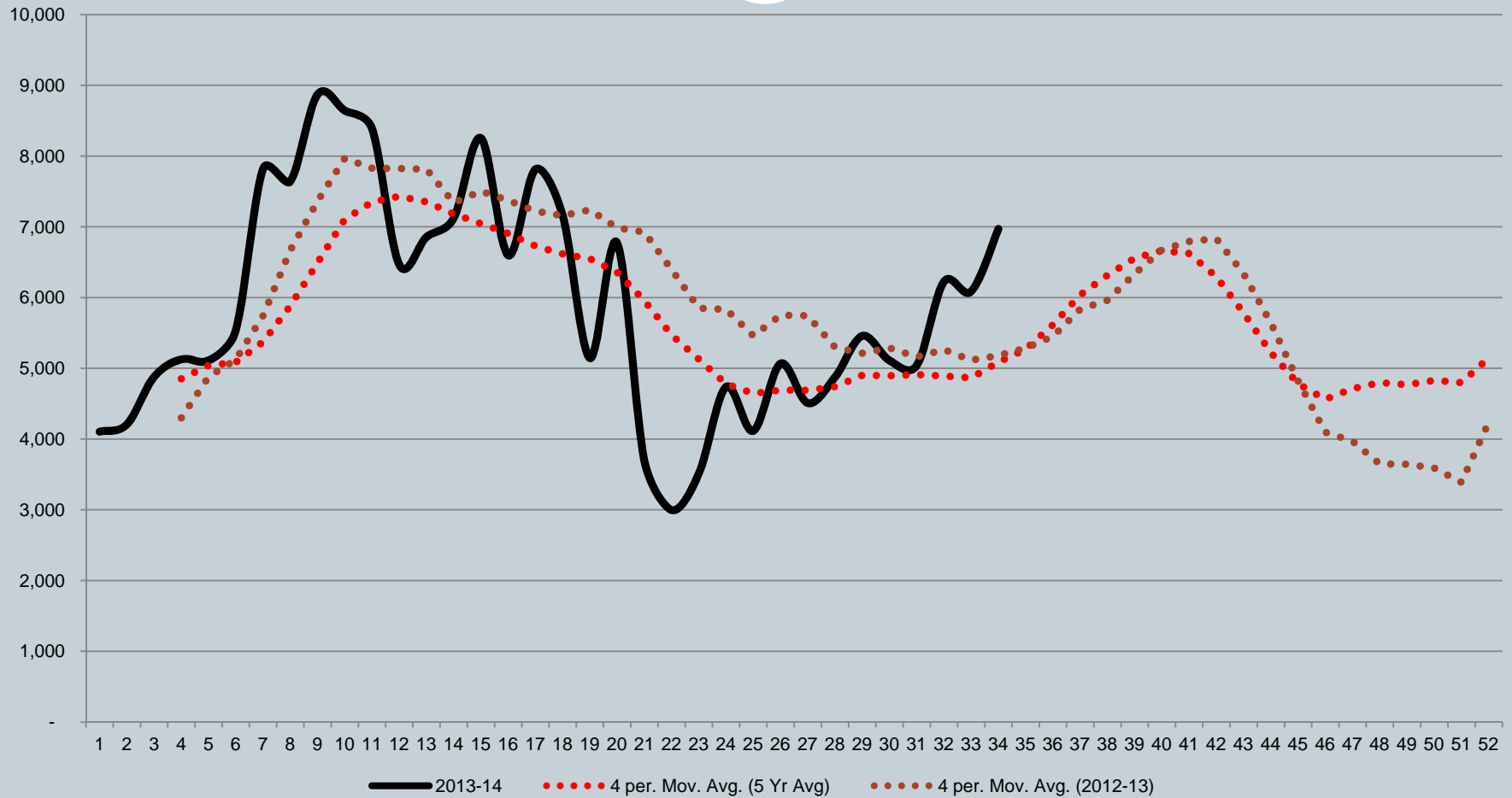
Recent Western Canadian Port Unload Performance



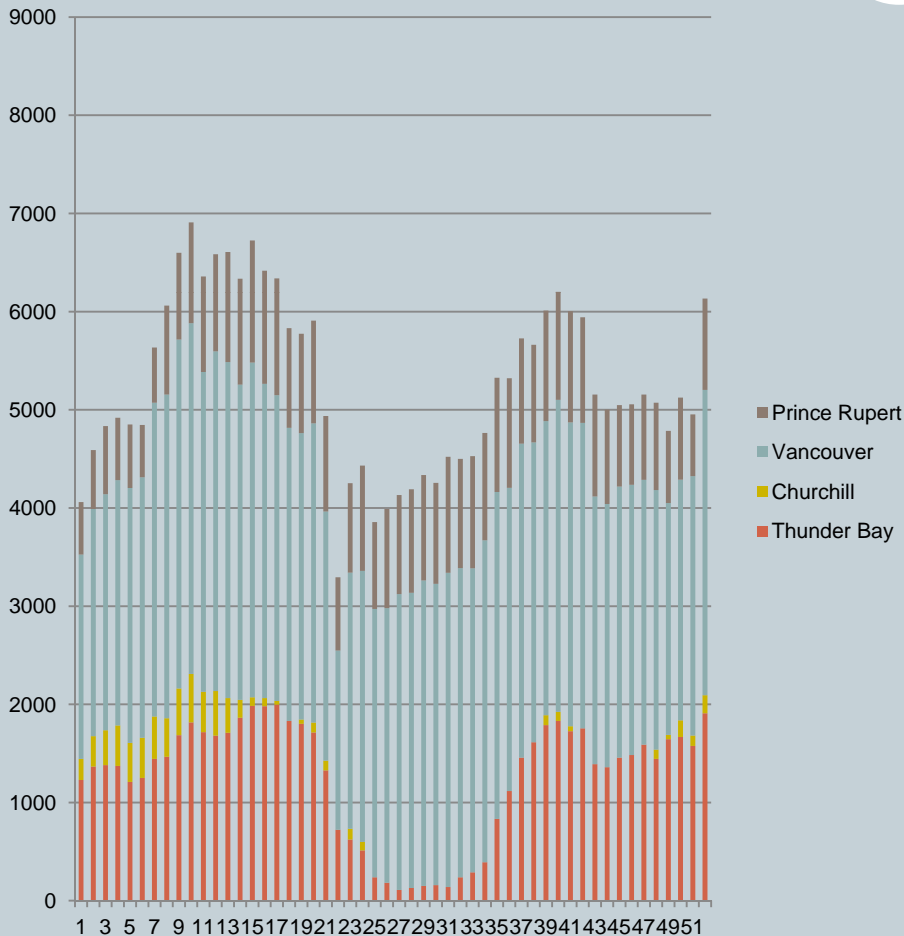
	Vancouver	Prince Rupert	West Coast	Thunder Bay	Churchill	Total
Week 34 2012-13	4,069	1,289	5,358	419	-	5,777
Week 34 2013-14	4,633	1,456	6,089	882	-	6,971
4 Week Rolling Avg (this year)	4,292	1,502	5,794	286	-	6,080
Var - TY vs Last Year - Current Week	14%	13%	14%	111%	n/a	21%
Var - TY vs. 4 Wk Rolling Avg	8%	-3%	5%	208%	n/a	15%



Total Unloads at Western Ports YTD (to Week 34)



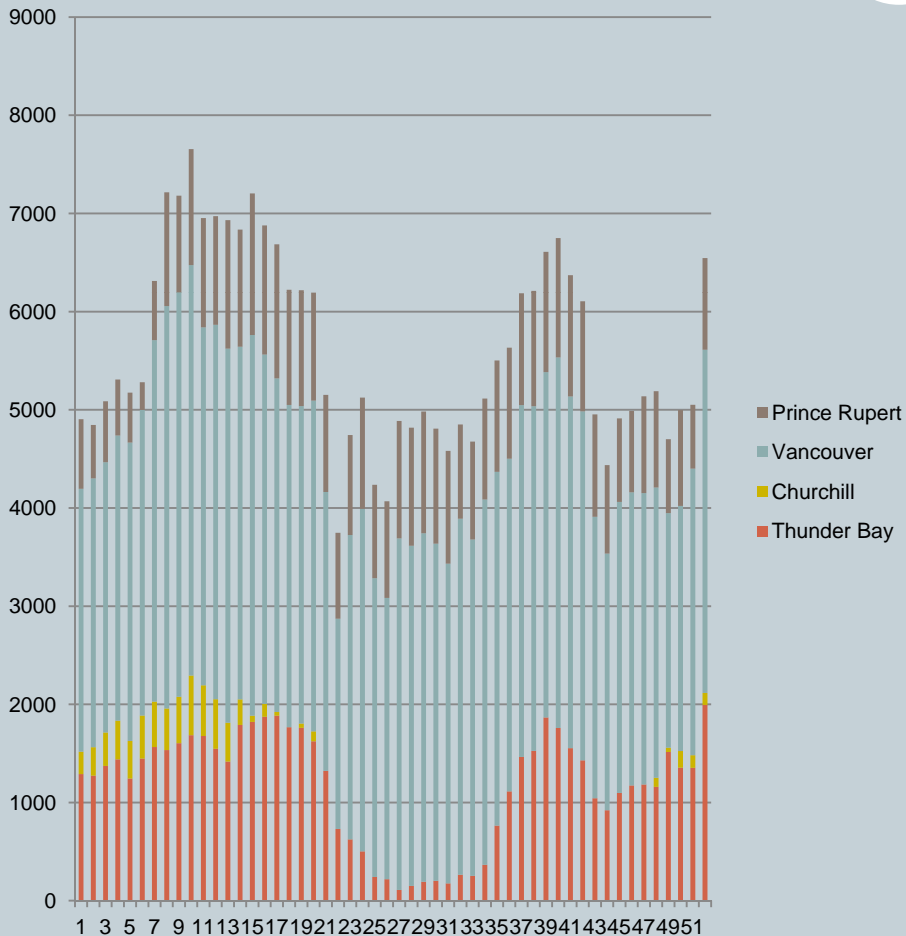
Weekly Port Unloads - 10 year average



- Over the last 10 years we continue to see a decrease in the numbers of cars unloaded through the winter months.
- The movement leading through the period before the Christmas break consistently slows and does not recover until well into the latter parts of spring.
- Demand does not normally follow this same pattern and normally stays strong through to the late spring.



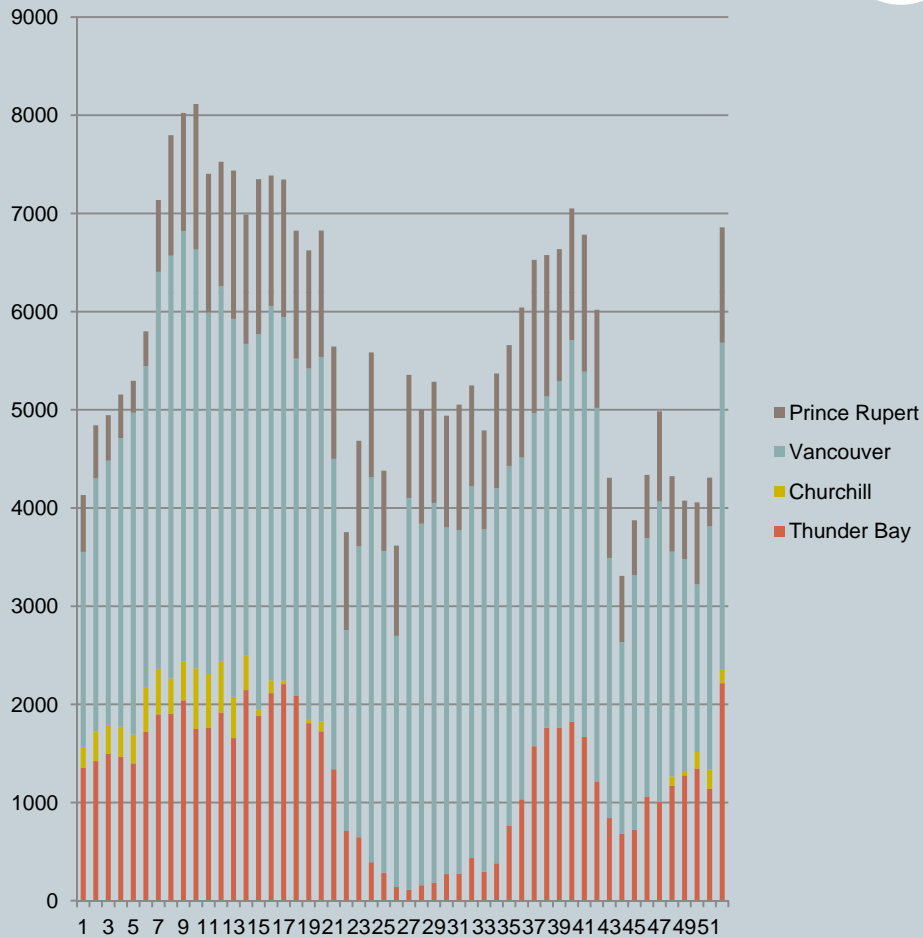
Weekly Port Unloads - 5 Yr Average



- When viewed from a 5 year average in comparison to the 10 year view, an increase in overall capacity offerings from the railways becomes apparent
- The seasonal cycle and impact of winter operations continues to reveal itself and in fact becomes worse when viewed in the shorter time period



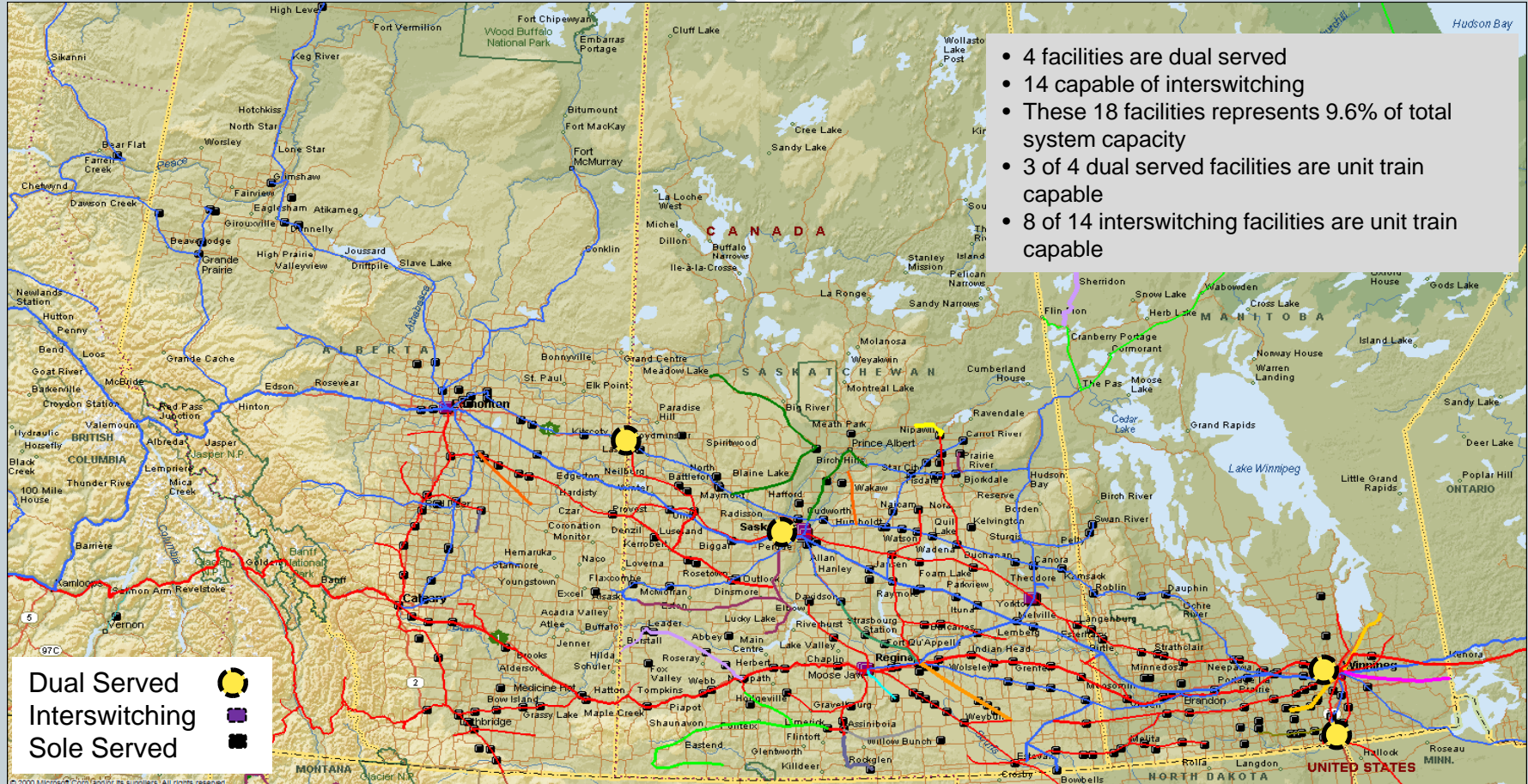
Weekly Port Unloads - 3 yr Average



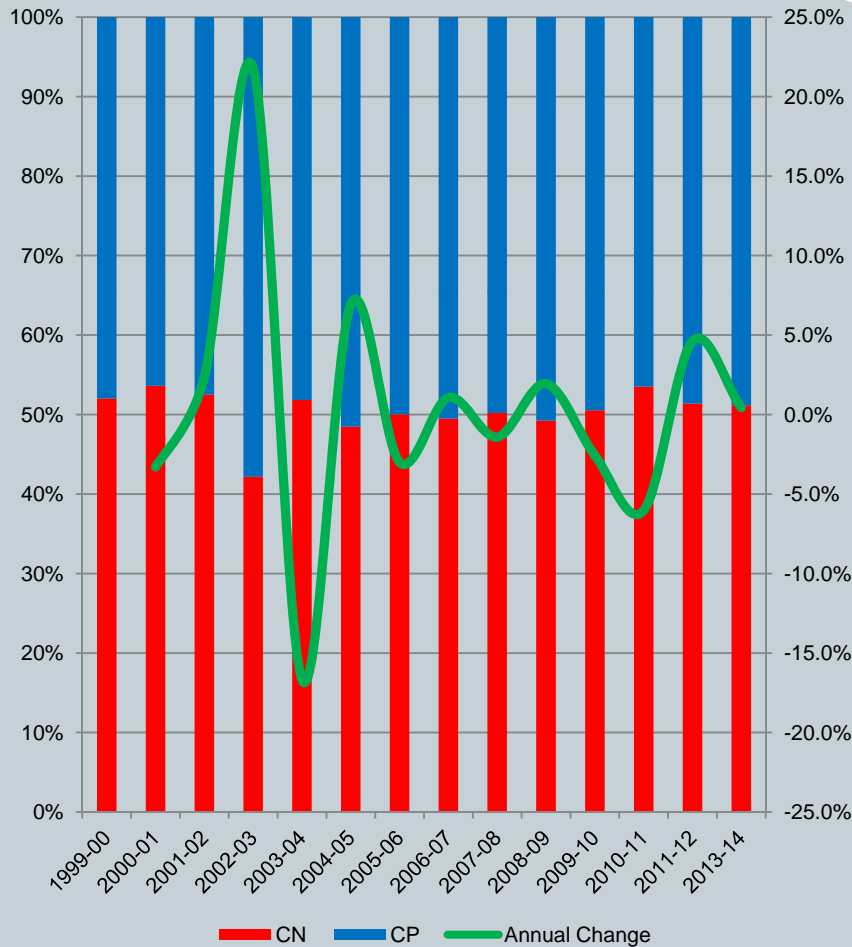
- As in the five year scenario, the increased capacity offering by the railway continues to grow.
- As noted in the five year scenario, the winter operating impact worsens in the more recent years



Railway Competitiveness



CN-CP Market Share Shifts



- Market share between the two railways averages out at 50-50 over the past 13 years
- Shifts in market share are caused by geographic/ regional impacts of production as impacted by draught, flooding or other climatic effects on crop yield



What does it all Mean?



For Producers

- Falling Prices
- Widening Basis
- Lack of Delivery opportunities
- Cash flow crunch
- Bins full

For Grain Companies

- Widening Basis
- Vessel Demurrage
- Contract Extension costs
- Lost opportunity for add. Volumes
- Pressure to revisit shipper protection legislation

For Railways

- Guaranteed volumes 18 months out
- Enhanced revenues
- Focus attention on Revenue Entitlement (Cap)
- Long term capacity question/ strategic choices



Other Issues



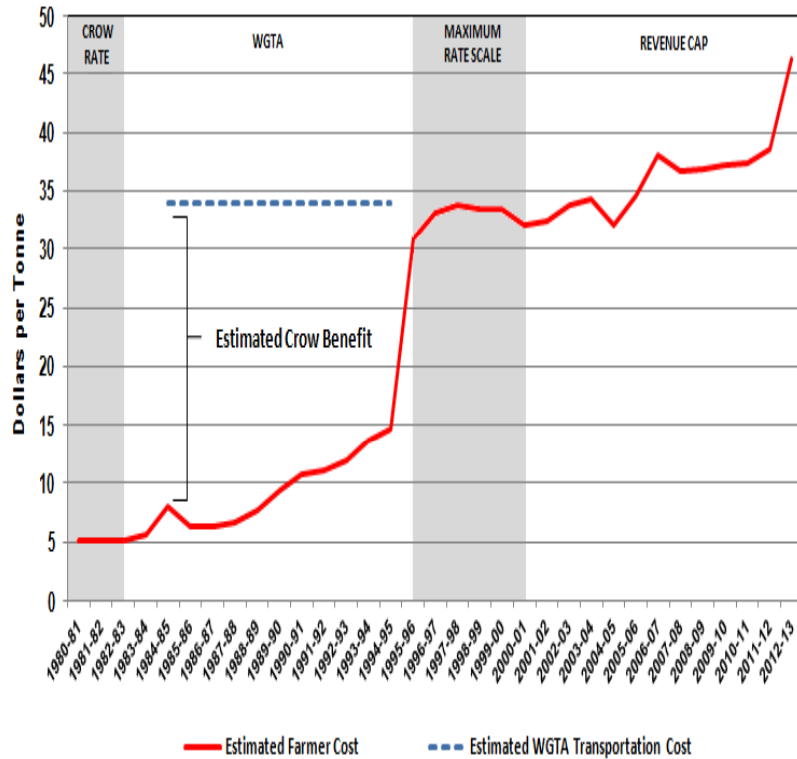
What is The Revenue Cap or “Entitlement”



- The term “Revenue Cap” is a misnomer as it does NOT place an absolute “cap” on railway revenues.
- What it does do is:
 - ...Provide a statutory limit on the amount of revenue a prescribed railway can earn from the movement of regulated grain in western Canada.
 - ...Provide an effective dynamic control mechanism limiting the amount of revenue per tonne that a railway company may derive from the movement of regulated grain
- ... It does not penalize the railways for:
 - Handling more grain; length of haul
 - Inflationary effects

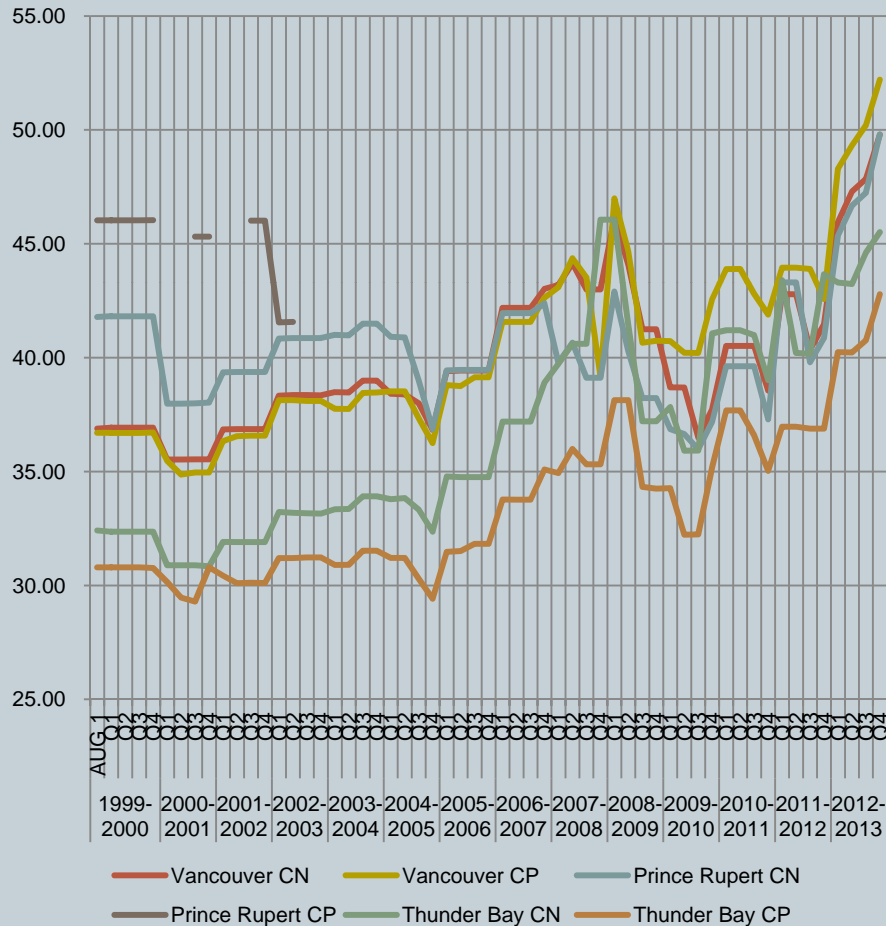


Rail Freight Rates since 1980



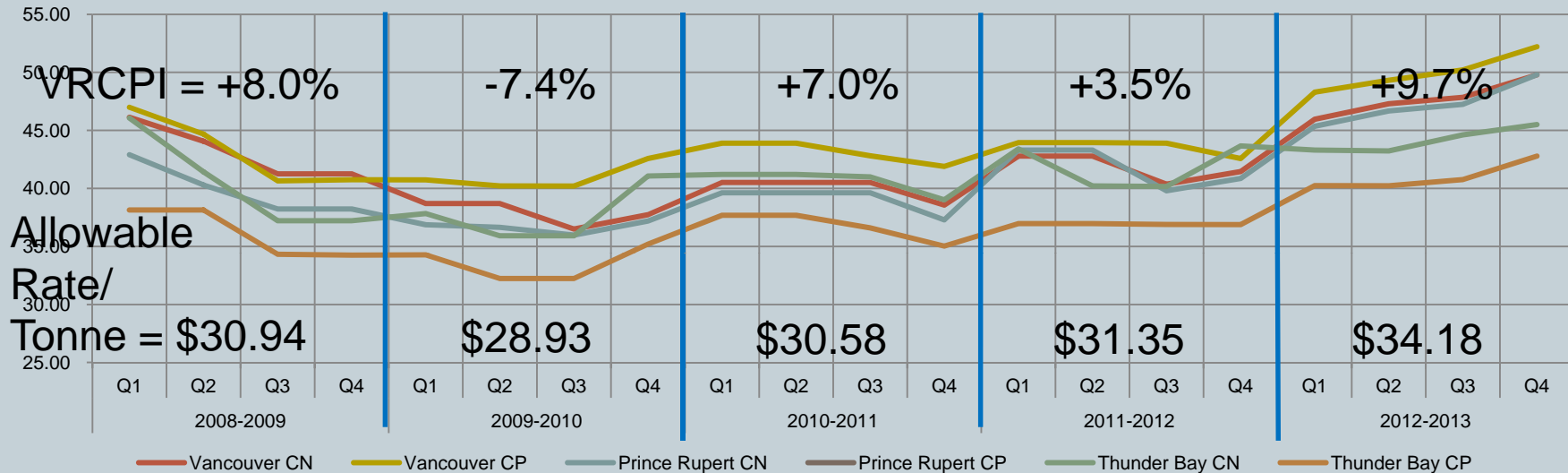
- Four rail freight rate regimes have been used over the last 30 years:
 - The Crow rate
 - The Western Grain Transportation Act/ Agency
 - The Maximum rate scale
 - The Maximum Revenue Entitlement - MRE (Rev Cap)
- Over the period from 1980, when the Crow Rate was still in effect, to 2013, the rail freight has increased from \$5/ tonne to over \$47.

Single Car Rates – Quarterly Trends with the MRE



- In the early years of the MRE, the railways moved rates in a manner that was consistent with one another, with only minor differential pricing being undertaken
- In the 2007-2008 CY, the railways began pricing differentially based on seasonal, commodity and corridor factors.

Single Car Rates – Last 5 Years



- VRCPI = the Volume related composite price index, as set by the Canadian Transportation Agency annually, is the maximum allowable annual rate increase that the railways can apply without penalty
- The Allowable rate per tonne is the total average annual rate charged by the railways



Summary



- No one event has caused the logistical problems seen in the GHTS this year. They would include:
 - Unforeseen higher demand for railway capacity
 - Over commitment by railways and a lack of transparency that did not allow the marketplace to see it in time
 - Railway operational challenges (derailments etc)
 - Cold weather
 - Inability of railways to recover
- This years bumper crop will only start to challenge the system as we near the next harvest and the year end carry out pushes the capability of our storage and logistical resources



Going Forward?



- Impacts of record western Canadian crop
- Challenges continue into next crop year due to huge carry over stock
- Enhancements to the GMP announced Feb. 3rd:
 - Railway order fulfillment data
 - Fleet size
 - Port terminal unload performance
 - Greater granularity - weekly data
 - Reported monthly





Thank You

