

The Western Canadian GHTS 2013-14 Update

March 2014



Overview

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



Who is Quorum?



- Transportation and Logistics consulting firm with a focus on North American surface modes – rail, truck, container, bulk commodity and grain
 - Established 1999
 - Have developed a specialization in transportation data management with a strong IT back shop
 - Three Subs – Quorum Corp, QGI and QTMS
- Grain Monitor for the Federal Gov't since 2001
- QGI Consulting selected to provide services in the preparation of stats and information for the Rail Freight Service Review



Grain Monitoring Program



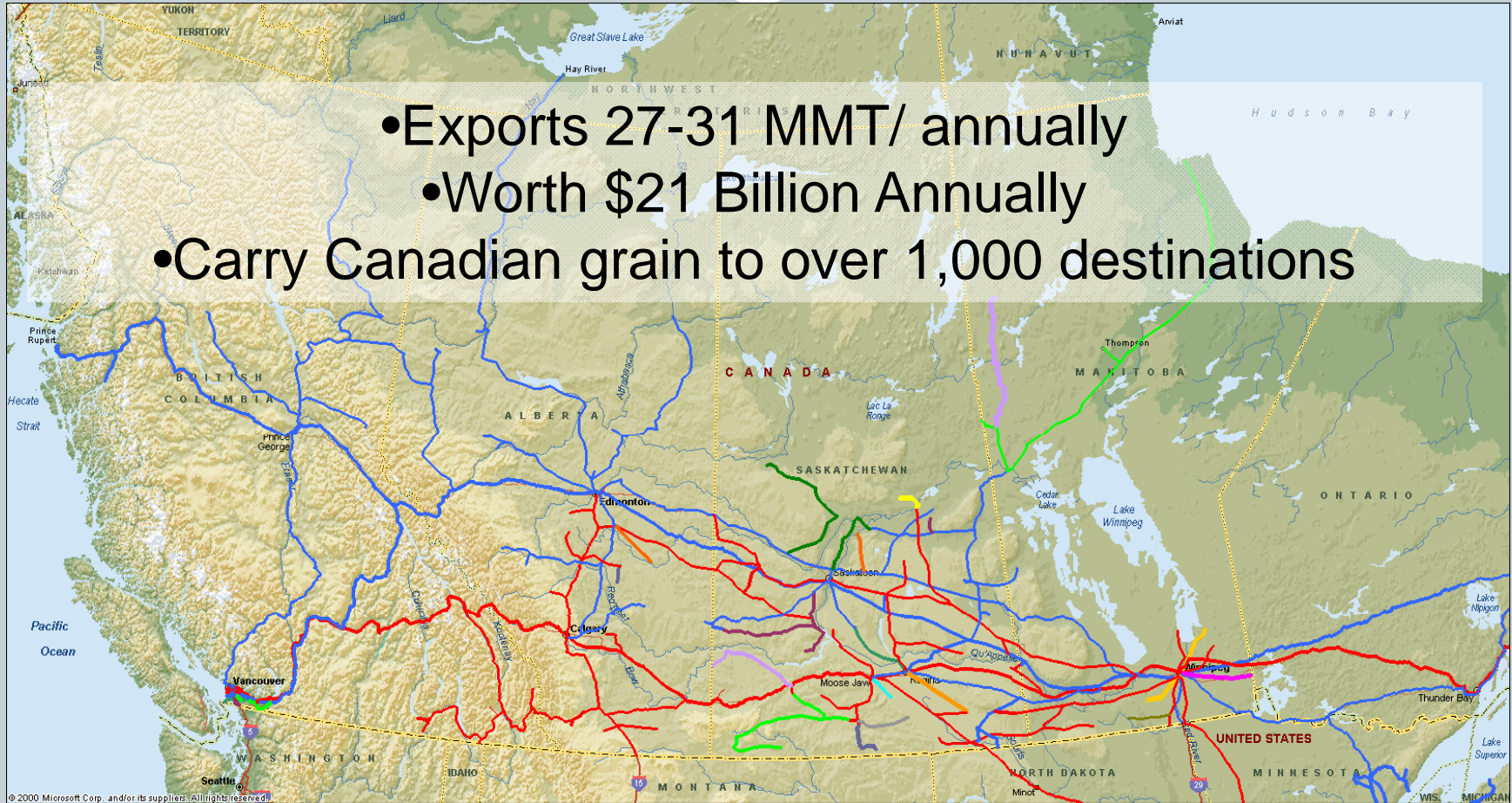
- Activity and Performance Measures
 - Industry volumes, activity and performance metrics
 - Farm gate to ocean vessel departure
 - Sets the industry benchmark
 - Used by broad cross section of the industries stakeholders
- Comprehensive, ongoing assessment and analysis of the measures and industry events
- The Grain Monitor strives to retain a neutral and balanced position on issues ... *but we call it like we see it*



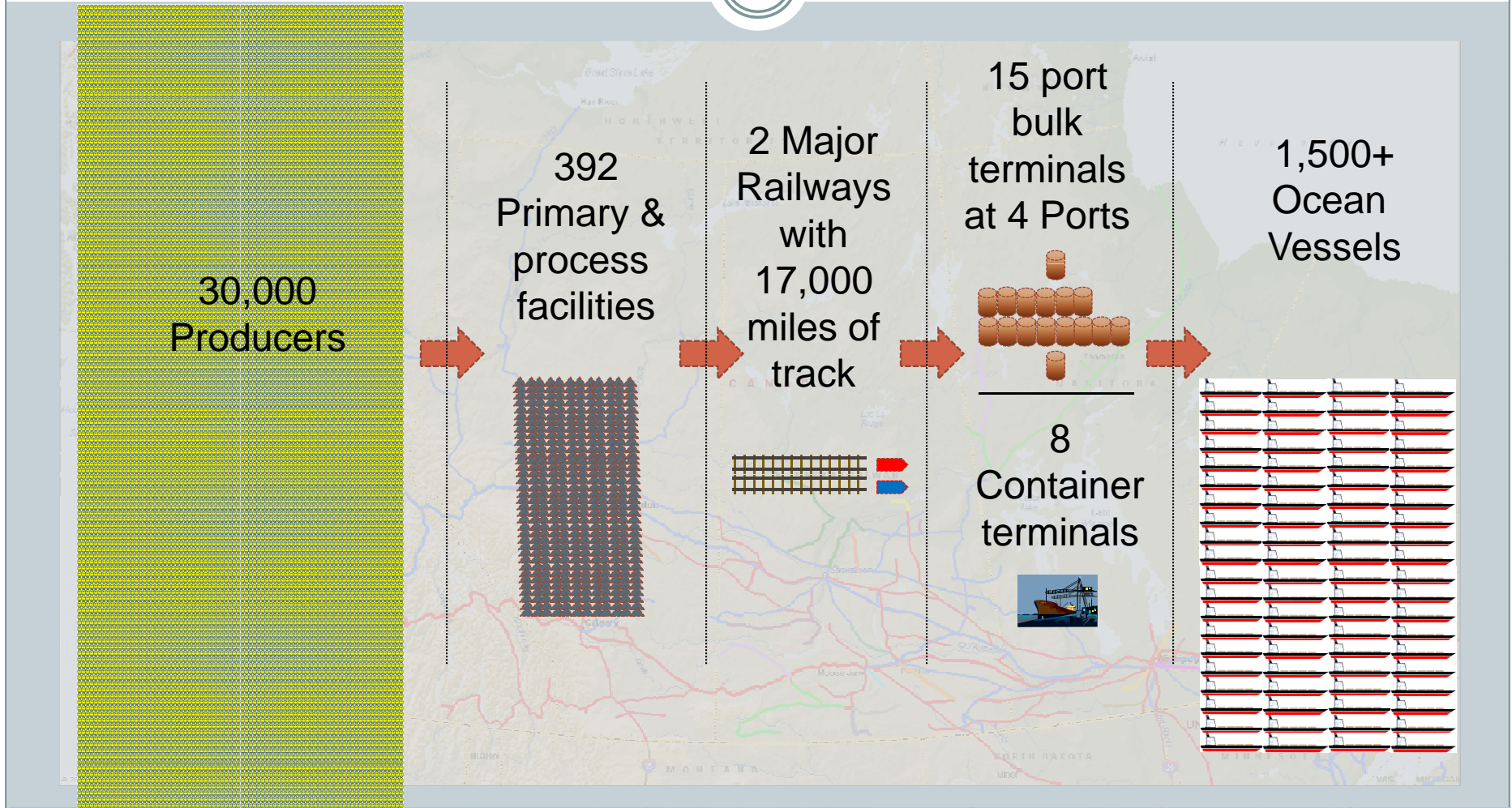
The Canadian “Playing Field”

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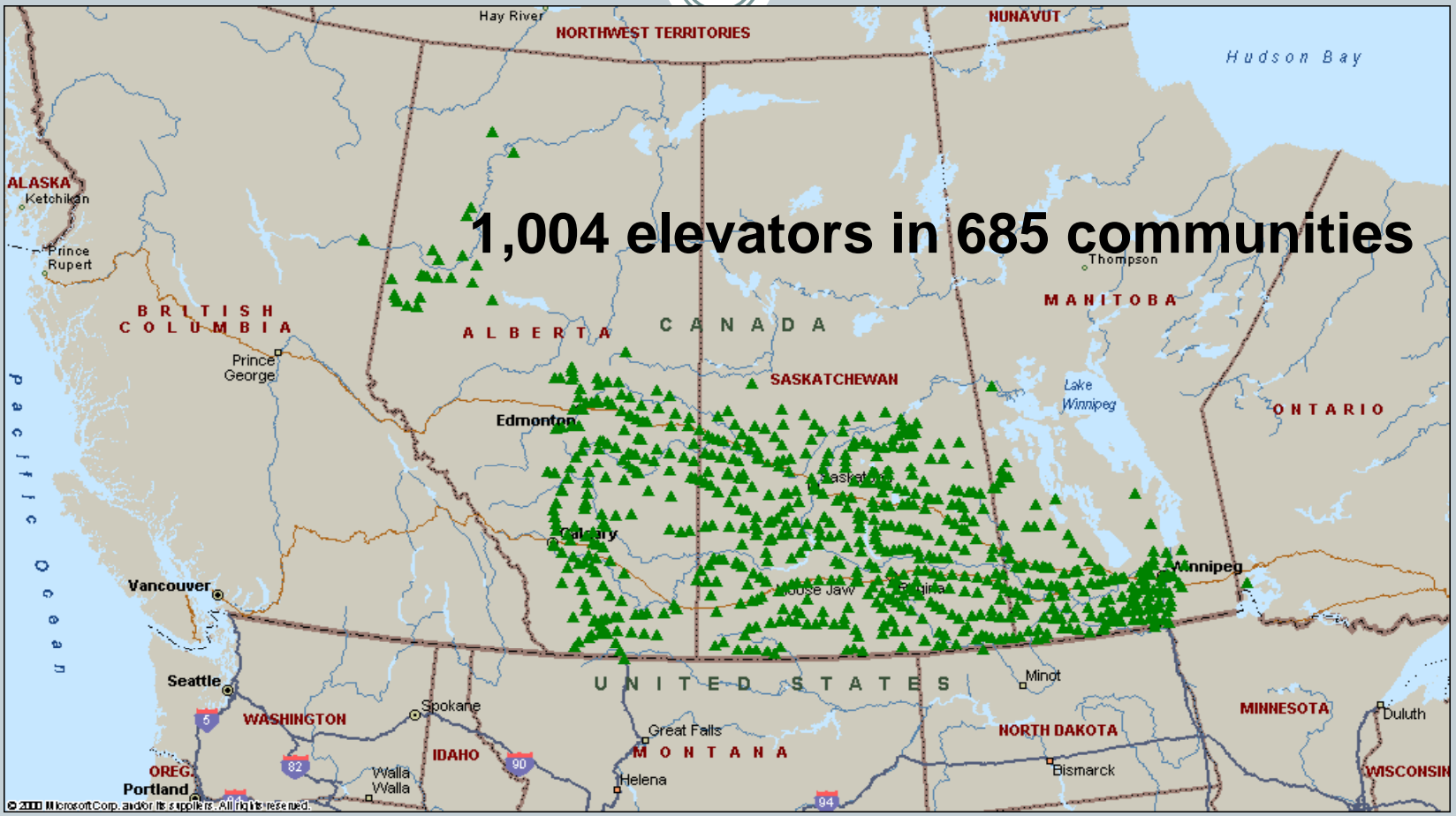
- Exports 27-31 MMT/ annually
- Worth \$21 Billion Annually
- Carry Canadian grain to over 1,000 destinations



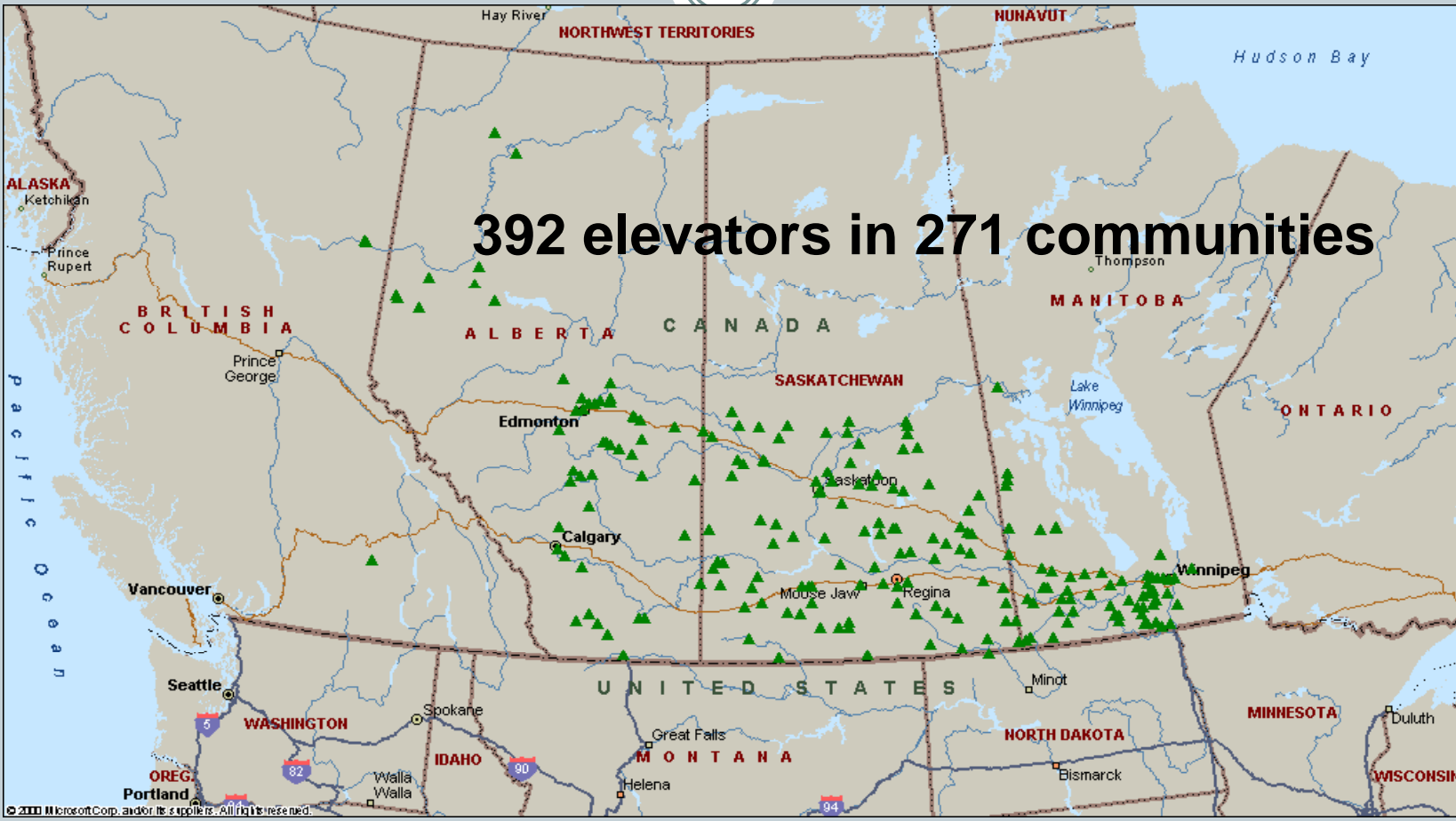
The Canadian "Playing Field"



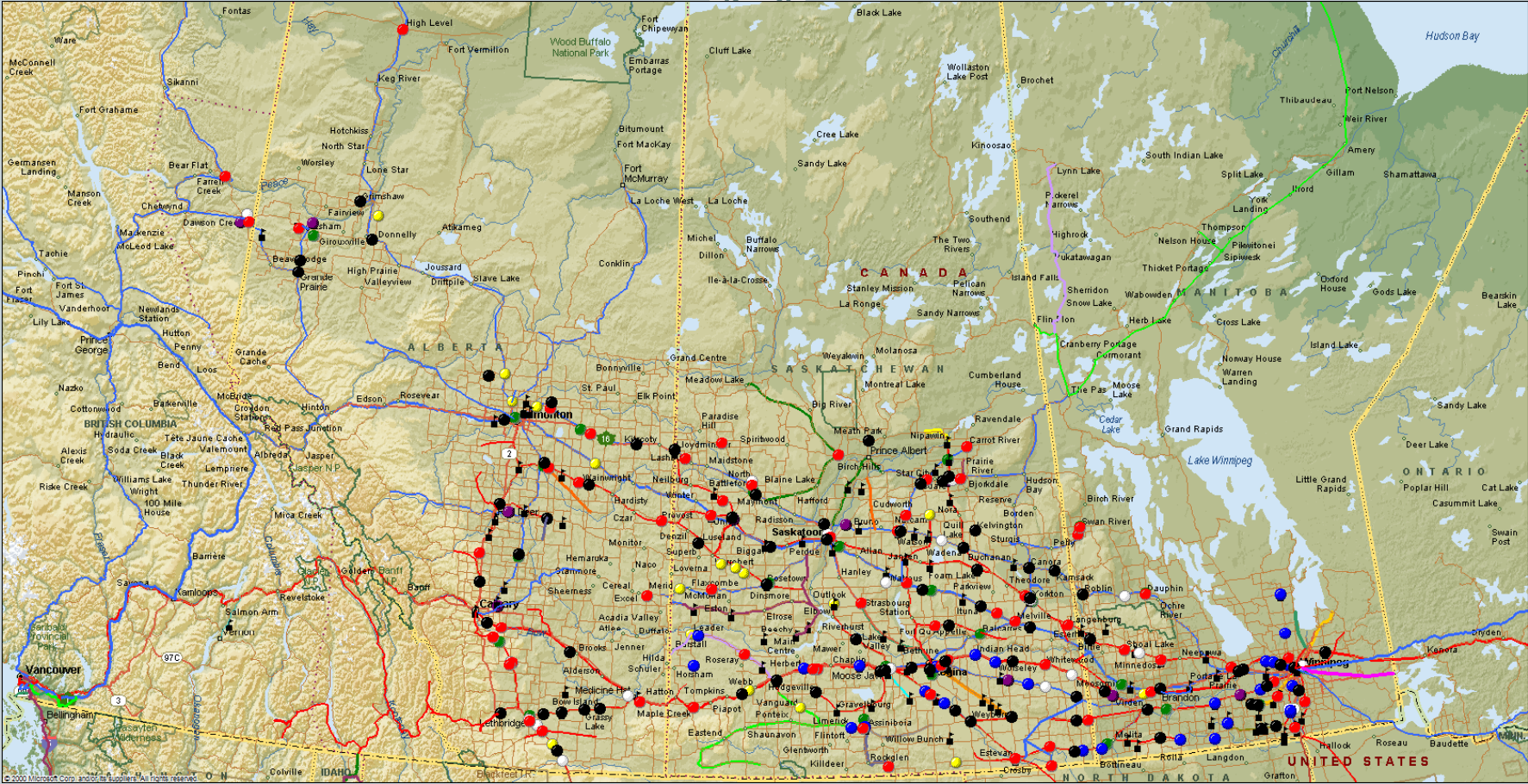
Licensed Elevators – August 1999



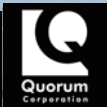
Licensed Elevators – 2014



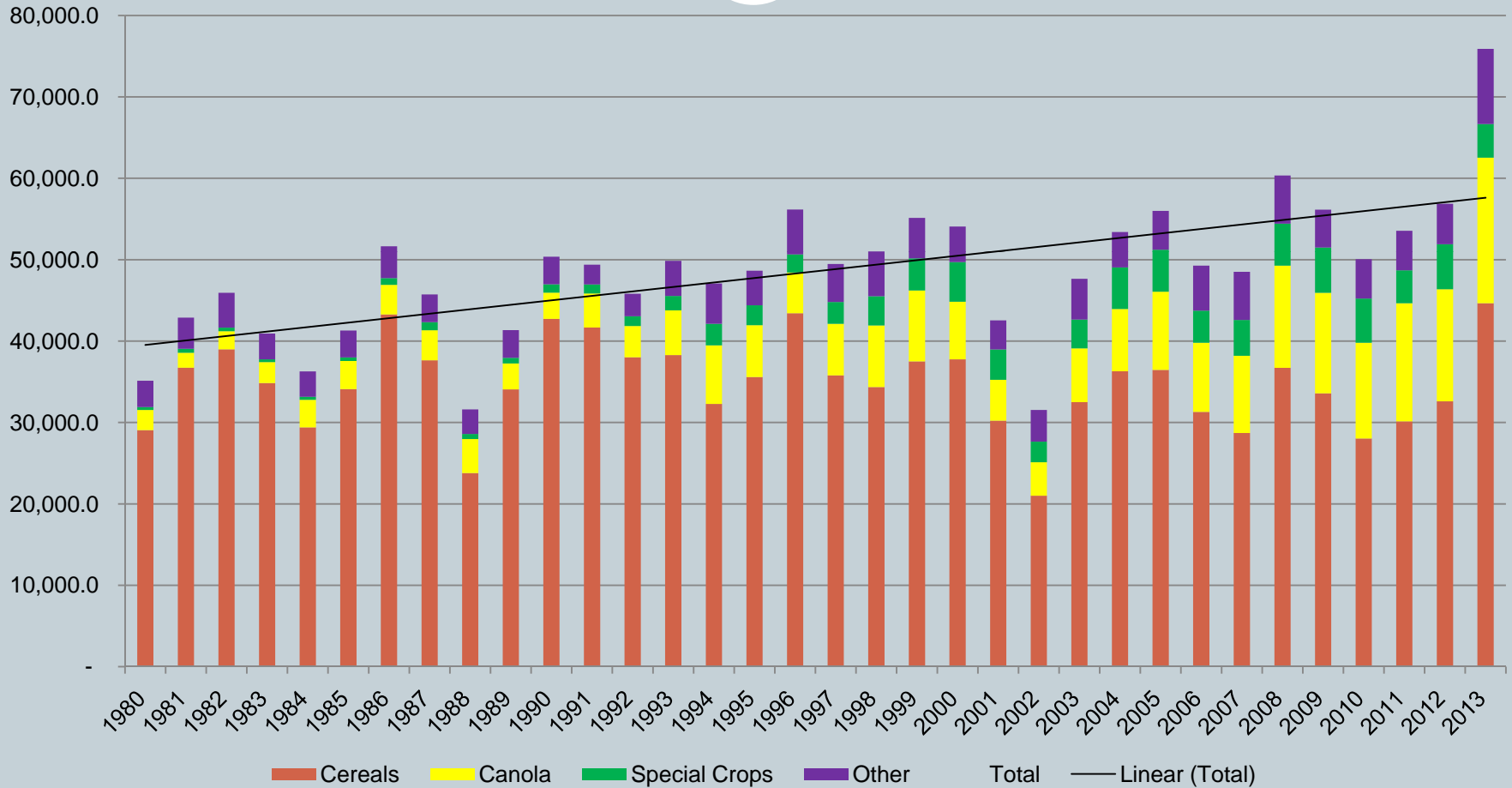
Country Network - Ownership Changes



GHTS Rail Network: 2014

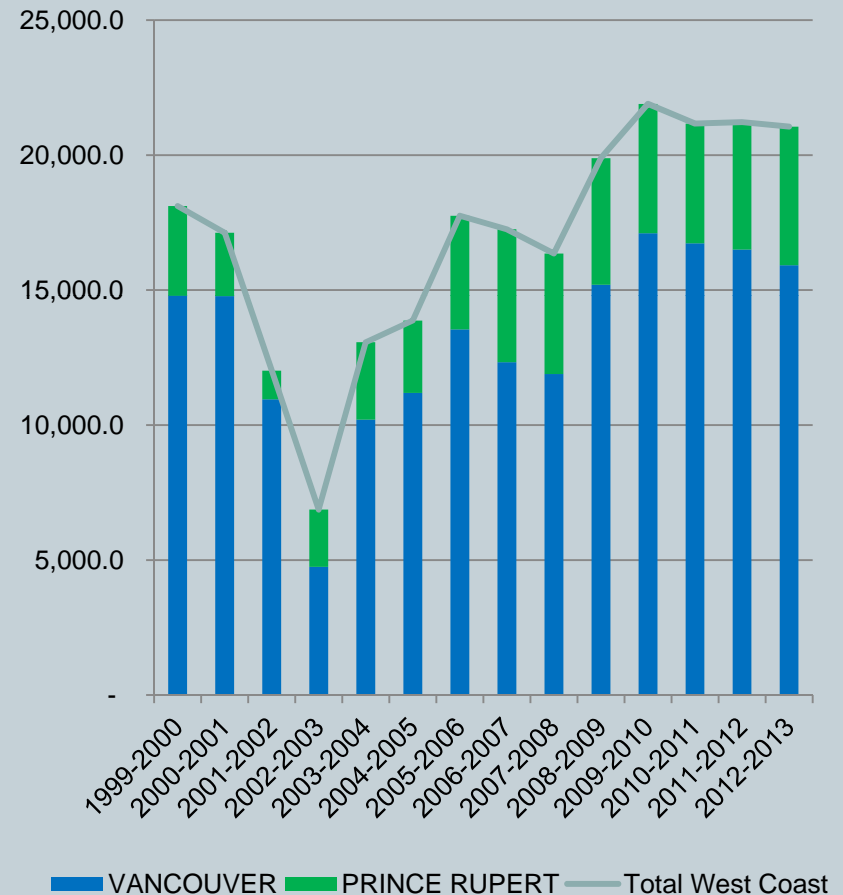


Production – 1980 -2013 (Tonnes)

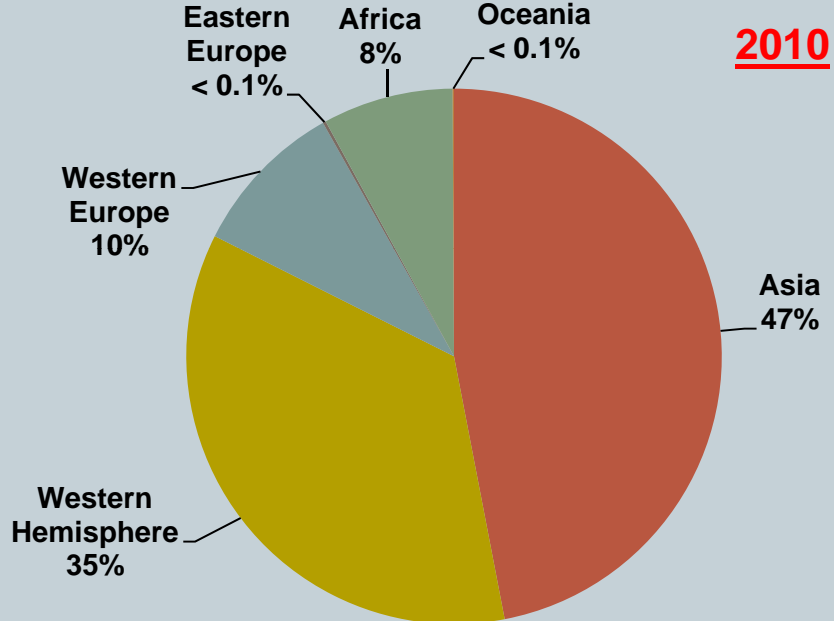
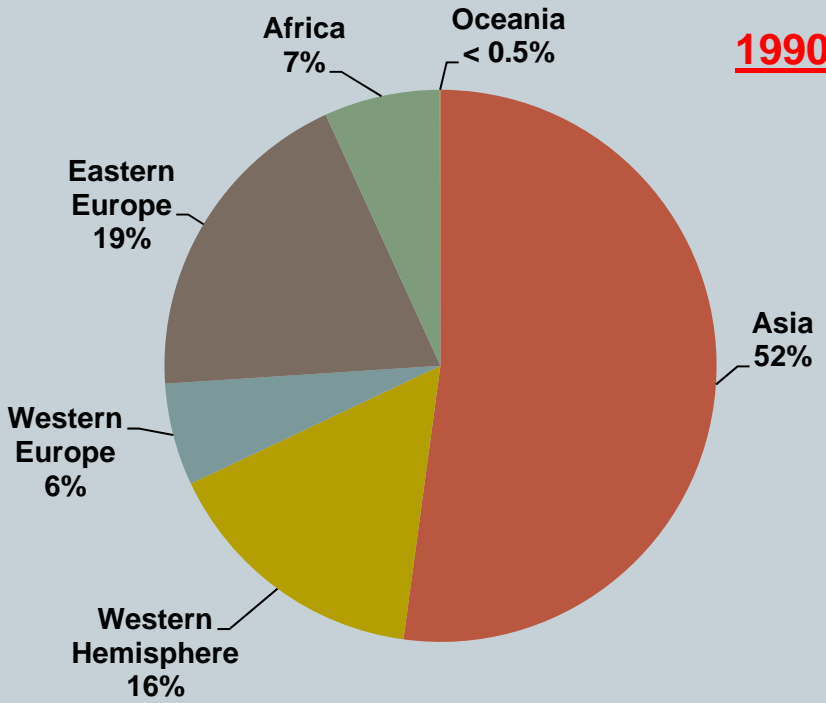


West Coast Volumes

- 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



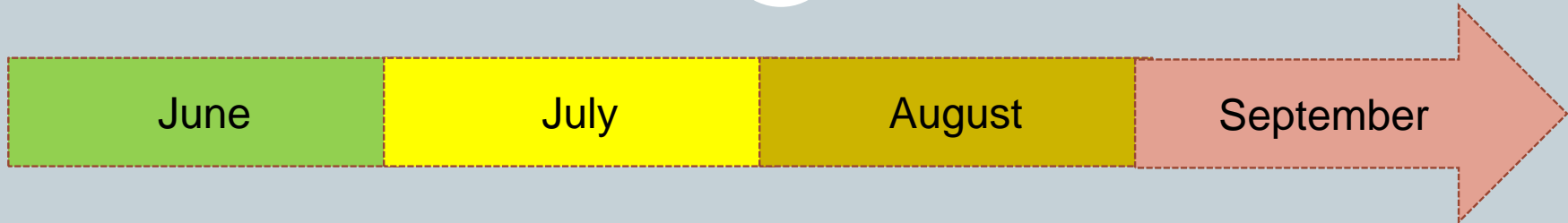
- **Changing Global Demand:** Depleted global reserves, rising standard of living in Asia Pacific markets and fluctuating production levels in competitor countries
- **Logistical Economics:** Spreads on ocean and rail freight are significant drivers on the routing choice for sellers of Canadian grain,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



GHTS Performance



2013 Production



June

- Concerns about late seeding/ slow development/ late harvest
- Expectation of an average Crop

July

- Good Moisture
- Relatively mild temperature
- Prolonged reproductive stage for most crops

August

- Ripening delayed, grains continue to fill
- Expectations of a bumper crop
- No early frost

September

- Continued good harvest conditions
- Recognition of a record level crop



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



Where are we now?










	2013	5 Yr Average	Var %
Production	75.9	55.4	+37%
Carry In	4.9	8.1	-39.5%
Total Supply	80.8 MMT	63.5 MMT	+27.2%

Total Supply (2013-14)	80.8
Domestic use/ US movement (5 Yr Avg)	29.3
Shipments to port (5 Yr Avg)	<u>26.1</u>
Total Marketings (5 Yr Avg)	54.4
Expected Carry out in 2014 (without additional marketings)	25.4 MMT



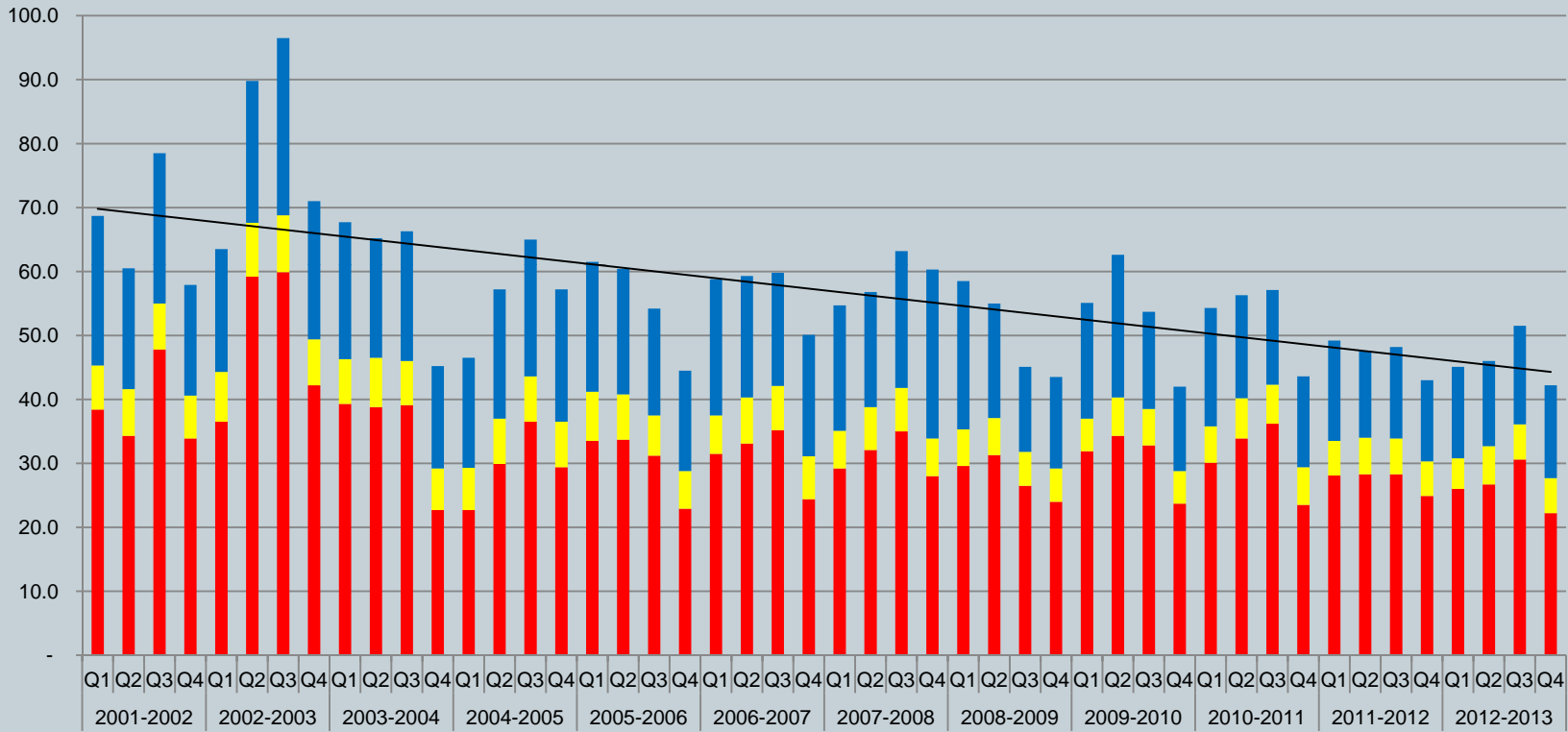
GMP Dashboard



	2010-11	2011-12	2012-13	Year/Year Change
Total Time in System:	52.3	47.1	46.2	 -1.9%
Loaded Transit Time:	6.0	5.6	5.4	 -3.7%
Time In Store – Country:	30.8	27.6	26.5	 -4.0%
Time in Store – Terminal:	15.5	13.9	14.3	 +2.9%
Vessel Time in Port:	9.9	6.6	9.7	 +47.0%
Elevator Turnover Ratio:				
Country:	5.7	6.0	5.8	 -3.3%
Terminal:	9.9	11.1	11.1	-
Total Car Cycle:	14.3	13.9	14.0	 +0.9%



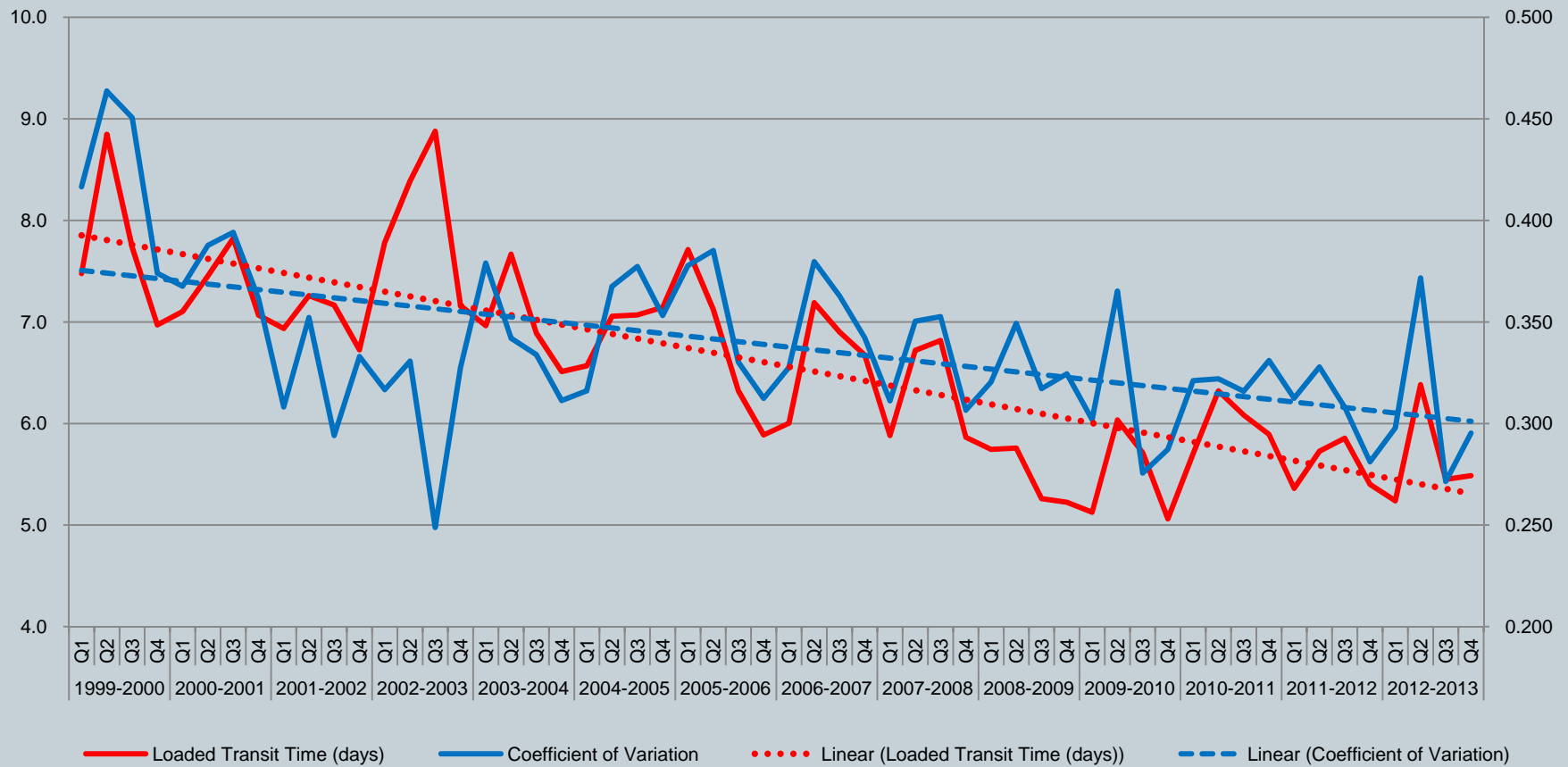
Time in the System



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



Railway Loaded Transit

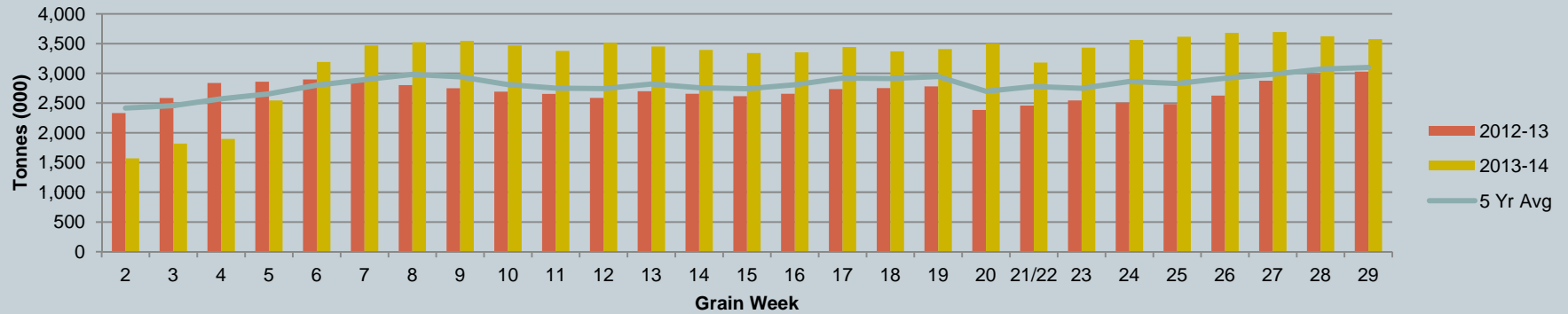


The Current Issues

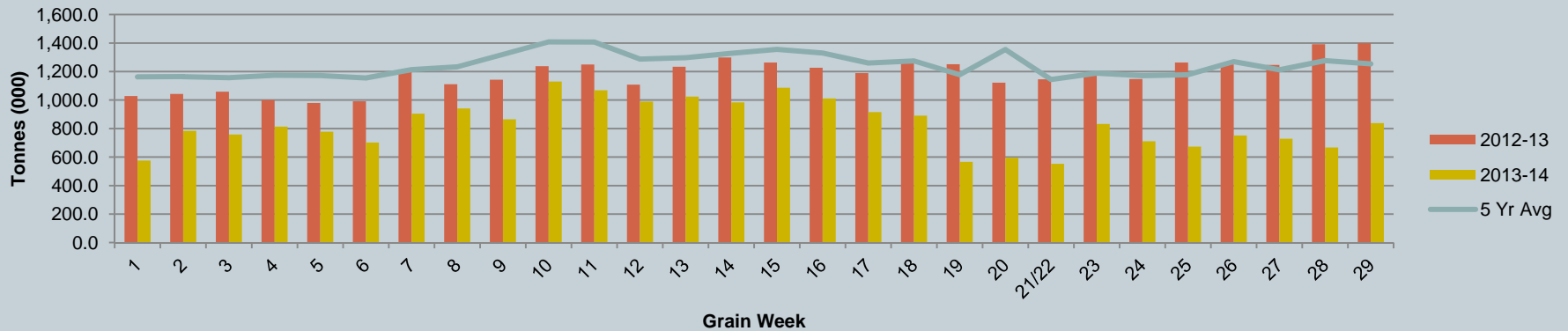


Average Weekly Stocks in Store (Feb 23-14)

Country Stocks



Terminal Stocks



Total Unloads – YTD Week 29(Cars)

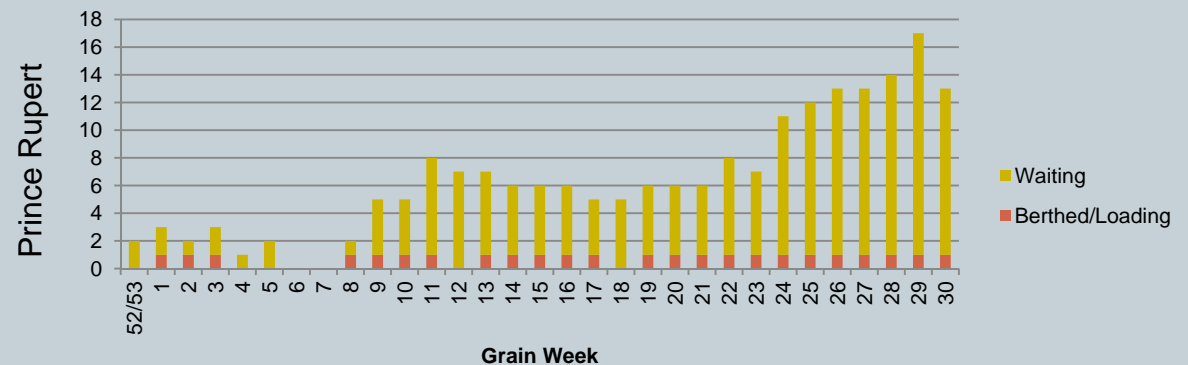
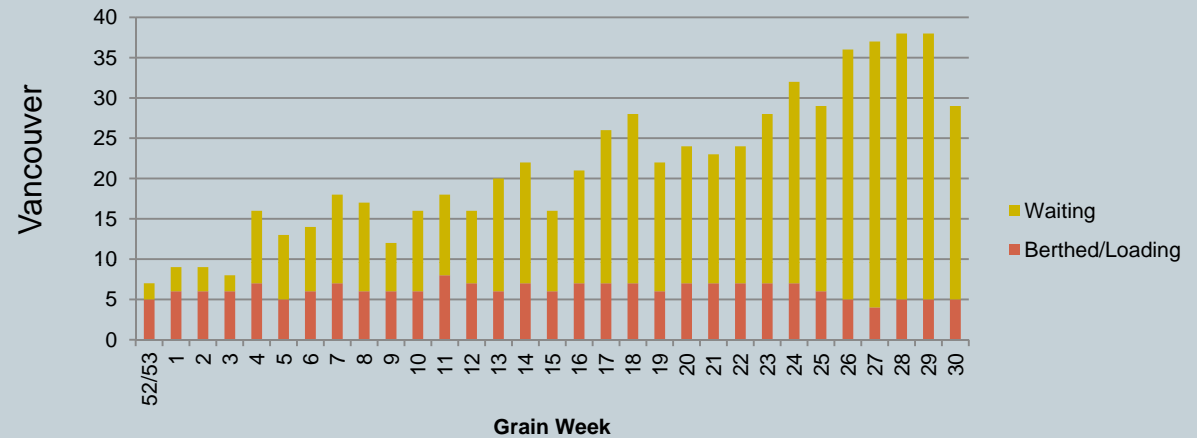


	Vancouver	Prince Rupert	West Coast	Thunder Bay	Churchill	Total
5 Yr Avg	97,988	28,800	126,788	35,188	5,574	167,550
2012-13	103,232	31,390	134,622	42,906	4,906	182,434
2013-14	100,185	30,601	130,786	34,541	6,156	171,483
Var % to 5 Yr Avg	2%	6%	3%	-2%	10%	2%
Var % to Last Year	-3%	-3%	-3%	-19%	25%	-6%

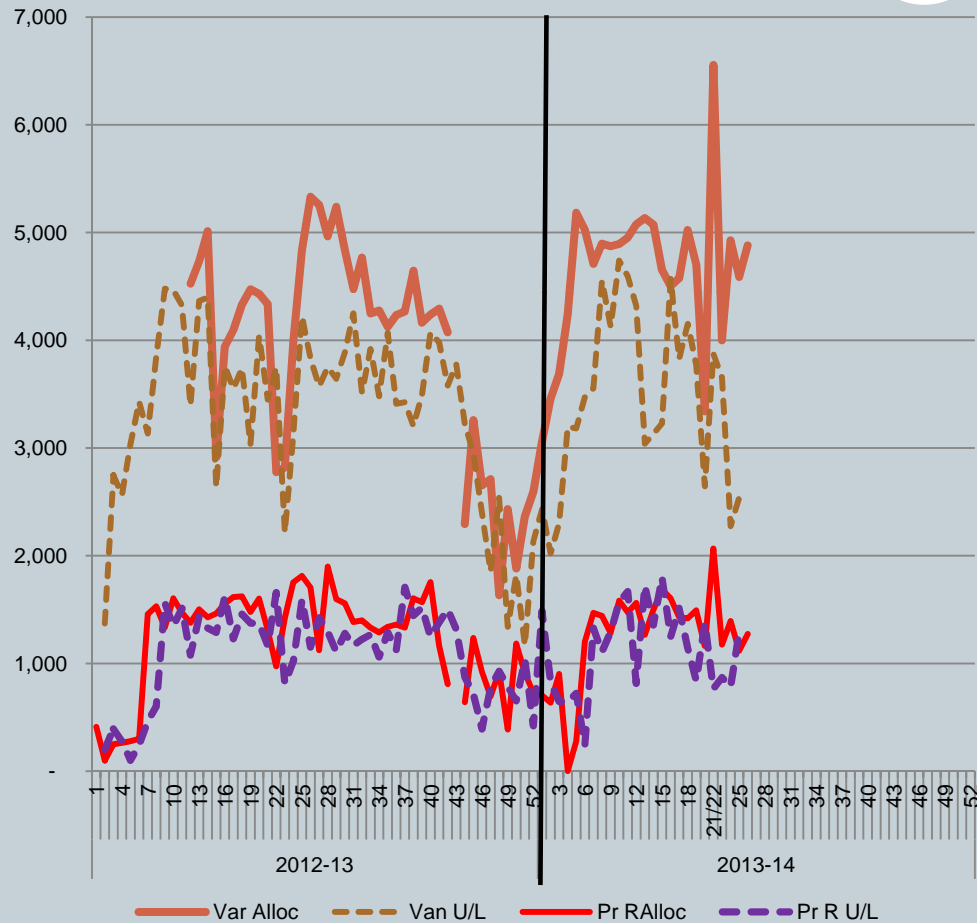


Vessel Lineups (to week 30)

- 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.



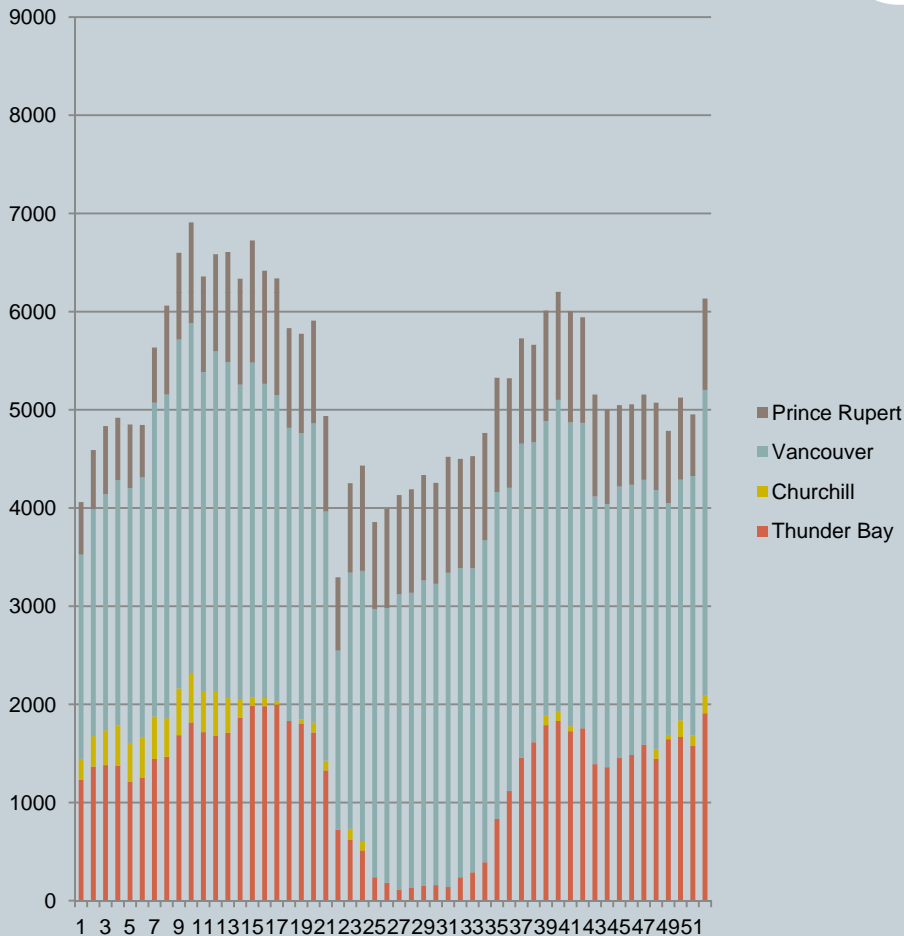
Railway Allocation vs. Unloads



- 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 8% lower in the Prince Rupert corridor



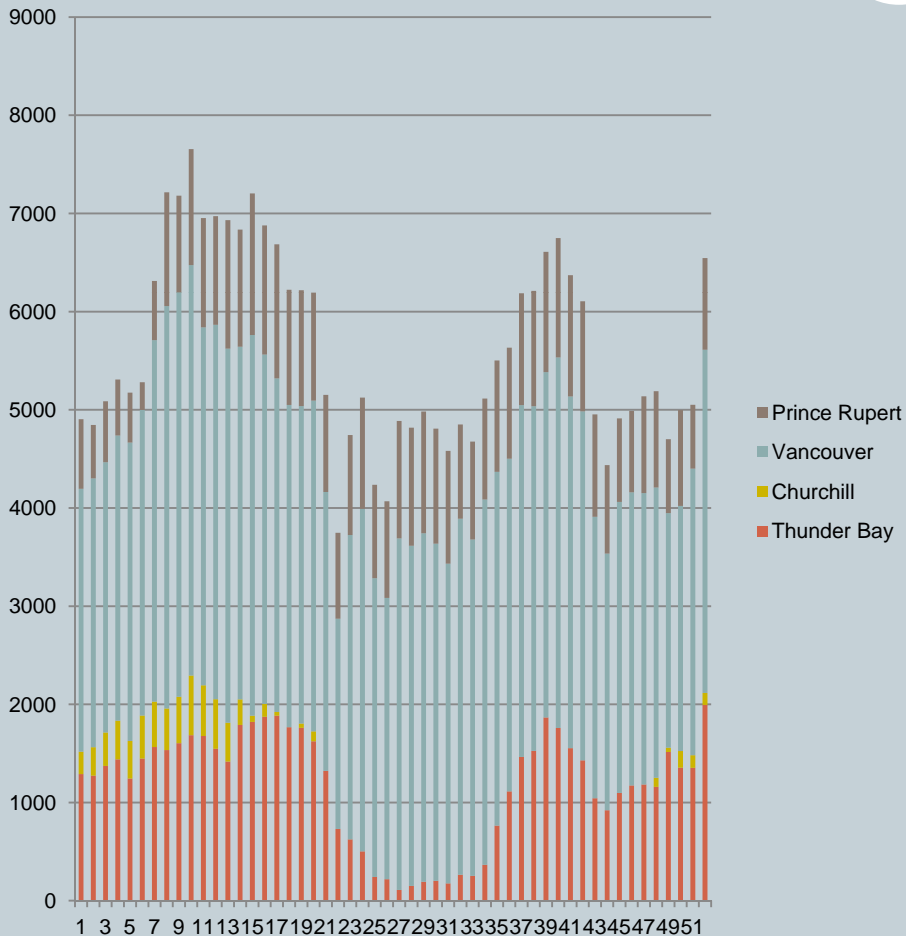
Weekly Port Unloads - 10 year average



- 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.



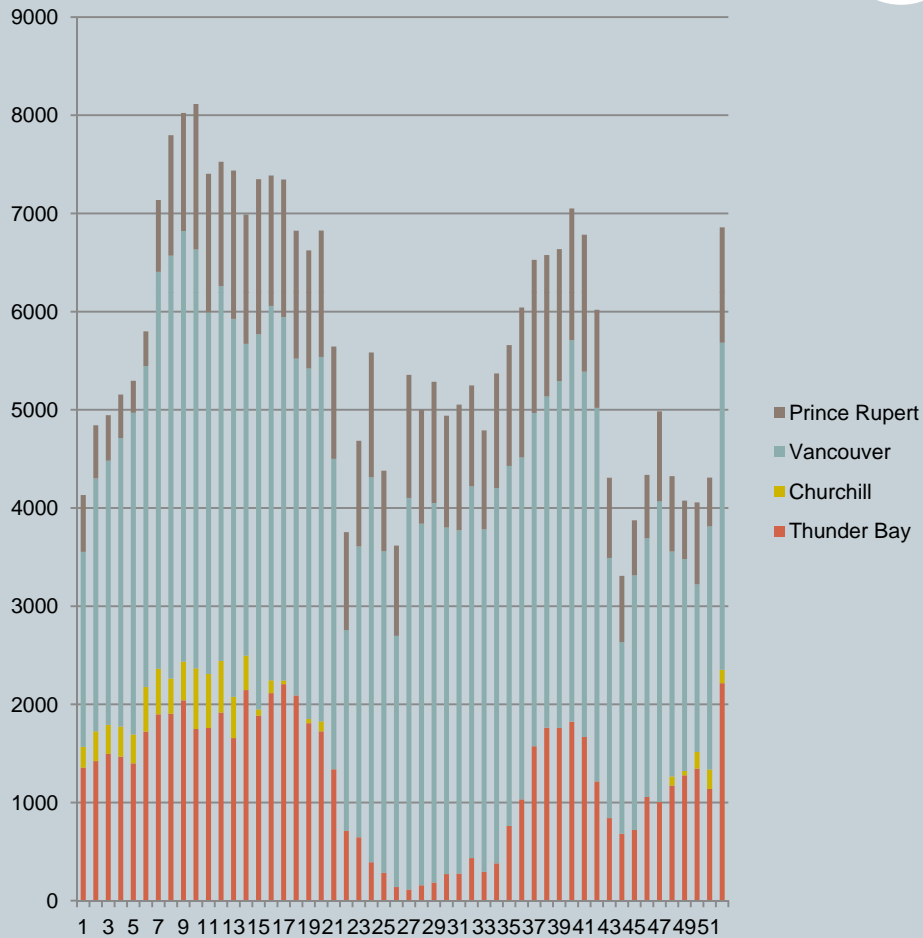
Weekly Port Unloads - 5 Yr Average



- 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



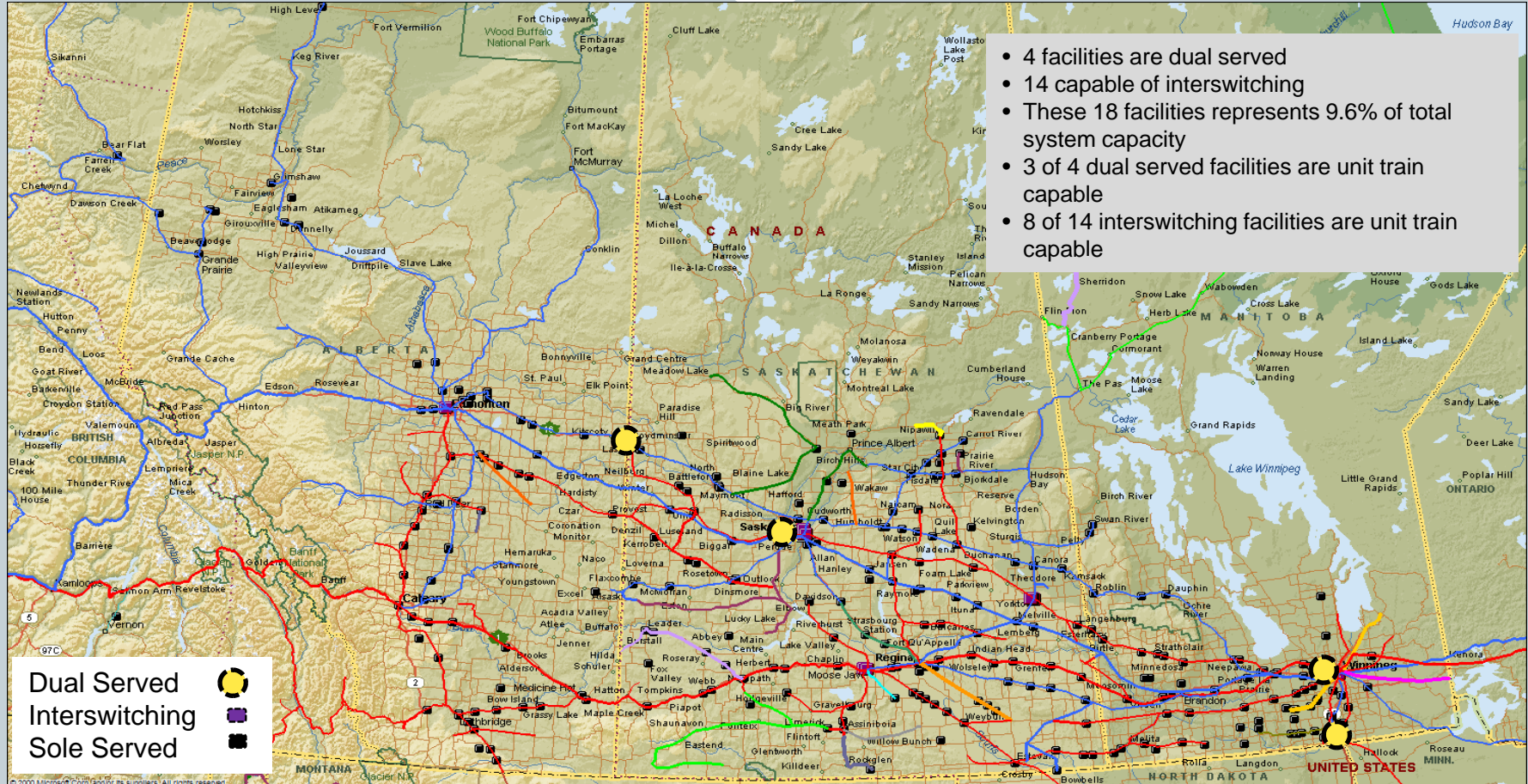
Weekly Port Unloads - 3 yr Average



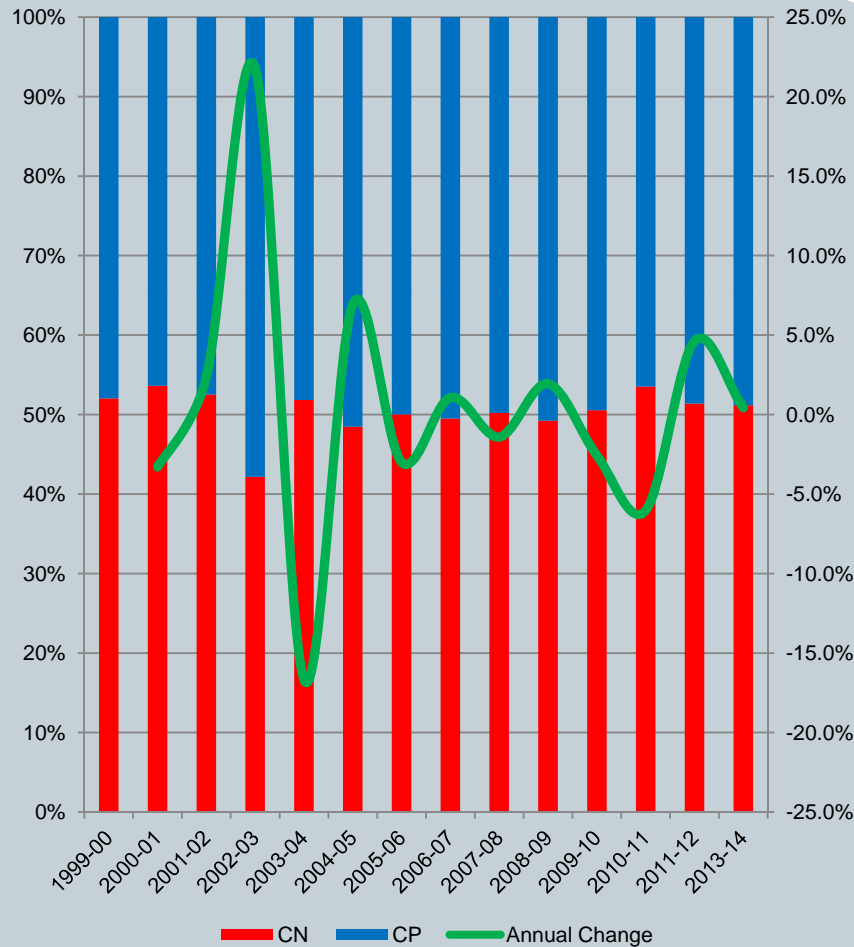
- As in the five year scenario, the increased capacity offering by the railway continues to grow.
- As noted in the five year scenario, the winter operating impact worsens in the more recent years



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



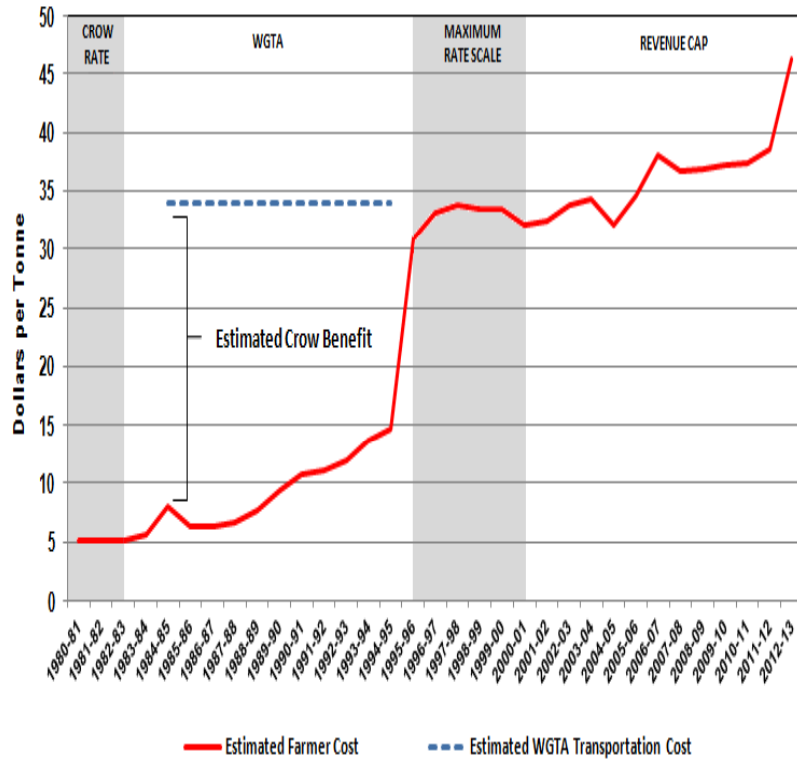
What is The Revenue Cap or “Entitlement”



- 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

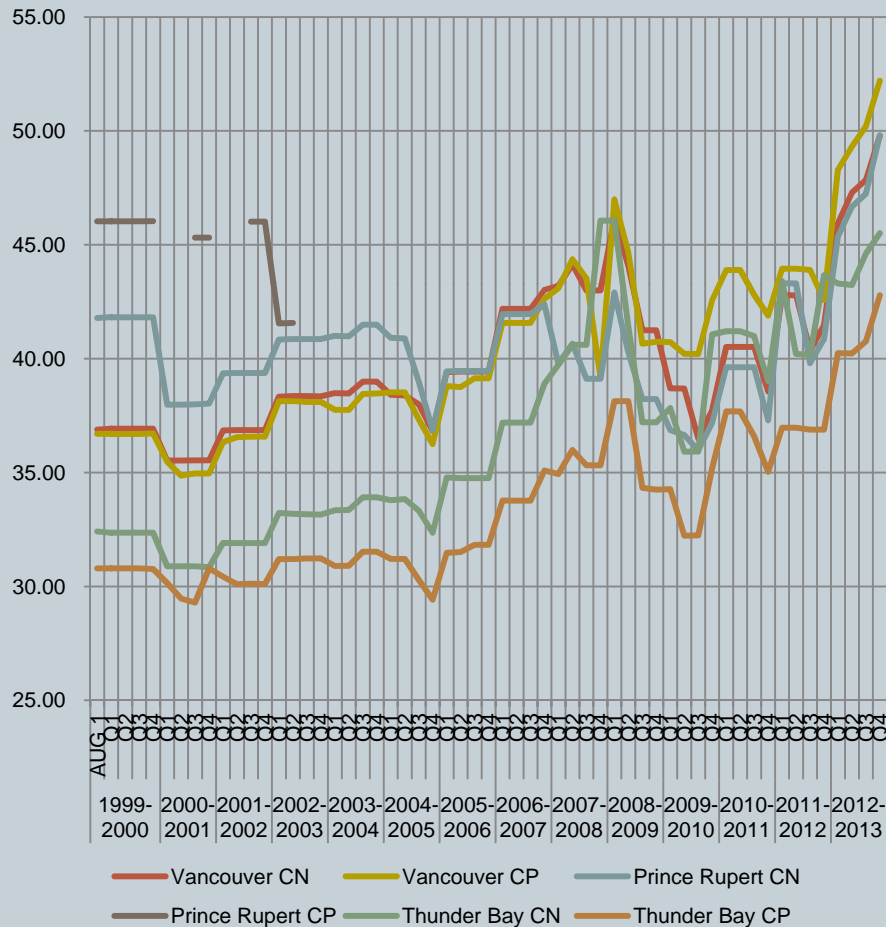


Rail Freight Rates since 1980



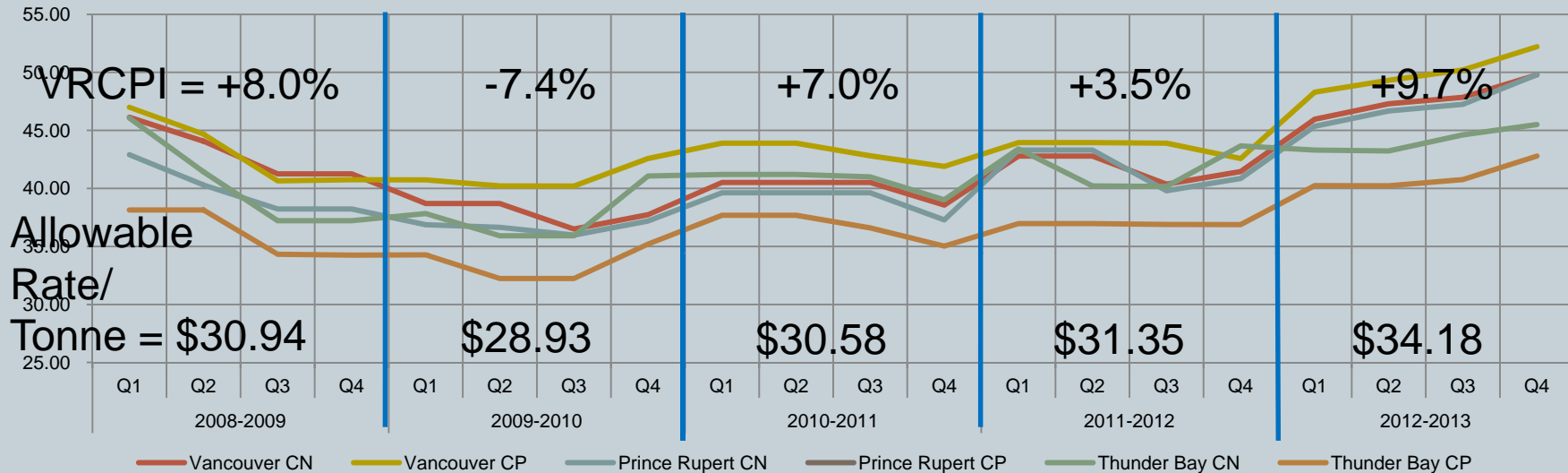
- Four rail freight rate regimes have been used over the last 30 years:
 - The Crow rate
 - The Western Grain Transportation Act/ Agency
 - The Maximum rate scale
 - The Maximum Revenue Entitlement - MRE (Rev Cap)
- Over the period from 1980, when the Crow Rate was still in effect, to 2013, the rail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



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

