

**Monitoring the Canadian
Grain Handling and
Transportation System**

1

**Summary
Report**

**Second Quarter
2005-2006 Crop Year**



Government of Canada **Gouvernement du Canada**



Foreword

In keeping with the federal government's Grain Monitoring Program (GMP), the ensuing report focuses on the performance of the Canadian Grain Handling and Transportation System (GHTS) for the six-month period ended 31 January 2006. In addition to providing a current accounting of the indicators maintained under the GMP, it also outlines the trends and issues manifest in the movement of western Canadian grain during the first half of the 2005-06 crop year.

As with previous quarterly and annual reports, the report is structured around a number of performance indicators established under the GMP, and grouped under five broad series, namely:

- Series 1 – Industry Overview
- Series 2 – Commercial Relations
- Series 3 – System Efficiency
- Series 4 – Service Reliability
- Series 5 – Producer Impact

Although the indicators that follow largely compare the GHTS's current-year performance with that of the preceding 2004-05 crop year, they are also intended to form part of a time series that extends forward from the 1999-2000 crop year. As such, comparisons to earlier crop years are also made whenever a broader contextual framework is deemed appropriate.

The accompanying report, as well as the data tables which support it, can both be downloaded from the Monitor's website (www.quorumcorp.net).

QUORUM CORPORATION

Edmonton, Alberta

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Findings

Although grain production for the 2005-06 crop year was consistent with what many in the industry would call a “normal” crop, the comparative quality of the harvest remained lower than normal for a second consecutive year. While much of Saskatchewan and Alberta benefited from initially favourable growing conditions, excessive moisture levels in Manitoba actually prevented many farmers from even planting a crop. However, it was the onset of heavy rains late in the season that ultimately undermined the quality of what had been a promising crop. Furthermore, producers still had to contend with the effects of lower commodity prices in the face of rising input costs.

1.0 Industry Overview

1.1 Grain Production and Supply

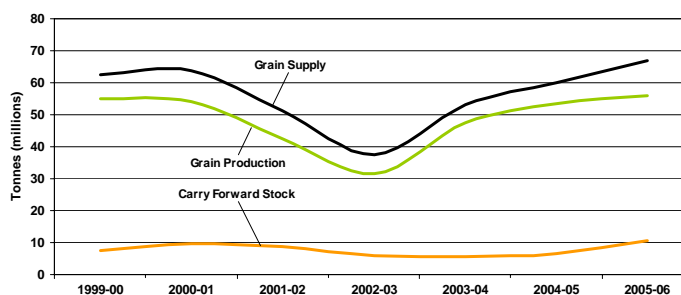
Overall grain production for the 2005-06 crop year climbed to 56.0 million tonnes, an increase of 4.9% over the 2004-05 crop year’s 53.4 million tonnes. This represents the largest production volume in western Canada since the GMP was initiated. However, current crop production only exceeded the program’s previous record of 55.1 million tonnes by 1.6%.¹ Despite this overall gain, the increase was not evenly distributed across the prairies. Although production in Saskatchewan and Alberta increased by 17.1% and 5.9% respectively, Manitoba’s output fell by 35.2%. This was due in large part to the rains that had inundated much of the province’s southeastern corner, and which ultimately prevented most farmers in that region from even planting a crop.

Notwithstanding the modest gain in production, the overall grain supply for the 2005-06 crop year increased by 11.3%, to 66.8 million tonnes from 60.0 million tonnes a year earlier. Aided in large part by the 10.8 million tonnes worth of stocks carried forward from the preceding crop year, this surpassed the 63.8-million-tonne record that had been set in the 2000-01 crop year.

Although the larger grain supply produced a new GMP record, its overall quality was greatly reduced for a second consecutive year owing to the heavy rains that were received late in the growing season. This, however, did not unduly delay harvesting or constrict the amount of grain that was moved by the GHTS in the first and second quarters.² As a result, there was neither the significant reduction in average elevator storage times nor the increase in the speed with which grain moved through the GHTS during this period. In fact, many of the year-over-year variations noted in the GMP’s measures for the first six months of the 2005-06 crop year underscore the effects of an improvement in the supply of grain.

As was the case a year earlier, reduced supplies of high-quality grain meant that the grain industry had to contend with the realities of marketing a wider range of grades. In some instances, this implied re-entering

Figure 1: Western Canadian Grain Supply



¹ The previous record was established in the 1999-2000 crop year, the GMP’s base year, when total western Canadian grain production reached 55.1 million tonnes.

² The previous crop year’s late harvest greatly limited the amount of grain that could be gathered by the GHTS, and resulted in existing elevator stocks being quickly drawn down in the first quarter.

markets that Canada had largely ceded to other producing nations.³ For the most part, the industry's efforts to adapt have proven successful, although the results were clearly mixed. To an extent, the challenges involved in marketing a poorer-quality crop were exemplified by a disproportionate 15.7%-decline in wheat shipments for the first half, while actual wheat production fell by a mere 0.8%. Similarly, durum handlings increased by just 9.1% even though output climbed by 19.2%.

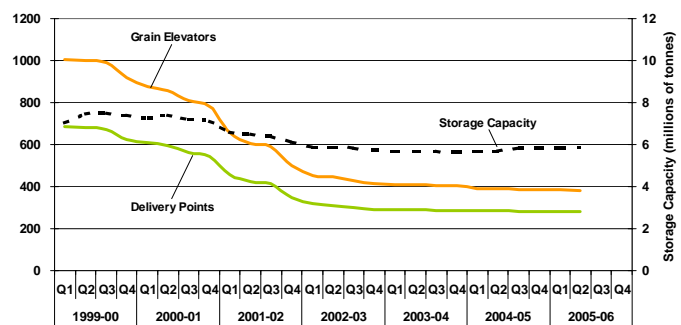
Still there were some noteworthy achievements, with one being a 1.7-million-tonne movement of feed barley. In addition to denoting a gain of 211.6% for the period, the volume handled in the first half of the 2005-06 crop year proved to have been one-and-a-half times the previous crop year's entire barley movement. The impetus for this came from the fact that the barley crops of most competing nations proved to be significantly smaller than usual, and that the CWB was able to successfully exploit what was expected to be a short-term sales opportunity.⁴

1.2 Country Elevator Infrastructure

One of the most visible structural transformations observed under the GMP has been the decline in the number of licensed country elevators. In the span of just six years, 61.7% of the 1,004 facilities in operation at the beginning of the GMP had been closed. And although the country elevator network continues to be rationalized, the pace of the restructuring has abated significantly in the last three years. The first six months of the 2005-06 crop year provided further evidence of this, declining by just five, or 1.3%, to 380 in total. This enlarged the scope of the overall reduction in facilities since the beginning of the GMP to 62.2%.

In conjunction with this decline in elevators has been a largely lock-stepped reduction in the number of grain delivery points at which these facilities were located. During the first half, the number of grain delivery points decreased by three, or 1.1%, to 279. As with the elevator infrastructure itself, the delivery points that remained constituted slightly more than one-third, 40.7%, of the 685 that were in place at the beginning of the GMP. Although these installations are distributed generally throughout western Canada, grain deliveries have been concentrated at an even lesser number of delivery points. In the 2004-05 crop year, just 94 locations accounted for 80% of the total grain delivered into the system.⁵

Figure 2: Grain Delivery Points, Licensed Elevators, and Licensed Elevator Storage Capacity



When contrasted against the decline in the number of elevators and delivery points, the reduction in associated storage capacity has not proven nearly as dramatic. This arises because the replacement of smaller elevators by high-throughput facilities with far greater storage capacities has been one of the principal objectives in most rationalization programs. As such, even though licensed storage capacity declined by over 1.2 million tonnes in the first six years of the GMP, from 7.0 million tonnes to 5.8 million tonnes, this constituted a reduction of just 16.8%. Moreover, the recent expansion of existing facilities has actually produced a net increase in storage capacity. In the 2004-05 crop year, this gain amounted to 157,000 tonnes, or 2.8%. A further 55,700 tonnes was added in the first six months of the 2005-06 crop year. This had the effect of raising the system's overall storage capacity by another 1.0%, to just over 5.9 million tonnes.

³ By way of example, lower-quality grades amounted to as little as 5% of western Canadian wheat exports in comparatively good years. Still, grain quality does fluctuate from year to year, and in the 2004-05 crop year this proportion climbed to 46.3%, while data for the second quarter of the 2005-06 crop year suggests that the proportion reached an even greater 48.9%.

⁴ With an increase in Australian barley production anticipated, competition in the feed barley market was expected to intensify in the second half of the 2005-06 crop year.

⁵ The most recent statistics available for grain deliveries by station are those from the 2004-05 crop year.

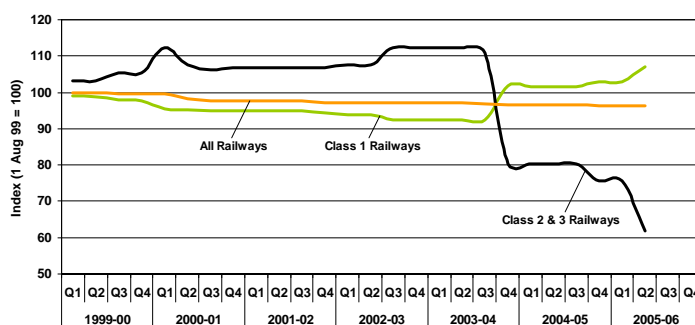
These broad trends provide a clear indication of the evolution that has been taking place within the industry since the beginning of the GMP. The elevator network in place today has significantly fewer facilities, substantially more on-site storage, and a greater ability to load railcars in partial – if not complete – trainload lots. On this latter point, it is important to note that with the close of the second quarter almost half of these elevators, 46.1%, were capable of loading 50 or more railcars at a time. This denotes a virtual fourfold increase over the 11.9% that could do so when the GMP began.

1.3 Railway Infrastructure

The dramatic changes to the makeup of the GHTS's elevator system contrast sharply with the more modest ones posted by its railway network. During the first six years of the GMP, the net reduction in western Canadian railway infrastructure amounted to just 3.6%, leaving a network that encompassed 18,763.7 route-miles of track. Even so, the network had been changing in other ways. Throughout this period, CN and CP continued to transfer a number of their branch line operations to a variety of new shortline railways, a practice that began in the mid 1990s as part of a larger industry restructuring. At its height, regional and shortline carriers had operations that extended over almost one-third of western Canada's railway network.

This practice, however, began to wane in the 2003-04 crop year, when CN acquired the operations of BC Rail.⁶ Around this same time, the declining financial health of shortlines at large prompted several into either selling or rationalizing their own operations.⁷ This was followed by the financial failure of the Prairie Alliance for the Future (PAFF) in the second half of the 2004-05 crop year, along with CN's resumption of control over the branch lines that they had previously leased to this shortline. All of this resulted in a significant realignment of the railway infrastructure in western Canada. By the end of the 2004-05 crop year, CN and CP directly managed a total of 15,251.2 route-miles of track, which constituted a net gain of 2.9% over the 14,827.9 route-miles they oversaw at the beginning of the GMP. In comparison, the network operated by western Canada's smaller Class 2 and 3 carriers declined by 24.3%, to 3,512.5 route-miles from 4,640.3 route-miles.

Figure 3: Relative Change in Railway Infrastructure



By the end of the 2004-05 crop year, CN and CP directly managed a total of 15,251.2 route-miles of track, which constituted a net gain of 2.9% over the 14,827.9 route-miles they oversaw at the beginning of the GMP. In comparison, the network operated by western Canada's smaller Class 2 and 3 carriers declined by 24.3%, to 3,512.5 route-miles from 4,640.3 route-miles.

In October 2005, CN decided to lift a self-imposed moratorium on branch line abandonment, and added a total of 328.1 route-miles of Saskatchewan infrastructure as discontinuance candidates to its Three Year Network Plan.⁸ When considered alongside the 412.2 route-miles of infrastructure that CP had added as discontinuance candidates just three months earlier, it would appear that both CN and CP have begun to more rigorously examine their remaining networks. With this in mind, it is worth noting that the 740.3 route-miles collectively added to these plans virtually equalled the 743.2 route-miles actually abandoned since the beginning of the GMP.

Of course, the failure of PAFF along with the weakening financial positions of other shortlines does not preclude the possibility of further spin offs. Rather, it merely suggests that the option may not be as desirable

⁶ In July 2004 CN acquired the vast majority of BC Rail's operations. With the exception of a 23.2-route-mile section of track that was used to service Roberts Bank, the transaction expanded CN's network in British Columbia by 1,419.8 route-miles.

⁷ Poor financial performance was central to the decisions taken by the owners of both the Great Western Railway and Alberta RailNet to sell them outright.

⁸ Federally-regulated carriers are required to identify these abandonment candidates in a Three-Year Network Plan, a legally prescribed listing of all railway lines that the carrier intends to operate, convey or abandon over the course of the ensuing three years. Listing a line as a conveyance or abandonment candidate has typically preceded any effort to establish a shortline operation on it. In this instance, CN added the lines that it previously leased to PAFF – which comprised sections of its Amiens, Bolney, Robinhood and Turtleford subdivisions – as well as portions of its Lewwan, Northgate and Preeceville subdivisions.

as it once was to potential investors. In fact, the second quarter gave expression to both perspectives. In the first instance, a 60.2-route-mile section of track that had been designated for abandonment by CP was sold to a new shortline operation. Established in December 2005, the Fife Lake Railway provides another example of rural municipalities banding together to prevent the loss of a railway line they consider vitally important to their local economy.⁹ As typified by the operations of either the Wheatland Railway or the former PAFF, actual service along the line is to be contracted out to another carrier, in this case the Great Western Railway.¹⁰

In the second case, RailAmerica Inc. sold the majority of its western Canadian holdings to CN in January 2006. This transaction, valued at \$26 million, encompassed 702.8 route-miles of railway infrastructure grouped under three separate operations: the Central Western Railway; the Lakeland and Waterways Railway; and the Mackenzie Northern Railway.¹¹ Interestingly, CN sold or leased virtually all of these same lines in the late 1990s to RaiLink Ltd., which was subsequently acquired by RailAmerica in 1999.¹² To a large extent, CN's purchase of these railways denotes a reacquisition of the operations it had sold off several years earlier. As with the sale of other shortline operations, RailAmerica indicated that it was dissatisfied with the returns it had been deriving from these properties, and would be using the proceeds from the transaction to reduce its existing debt level and to make new strategic investments.

In addition to the 38.7 route-miles of track that were recorded as having been abandoned in the fall of 2005, these transactions resulted in another significant realignment of the GHTS's railway infrastructure. By the end of the second quarter, the scope of shortline operations had been reduced by almost one-fifth, falling to 2,869.9 route-miles from 3,512.5 route-miles at the beginning of the current crop year. Moreover, the amount of infrastructure controlled by these smaller carriers has fallen by 38.2% since the beginning of the GMP while that of the larger Class 1 carriers has risen by 6.9%.

Although increased producer-car loading has helped compensate for the closure of some local elevators, the continuing erosion in shortline traffic volumes does not augur well for their futures. Moreover, the theoretical framework that suggested that shortline operations could prevent or forestall the closure of the smaller wood-crib elevators, along with many of the grain-dependent branch lines that serve them, now appears to have been largely discredited. Despite their best efforts, most shortline railways have simply been unable to reshape the economics that gave rise to the elevator rationalization strategies of the grain companies in the first place. By the end of the second quarter, the number of licensed elevators served by shortline railways had fallen by 68.3%. And although this differed little from the 62.2% reduction in elevators served by Class 1 railways, the associated storage capacity of those served by shortlines declined by more than four times as much: 54.8% versus 12.9%. As a result, few of these smaller carriers have actually been able to avoid the need to scale down operations or to abandon parts of their own networks.

1.4 Terminal Elevator Infrastructure

No changes to the licensed terminal elevator network in western Canada were recorded during the first six months of the 2005-06 crop year. At the close of the period, the network comprised a total of 16 facilities with an associated storage capacity of 2.6 million tonnes.

⁹ As was the case with the Great Western Railway and the Wheatland Railway before it, the funds needed to establish the Fife Lake Railway were raised primarily through equity contributions from several affected rural municipalities, as well as a loan from the Saskatchewan government.

¹⁰ The Great Western Railway has an equity position in the Fife Lake Railway, which is adjacent to, but physically separated from, its own operations.

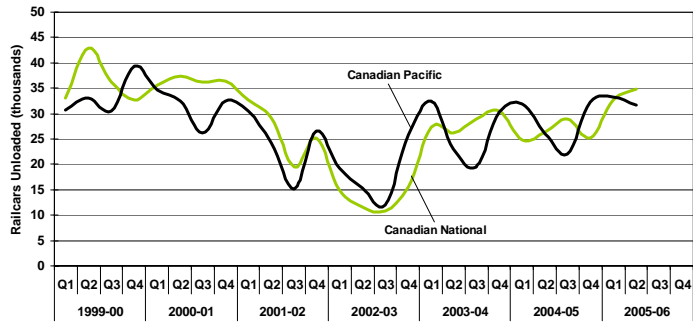
¹¹ Prior to the sale of these three railways to CN, RailAmerica had four shortline operations in western Canada. Afterwards, only its E&N Railway operation on Vancouver Island remained.

¹² Although the infrastructure of the Central Western Railway had been dramatically reduced in recent years, the operation had originally been established on sections of CP's former Coronation, Lacombe and Stettler subdivisions. In taking control of the Central Western Railway, CN also inherited the vestiges of that infrastructure.

A total of 132,646 carloads of grain were unloaded at these facilities during the first six months of the 2005-06 crop year. This represented an increase of 21.6% from the 109,107 handled during the same period a year earlier. Having originated 51.0% of the cars unloaded during this period, CN took the lead as the largest handler of export grain in western Canada. CP's share was down significantly from the 53.0% it secured in the same period a year earlier.

Although the record is somewhat mixed, CP has often outpaced CN's quarterly handlings since the 2002-03 crop year. In large part, this can be explained by a distribution in crop production that has tended to benefit CP rather than CN in recent years. The reduction in CP handlings thus far into the 2005-06 crop year appears largely to reflect a reversal of these same forces and a more even distributed of the crop in the areas served by the two carriers.

Figure 4: Terminal Elevator Unloads – Railway Carrier



2.0 Commercial Relations

2.1 Tendering Program

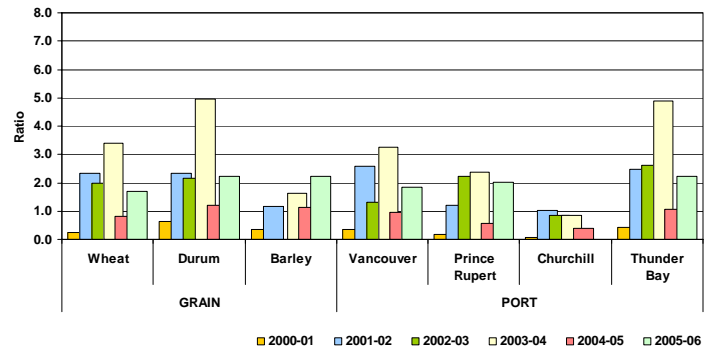
Given the changes brought forth in the 2003-04 crop year, the CWB targeted to move a fixed 40% of its overall grain movements to the four ports in western Canada using a combination of tendering and advance car awards. Under the terms of this arrangement, the CWB is expected to tender up to a maximum of 20% of this volume in the 2005-06 crop year.

In the first six months of the 2005-06 crop year the CWB issued 130 tenders calling for the movement of 2.6 million tonnes of grain. As in previous crop years, the most substantive portion of these calls, 52.0%, dealt with the movement of wheat. Even so, this proportion fell significantly below the 77.8% recorded for the same period a year earlier due to an unusually large movement of barley, which accounted for 35.7% of the total tonnage called. Durum, which typically ranks second in overall volume, fell to third place with the remaining 12.3%. The port of Vancouver remained the principal export gateway, with somewhat more than half of the tonnage called, 59.1%, having specified delivery there. This marked a significant decline from the port's 70.9% allocation in the 2004-05 crop year. In addition to the allocation given to Vancouver, Prince Rupert was designated to receive 26.3% of the tendered volume while Thunder Bay was to get 14.6%. No tenders calling for delivery to Churchill were issued.

Although these results were influenced by a second consecutive year of reduced grain quality, broader market forces also had a hand in shaping the CWB's tendering program. In particular, reduced barley production in western European and former Soviet Union countries lessened the export competition on feed barley. With the ensuing run up in world prices, the CWB was able to exploit a temporary shortfall in world supplies to export almost 1.6 million tonnes of feed barley in the first and second quarters.¹³ Given that much of the demand was tied to Asian markets, the CWB initially used the tendering program to facilitate its movement through the west coast ports of Vancouver and Prince Rupert. Many of the significant year-over-year variations observed in the first half, be it with respect to tendered or non-tendered grain, were attributable to the incremental volume provided by these sales.

The calls issued by the CWB were met by 656 tender bids offering to move an aggregated 5.0 million tonnes of grain, slightly less than twice the volume sought. The scope of the bidding stands in sharp contrast to that exhibited in the 2004-05 crop year, the least intense bidding period under the GMP.¹⁴ Using the ratio of tonnage-bid to tonnage-called to measure grain company reaction, a broad increase in the response rates of the bidders was observed. Wheat showed the steepest relative gain in the response rates tied to individual grains, its ratio having climbed by 109.7%, to 1.7 as compared to 0.8 for the previous crop year as a whole. And although the response rates for the remaining CWB grains also rose, these gains proved to be somewhat less: 96.5% and 87.1% for barley and durum respectively. However, it is worth noting that the response rate on tendered barley calls, which reached a record 2.2 million tonnes for the first quarter, either matched or surpassed those of wheat and durum for the first time in the history of the GMP.

Figure 5: Tendered Volume – Ratio of Tonnage Bid to Tonnage Called



¹³ With an increase in Australian barley production widely anticipated for later in the crop year, the shortfall in supply was not expected to extend itself much beyond the first half of the 2005-06 crop year.

¹⁴ The bidding patterns observed in the 2000-01 crop year were noticeably lower than in the 2004-05 crop year. However, meaningful comparisons cannot be drawn owing to the limited activity recorded during the initial year of the CWB's tendering program. Comparisons made here largely relate to the bidding activity exhibited since the 2001-02 crop year.

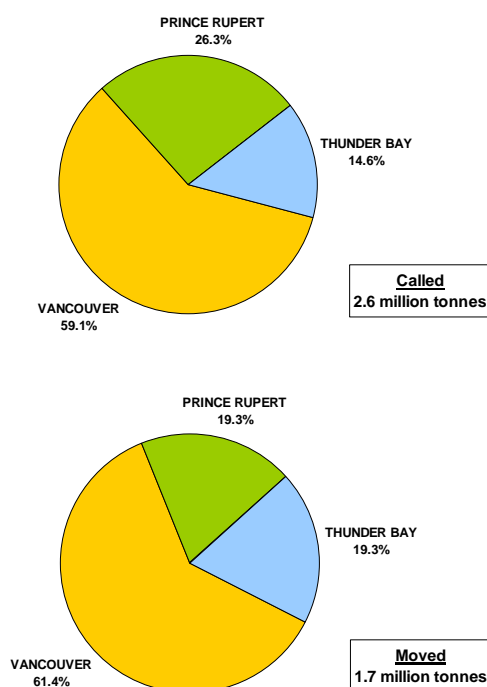
Equally pronounced improvements in the response rates for the port specified in the tender calls were also evident. In particular, the ratio associated with grain intended for delivery at Prince Rupert climbed by 255.5%, from a ratio of 0.6 for the previous crop year as a whole to 2.0 for the first half. Although ratios of 1.9 and 2.2 were noted for Vancouver and Thunder Bay respectively, the gain in the response rates proved to have been about half that of Prince Rupert's.¹⁵

In large part, these better response rates reflected the improved ability of the grain companies to secure the volumes set out in the tender calls. As compared to the 2004-05 crop year, where 58.7% of all the tenders called went unfilled, this proportion fell to 35.0% in the first six months of the 2005-06 crop year. Although this was more consistent with the historical average, it was also inflated by factors particular to the tendering of feed barley, which accounted for almost one-fifth of the total unfilled volume, 19.2%. As opposed to the CWB's normal practice of issuing a tender call only when it has a specific sales contract to fill, the tender calls issued for feed barley were largely speculative, with the CWB anticipating that it could ultimately sell the grain gathered beforehand. However, this was not always the case. In the first quarter, bids were sought and received for 171,600 tonnes of feed barley that ultimately was not needed. When this volume is excluded, the unfilled proportion falls to 28.3%.

Improvements in the supply of various grains were also mirrored in the bids put forward by the grain companies themselves.¹⁶ As opposed to the 2004-05 crop year, where the CWB was often required to pay a premium on tendered shipments, the practice of discounting once again reasserted itself. Few premiums were paid by the CWB on movements of wheat and durum in the first six months of the 2005-06 crop year.¹⁷ Moreover, the maximum value of the discounts accepted during this period returned to more normative levels: \$18.58 per tonne in the case of wheat; and \$18.05 per tonne for durum.¹⁸ Despite this, many of the bids advanced for the tendered movement of barley still required the CWB to pay a premium. In some instances this amounted to as much as \$5.99 per tonne.¹⁹

During the first six months of the 2005-06 crop year, the CWB awarded a total of 226 contracts for the movement of an aggregated 1.7 million tonnes of grain.²⁰ This represented an increase of 62.9% from the volume handled in the same

Figure 6: Tendered Grain – Cumulative Volumes to 31 January 2006



¹⁵ With no tender calls having been issued for Churchill, the ratio of tonnage-bid to tonnage-called fell to zero from 0.4 for the previous crop year.

¹⁶ The tender bids advanced by the grain companies are typically expressed as a discount to the CWB's Initial Payment.

¹⁷ Premiums of up to \$2.00 per tonne were paid by the CWB on two tender contracts for the movement of high-protein content wheat to Vancouver in the second quarter.

¹⁸ Before premiums became commonplace, the discounts accepted in the first half of the 2004-05 crop year reached a maximum of \$21.86 per tonne for wheat, and \$19.01 per tonne for durum.

¹⁹ The premiums paid on tendered barley movements in the first quarter of the 2005-06 crop year reflect unusual market conditions.

²⁰ The volumes cited as moving under the CWB's tendering program also extend to malting barley – which is administered independent of other CWB grains.

period a year earlier. Mirroring the destinations specified in the tender calls, the largest proportion of the grain shipped, 61.4%, was sent to the port of Vancouver. Prince Rupert and Thunder Bay followed in turn with identical shares of 19.3% each.

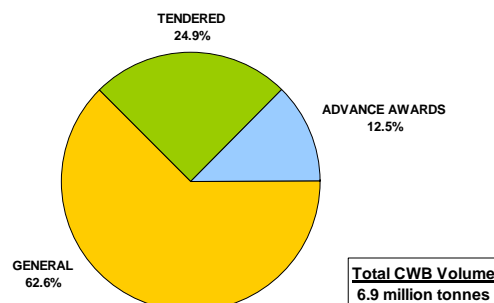
As observed previously by the Monitor, the vast majority of the grain moved under the CWB's tendering program did so in blocks of 25 or more railcars. For the first six months of the 2005-06 crop year, 87.6% of the tendered grain volume moved in such blocks. This proportion proved to be only marginally below the 88.2% recorded for the entire 2004-05 crop year. Movements in blocks of 50 or more cars also fell during the period, to 57.8% from 63.3%. This decline was in large part driven by a shift away from movements in blocks of 50-99 cars, which had fallen by 5.6 percentage points to 45.9%. Much of this dilution was in turn traceable to a modest increase in the number of facilities used to source grain for individual tender contracts.

Even so, high-throughput elevators remained the leading originators of tendered grain shipments. During the first half, 84.8% of the tendered tonnage was shipped from these larger facilities. This proportion is only marginally higher than the 82.3% recorded for the 2004-05 crop year as a whole, and is consistent with the values posted since the 2001-02 crop year.²¹

In terms of originating carriers, CP proved to be the largest handler of tendered grain in the first half. With 50.2% of the volume, however, the carrier only narrowly eclipsed CN's 49.8% share. Moreover, this average disguises the fact that CP's share had fallen to 47.0% in the first quarter before then rebounding to 66.5% in the second. Still, when tendered malting barley shipments are factored in, CP's share of all tendered grain movements in the first six months of the 2005-06 crop year actually amounts to 49.2%, and marginally trails that of CN.²² To a large extent, the comparative reduction in CP's share for the period appears to have been the product of a harvest that was more evenly distributed between the CN and CP service areas.²³

In aggregate, 24.9% of the CWB's total grain shipments moved under tender to western Canadian ports in the first six months of the 2005-06 crop year. Although this proved somewhat above the CWB's 20% target, as a year-to-date value it camouflages the more extreme shares recorded in the first and second quarters, which amounted to 36.6% and 12.5% respectively.²⁴ The timing of the unusually large tendered barley movement was effectively responsible for the gulf that developed between these quarterly shares. And even though the volume of tendered grain handled during the first half was almost two-thirds greater than what it had

Figure 7: Western Canadian CWB Grain Volumes



²¹ Although the 2000-01 crop year saw 90.3% of the tendered grain volume moved from high-throughput facilities, the limited activity recorded during the initial year of the CWB's tendering program makes any comparison unfair. Since that time, the proportion drawn from high-throughput facilities has ranged from a low of 83.0% in the 2002-03 crop year to a high of 86.2% in the 2003-04 crop year.

²² Although tendered malting barley shipments are generally considered apart from the CWB's mainstream tendering program under the GMP, an allowance should be made for the unusually large amount of malting barley shipped in the second quarter of the 2005-06 crop year. CN share of this 155,600-tonne movement – the largest recorded since the 2000-01 crop year – amounted to 61.0%. When considering all tendered grain shipments in the first half, the 94,900 tonnes of malting barley moved by CN was enough to boost the carrier's overall share to 50.8%, and a first place ranking.

²³ With much of the 2004-05 crop year's harvest having first come off the field in southern Alberta and Saskatchewan, CP earned a disproportionately greater share of the early tendered movement than did CN.

²⁴ The 36.6% share accorded to tendered grain shipments in the first quarter was the largest quarterly value observed since the general target of 20% was first adopted at the beginning of the 2003-04 crop year.

been a year earlier, the CWB's reported Transportation Savings increased by only 10.3%, to \$13.9 million from \$12.6 million.²⁵ A significant reduction in the number of tender contracts bearing premiums to be paid by the CWB played a major role in this upturn.

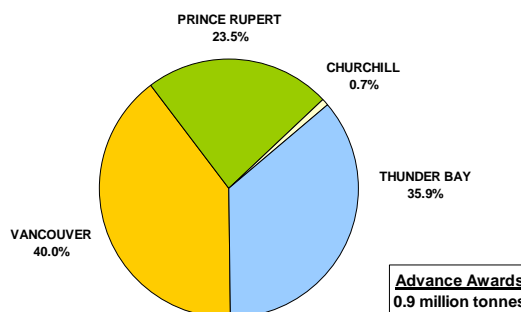
2.2 Advance Car Awards Program

With the beginning of the 2005-06 crop year, the CWB's advance car awards program entered its third year of operation. A total of slightly less than 0.9 million tonnes of grain moved under this program in the first half. This constituted 12.5% of the total grain volume shipped by the CWB to western Canadian ports during the period. When considered alongside the 1.7 million tonnes moved under the CWB's tendering program, this accounted for slightly more than one-third, 37.4%, of the CWB's total grain shipments. This was marginally below the CWB's 40% target.

The composition of the grain shipped under the CWB's advance car awards program differed substantially from that moved under its tendering program. This was due to the fact that a considerable amount of the barley moved by the CWB in the first half was shipped under its tendering, rather than its advance car awards program. As a result, this unusually large barley movement did not draw down the capacity that had been allocated to wheat and durum shipments. In consequence, these latter grains were accorded much larger shares of the program's total movement: 74.4% in the case of wheat, which totalled 0.6 million tonnes; and 24.3% in the case of durum, which amounted to 0.2 million tonnes. Only 1.3% of the total volume, some 10,600 tonnes in all, was given over to barley shipments.

The fixed nature of the CWB's 40% target also had an impact on the volume of grain that moved to each of the four ports under the advance car awards program in the first six months of the 2005-06 crop year. Given the displacement occasioned by the large movement of tendered barley, Vancouver received a noticeably lesser share of the volume moved under the advance car awards program than it did under the tendering program, 40.0% versus 61.4% respectively. Likewise, this departure from normal traffic patterns led to enhanced shares for the remaining ports. Thunder Bay followed with the second largest share, 35.9%; Prince Rupert with 23.5%; and Churchill with 0.7%.

Figure 8: Advance Car Awards – Destination Port



As with tendered grain shipments, the vast majority of the grain that moved under the advance car awards program originated at high-throughput elevators, 79.2%. This, however, was somewhat below the 84.8% share cited earlier for tendered grain shipments. Unlike tendered grain shipments, CP commanded a significantly larger share of the grain that moved under the advance car awards program than it did under the tendering program, 59.7% versus 50.2% respectively. This also appears to have stemmed from the fact that very little barley was shipped under the advance car awards program. Given barley's more northerly growing region, this effectively favoured CN with about two-thirds of the barley volume, and an increased share of the overall tendered movement.

When compared to tendered shipments, a significantly lesser volume of the grain that moved under the advance car awards program qualified for the incentive discounts offered by the railways. This is because the cars allocated to shippers under the advance car awards program are often integrated with those obtained through the tendering program as a means of optimizing individual block or train movements. As such, this practice effectively dilutes the values that are obtained for the aggregate volume moved under the two

²⁵ The CWB defines its Transportation Savings as the savings in transportation costs it realizes from the net value of discounts and premiums advanced by the successful bidders under the tender program, all freight and terminal rebates, and any financial penalties it may assess for non-performance.

programs. By way of example, 78.9% of this total volume moved in blocks of 25 or more railcars as compared to 87.6% for tendered grain alone. Similarly, the average overall size of these blocks amounted to 47.1 cars versus an average of 53.2 cars for tendered grain.

2.3 Other Commercial Developments

2.31 Competition Bureau Moves to Prevent Proposed Industry Transactions

The Competition Bureau acted on two unresolved transactions for the future operation of terminal elevators in the port of Vancouver. The first of these related to a proposed joint operation of the adjacent terminals of Saskatchewan Wheat Pool (SWP) and James Richardson International Limited (JRI) on the north shore of Burrard Inlet.²⁶ The proposal had been aimed at improving the operational efficiency of both facilities by permitting each to specialize in specific commodities, as opposed to all grains. In addition to the physical integration of storage capacity, vessel loading activities and supporting railway infrastructure, it was also anticipated that the new arrangement would make it easier to deal with the industry's emerging needs respecting identity preservation, product tracing, food safety and special handling.²⁷ To this end, Pacific Gateway Terminal Ltd. (PGTL), in which SWP and JRI held an equal ownership, was established as an arm's-length entity to oversee the management of these two terminal elevators.

Although this transaction required the formal approval from the Competition Bureau, PGTL began operating with the interim consent of the Bureau in July 2005. This was to allow certain aspects of the integration to proceed while the Bureau considered the matter. However, in November 2005 the Bureau filed an application with the Competition Tribunal challenging the joint venture under Section 92 of the Competition Act. In its application, the Bureau alleged that the joint venture would increase concentration in the control of port grain terminals at Vancouver, which combined with other market conditions, would likely result in a substantial lessening of competition and in a reduction of the competitive options open to farmers and other companies shipping grain to the port.

Although SWP and JRI indicated that they intended to contest the challenge before the Competition Tribunal, they agreed to abide by an interim order aimed at ensuring that both companies marketed their grain handling services at the port independently. The Tribunal is not expected to rule in the case prior to the end of the 2006-07 crop year.

The second matter related to an order issued by the Bureau in 2001 as a prerequisite to its approval of the merger between Agricore Cooperative Ltd. and United Grain Growers Limited (UGG), that required the emerging Agricore United (AU) to sell the Vancouver terminal elevator that had been owned and operated by UGG. Although the company had actively searched for a potential buyer, it had ultimately been unable to conclude a sale over the course of the succeeding four years. In May 2005, however, AU announced that it had reached a tentative agreement for the sale of the facility to Terminal One Vancouver Ltd., a consortium representing five farmer-owned inland grain terminals operating in Saskatchewan.



(Photograph courtesy of the Vancouver Port Authority)

Figure 9: An aerial view of the former UGG terminal elevator belonging to Agricore United in Vancouver, British Columbia.

²⁶ The SWP terminal elevator has a licensed storage capacity of 237,240 tonnes as compared to that of 108,000 tonnes for the JRI facility. The combined capacity of the two facilities would total 345,240 tonnes and account for just over one-third of Vancouver's total licensed storage capacity.

²⁷ SWP and JRI physically connected their existing railway infrastructures in order to facilitate the exchange of railcars between, and integrate the operations of, what were designed as two stand-alone facilities.

Even so, the consortium appeared incapable of amassing the 1.6 million tonnes in grain volume deemed necessary to make the venture viable, and attempted to entice other shippers into joining them, or into signing grain-handling agreements with them. This, however, proved difficult as many of these shippers already had pre-existing contracts with other terminal operators. As such, both parties were unable to conclude a final transfer before the 2004-05 crop year came to an end.

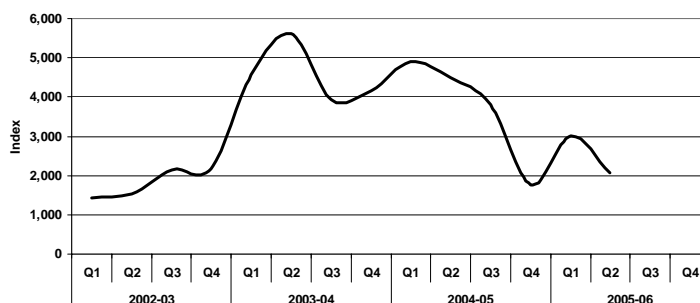
In light of this, AU reported to the Competition Bureau on 29 July 2005 that a sale of the UGG facility to Terminal One was not expected to close by the deadline that had been imposed by the Bureau, requesting that the timeframe be extended in order to allow both parties sufficient time to conclude the transaction.²⁸ However, the Bureau denied the request, which effectively put an end to the sales deal that AU and Terminal One had been working towards. Faced with the forced disposal of the facility, AU filed an application with the Competition Tribunal seeking, among other things, an order rescinding the original consent agreement made between the Commissioner of the Competition Bureau and AU for the sale of its former UGG facility. The matter had yet to be ruled upon when the second quarter came to a close.

2.32 Ocean Freight Rates

As discussed in previous editions of the Monitor's reports, ocean freight rates have fluctuated dramatically in the past three crop years. Half way through the 2003-04 crop year, they had climbed to a level that was five-and-a-half times what they had been just 18 months earlier. Ultimately, this marked a plateau from which they began to tumble in the second half. This pattern was largely repeated in the 2004-05 crop year, with ocean freight rates spiking in midyear before then again beginning to slide. By the end of July 2005, the Baltic Dry Index had fallen to a level not seen since the close of the 2002-03 crop year.²⁹

Figure 10: Baltic Dry Index of Ocean Freight Rates

Much of this price movement reflected the prevailing, and perceived future, demand for vessels to service China's growing trade in raw materials and finished goods. This had a significant impact on the export programs for CWB as well as non-CWB grains. In some cases, grain importers consciously deferred buying Canadian grain in the hope that ocean freight rates would moderate. In others, they simply turned to less-distant grain-exporting nations in an effort to contain these costs.



Even in North America, the rise in these costs changed traditional routing decisions. Canadian grain exports to Mexico, which had long used ocean-going vessels in movements from west coast ports, were being displaced by direct-rail shipments. In addition, the growing spread between other benchmark ocean freight rates resulted in the temporary movement of more grain through ports in the US Pacific Northwest and Canada's east coast.

China's economic expansion continues to be viewed as the main driver in all this, with its demand for bulk shipping capacity expected to remain high over the course of the next few years. In fact, many analysts believe that until a sufficient number of new vessels has been built to address the underlying imbalance between the supply and demand for carrying capacity, any reduction in ocean freight rates is likely to be graduated, rising and falling in the same cyclical manner as witnessed in each of the last two crop years. An observed initial

²⁸ The Commissioner had reportedly granted extensions for the sale of the UGG facility on several previous occasions. Under the most recent of these, if a sale could not be concluded by 1 August 2005, the facility was to be turned over to a trustee for divestiture.

²⁹ The Baltic Dry Index is produced by The Baltic Exchange Limited, a London-based organization that provides independently gathered real-time freight market information such as daily fixtures, indices for the cost of shipping wet and dry cargos, route rates, as well as a market for the trading of freight futures. The Baltic Dry Index is a price index of ocean freight rates based on a composite of daily rate quotes for 24 shipping routes. The information presented in the accompanying chart is drawn from publicly available secondary sources.

increase in ocean freight rates during the first quarter of the 2005-06 crop year, followed by a decline in the second, is entirely consistent with this viewpoint. And although the Baltic Dry Index has registered a net increase of about 20% in the last six months, it remains substantially below the values recorded in either of the two preceding crop years. This strongly suggests that ocean freight rates are in fact progressively moderating.

2.33 Pulse Growers Eye Trade Action

The surging pace of US pulse exports to Canadian processors during the post harvest period led to calls for the Canadian Government to pursue an antidumping countervailing duty. Canadian producers were alarmed that both processing and transportation capacity were being usurped by subsidized American production, thereby restricting their own ability to deliver products.

In 2002, the US government passed a new Farm Bill, which for the first time extended the “loan rate”, widely perceived to be a production subsidy, to peas and lentils. The loan rate establishes a floor price for the commodity. If producers sell their production at anything below the loan rate, the U.S. government makes up the difference. The subsidy applies to products marketed in Canada, just as it would if they were marketed domestically.

Since 2001, there has been a dramatic increase in U.S. production of peas and lentils, with increases approaching 400% and 100% respectively. With no corresponding increase in processing capacity or domestic demand in the U.S., their producers looked north to the well established industry in Canada. By trucking their production to Canadian processors, they were also able to access the favourable statutory freight regime in western Canada, and mitigate the impact of what they perceived to be poor service and exorbitant rate increases by the BNSF railway, which holds a virtual monopoly on service in the northern tier of the US grain producing states.

The more than plentiful supply of pulses and the willingness of US producers to deliver at any price, knowing that their government would provide the top up to the loan rate, was cited as the reason that the already depressed pulse market was sinking even further throughout the fall. The Saskatchewan Pulse Growers association launched an investigation into the allegations raised by its members.³⁰ A consulting firm was retained to quantify the product coming into Canada, the price it was selling for, cost of production in the US and the level of subsidy paid. Simultaneously, the association encouraged processors to buy Canadian products.

Ultimately, the Pulse Growers decided against requesting that the government pursue trade action against American imports. Their rationale was that such action would not discourage the US overproduction and competition for export markets. Other factors were seen as contributing to the depressed prices – such as successive years of record production in Canada, large carryover stock and the significant rise in the value of the Canadian dollar. The investigation did determine that the pace of US exports to Canada is accelerating and that the commodities are being sold in Canada at prices well below the cost of production. The increasing level of exports is seen as a symptom of the larger problem – that being market distorting government subsidies, which are currently under negotiation as part of the World Trade Organization talks.

2.34 Joint Task Force Releases Final Report on Vancouver Truckers Strike

On 25 June 2005, following a month-long series of failed negotiations between the Vancouver Container Truckers' Association (VCTA) and 46 west coast trucking companies, over 1,000 members of the VCTA went on strike in a protest over low wages and rising fuel costs. With trucks transporting more than 40% of the container volume handled by the port of Vancouver, movements into and out of the container terminals located there were brought to a virtual standstill. The action also disrupted the normal flow of traffic through the port, and had a negative affect at other facilities in British Columbia's Lower Mainland.

³⁰ This internal investigation came shortly after the Canadian Border Services Agency announced a formal investigation into alleged dumping of subsidized American corn at the behest of the Ontario Corn Producers Association. Ontario, Quebec and Manitoba corn producers alleged that the depressed prices which they were facing were largely the result of the large volume of American corn crossing the border into the feed market and to meet the growing demands of ethanol production.

By mid July 2005, the strike's impact was beginning to be felt over a wider geographic area. Shipping lines were reportedly holding back goods destined for Vancouver at Asian origins as well as in European ports. With goods piling up elsewhere in Canada, many within the industry claimed that the nation's transportation system was being compromised. Later that month, a mediator appointed by the provincial and federal governments proposed a two-year deal that called for an immediate increase in the haulage rates and fuel surcharges applicable on container movements in the Vancouver area. Although the VCTA's negotiating body recommended that the striking truckers accept the offer, the trucking companies that engage their services unanimously rejected the deal.

In an effort to bridge the impasse while the search for a long-term solution continued, the Vancouver Port Authority (VPA) announced on 1 August 2005 that trucking companies trying to service the port's container terminals would have to obtain a license under an interim system to be put in place for a period of 90 days. In doing so, these companies would be required to pay truckers a minimum of \$200 for each container they delivered, a rate that had been set out in the mediator's recent proposal. This was supported by a federal Order in Council issued in accordance with section 47 of the Canada Transportation Act that allowed such extraordinary steps to be taken in the interest of stabilizing the national transportation system.

Concurrent with this, a joint task force created by the provincial and federal governments was formed to examine the various issues surrounding the movement of containers in the Lower Mainland. Its ultimate purpose was to recommend a long-term strategy aimed at improving industry relations, preventing future disruptions to the movement of containers, and maintaining the efficiency and effectiveness of the transportation system as a whole. Although these actions brought about an immediate restoration of service, clearing the backlog of traffic required more than a month of active effort on the part of all stakeholders.

In November 2005, the joint task force released its final report, which recognized the complicated contractual relationships between the port, container terminals, shipping lines, shippers and carriers. Among others, its recommendations included provisions for the adoption of a licensing scheme aimed at better managing the number of drivers and vehicles involved in transporting containers in the lower mainland; implementing a mandatory reservation system and extending the hours of operation at container terminals in order to eliminate congestion; enhancing information systems; clarifying the jurisdictions of federal, provincial and local authorities; amending the Competition Act as well as federal and provincial Labour Codes; and promoting best practices throughout the port sector.

In response to this, the VPA announced a program aimed at gradually extending the hours of operations at Vanterm, Centerm and DeltaPort over the next five years. While these measures have helped stabilize drayage activity since the beginning of the 2005-06 crop year, many stakeholders continue to express concern over the potential for another disruption to trucking services at the port. If this were to arise, they fully expect the various governing authorities to respond far more quickly in protecting the commercial interests of the port of Vancouver.

2.35 CWB Exercises Option to Purchase 1,660 Covered Hopper Cars

In November 2005, the CWB announced that it intended to exercise the purchase options on 1,660 covered hopper cars that they had been leasing since 1980.³¹ In doing so, the CWB increased its pool of owned equipment from 1,850 to 3,510 cars. This purchase came on the heels of the federal government's own announcement to negotiate a plan to lease or sell its fleet of 12,400 covered hopper cars to the Farmer Rail Car Coalition (FRCC).³²

Although the CWB's purchase would not physically add to the number of hopper cars in its fleet, its plan to revise the operating agreement under which it allowed the railways to use them marked a significant divergence from past practices. In general terms, the CWB stated that it intended to eliminate the standing

³¹ These cars were obtained under a 25-year lease by the CWB. Although the CWB administered the leases, the Government of Canada reimbursed them for the costs incurred.

³² In March 2005 the Government of Canada announced that it had elected to enter into negotiations with the FRCC for the potential transfer of its fleet of 12,400 hopper cars. Readers interested in further information on the proposal put forward by the FRCC, along with the federal government's decision to open negotiations with them for the transfer of these cars, should refer to section 2.31 of the Monitor's Annual Report for the 2004-05 Crop Year.

practice of supplying these cars to the railways free of charge so long as they were used to move western Canadian grain.³³ Instead, they proposed to lease their cars to the railways at prevailing market rates.

Although the CWB had not concluded its negotiations with CN and CP by the close of the second quarter, the idea of terminating the practice of providing the railways with the free use of government-supplied equipment had been gaining ground for some time. In fact, the leasing of what would be the government's former hopper car fleet back to the railways was central to the FRCC's plans for raising the capital funds that would be needed to replace these cars over the longer-term.

However, this change had ramifications for the industry at large. While the leasing of the CWB's cars to the railways might generate additional financial benefits to producers as a result of its flow back to them through the CWB's pool accounts, the additional costs to be borne by the railways seemed likely to prompt additional compensation under the revenue cap. This in turn held the possibility of a corresponding rise in single-car freight rates.

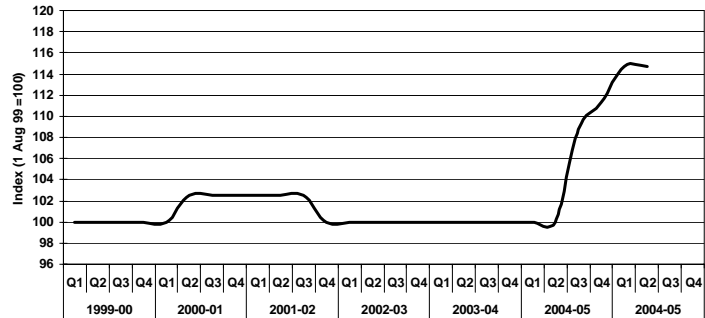
³³ This practice mirrored that employed by the Canadian government with respect to its own fleet of 12,400 covered hopper cars, as well as those supplied by the governments of Saskatchewan and Alberta, which numbered about 1,000 apiece. Although these cars were provided to CN and CP free of charge when they were used to move western Canadian grain to the ports of Vancouver, Prince Rupert, Thunder Bay and Churchill, a charge was assessed whenever they were used in alternate service.

3.0 System Efficiency and Service Reliability

3.1 Trucking

The pressures brought on by a variety of rising costs, most notably that of fuel, have been largely responsible for the recent escalation in commercial trucking rates. In addition, an increase in grain shipments has bolstered the demand for carrying capacity, which also gave service providers a greater degree of latitude in passing on these costs to their customers. These pressures had already brought about an 11.3% increase in rates for the 2004-05 crop year, the first substantive escalation in the GMP's six-year history. This was followed in the first quarter of the 2005-06 crop year by a further 3.1% increase. And although fuel costs continued to rise in the second quarter, there was no immediate impact on commercial trucking rates. As a result, the composite price index for short-haul trucking remained unchanged from the first quarter, holding at a level of 114.7 at the end of January 2006.

Figure 11: Composite Index – Short-Haul Trucking



3.2 Country Elevators

Total country elevator throughput, measured by shipments from primary elevator facilities, increased by 6.6% in the first half of the 2005-06 crop year, to 15.5 million tonnes from 14.6 million tonnes in the same period a year earlier. The additional volume was partially reflected in a higher capacity turnover ratio for the primary elevator system as a whole, which reached 3.0 turns for the period as compared to 2.9 turns the year before. This comparatively lower 3.4% increase was due in large part to the offsetting effects of a 182,500-tonne expansion in associated storage capacity over the course of the preceding twelve months. Nevertheless, given an accumulated 1.1-million-tonne net reduction in storage capacity since the beginning of the GMP, recent gains in the capacity turnover ratio indicate that the primary elevator network is handling comparatively more grain than at almost any other point in the history of the GMP.³⁴

The amount of grain maintained in inventory increased sharply in the first and second quarters, with the year-to-date average for the first six months of the 2005-06 crop year having climbed to almost 2.9 million tonnes from 2.1 million tonnes a year earlier. Despite a 37.6% increase, this average is consistent with the longer-term GMP average of 2.9 million tonnes, and is largely a distortion brought on by comparison with an unusually lower average from the previous crop year.³⁵ With limited delivery problems, grain stocks were not drawn down as they were a year earlier. The resultant build up in stocks spurred a corresponding increase in the amount of time that grain spent in inventory during the first six months of the 2005-06 crop year, which climbed 28.4% to an average of 33.5 days as compared to 26.1 days twelve months before.

The increase in grain inventories was also reflected in a sharp climb in the overall average weekly stock-to-shipment ratio. The 4.7 average recorded for the first half denotes a 34.3% gain over the 3.5 scored for the same period a year earlier. In a general sense, the increase in this value merely affirms the fact that grain was in better supply, and that shippers faced few challenges in sourcing product during this period.

³⁴ Comparatively, the annualized equivalent of the volume of grain that was shipped from the primary elevator system in the first half would have yielded a capacity turnover ratio of 6.0. This ratio far exceeds those recorded during the first four years of the GMP, and easily surpasses the 5.6 realized as a previous best in both the 2003-04 and 2004-05 crop years.

³⁵ The 2004-05 crop year's record-setting low inventory value for the first quarter reflected the heightened demand for high-quality grain in a commercial environment where supplies were limited. The late harvest initially prompted a drawdown in carry-forward stocks in order to satisfy export sales commitments. When the new crop began to come off the field, whatever quantities of high-quality grain were available quickly found their way into, and through, the country elevator system. These dual forces worked to rapidly reduce inventories, and significantly lessen the amount of time grain actually spent in storage.

3.3 Railway Operations

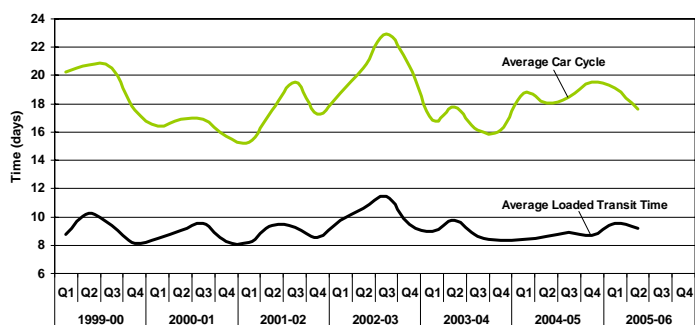
The volume of grain moved in covered hopper cars during the six months of the 2005-06 crop year increased by 19.1%, climbing to 12.1 million tonnes from 10.1 million tonnes a year earlier. With originations of 11.1 million tonnes, the Class 1 carriers posted a gain in volume of almost 1.7 million tonnes, or 17.8%, for the period. Although this represented a share of 92.0%, it also denoted a minor decline from the 93.0% share these carriers had held twelve months earlier. This loss was due to a more substantive 35.6% increase in shortline-originated volumes, which rose to 1.0 million tonnes from 0.7 million tonnes. Albeit both groups benefited from the general upturn in volume, the smaller carriers were particularly advantaged by a 0.2-million-tonne, or 74.7%, rise in durum, barley and canola shipments for the period, along with a 32.9% increase in producer-car loadings.³⁶

3.31 Car Cycles

The railways' average car cycle for the first six months of the 2005-06 crop year fell by 0.3% from that of the same period a year earlier, to 18.3 days from 18.4 days. Modest increases were noted in all primary operating corridors with the exception of the Prince Rupert corridor, where the car cycle fell by 9.4%, to an average of 16.3 days from 18.0 days a year earlier. The Thunder Bay corridor posted the smallest of these increases, a gain of just 1.9%, which pushed its year-to-date average up to 18.3 days from 18.0 days. A 2.8% increase in the Vancouver corridor resulted in the average climbing to 19.3 days from 18.8 days twelve months before.

Notwithstanding these corridor-specific results, a 9.1% decline in the total empty transit time, which fell to an average of 9.0 days from 9.9 days a year earlier, proved to have been the key force in drawing down the overall car cycle by 0.1 days. Still, there were significant crosscurrents at work in this result. Foremost among these was a 19.5% reduction in the average posted by CN while the CP average rose 10.0%. Countering much of this was a 9.6% increase in total loaded transit time, which rose to an average of 9.4 days from 8.5 days. In this respect, both CN and CP posted increases, although the CN gain proved to have been almost twice as great as its competitor.

Figure 12: Railway Car Cycle



To a large extent, these year-to-date comparisons with the previous crop year were heavily influenced by the first quarter's higher averages. Almost every autumn the demand for railway transportation strains the capacity of the GHTS. Moreover, the larger the size of the crop, the more intense those strains become, particularly as the demand for carrying capacity increases. In the face of one of the largest movements in several years, these overarching influences undoubtedly put added pressure on railway resources. This was reflected in somewhat longer cycle times for both carriers, particularly in the busy Vancouver corridor. In the second quarter, however, these averages – be it with respect to a particular operating corridor or carrier – moved generally lower. Although this improvement underscored a general enhancement in the efficiency with which grain was moved during the period, the overall averages posted by CP in each of the primary operating corridors continued to fall below those of CN. Moreover, the performance gap opened between these two carriers over the course of the past eighteen months continues to suggest that differing operating practices remain a contributing factor.

³⁶ Producer-car loading has increased significantly in recent years. Although this has largely been facilitated by the advent of license-exempt producer loading facilities, the conversion of previously closed elevators into producer-car loading sites has also helped. With the erosion of its conventional grain business, shortline railways have grown highly dependent on the volumes shipped in producer cars.

3.32 Railway Freight Rates

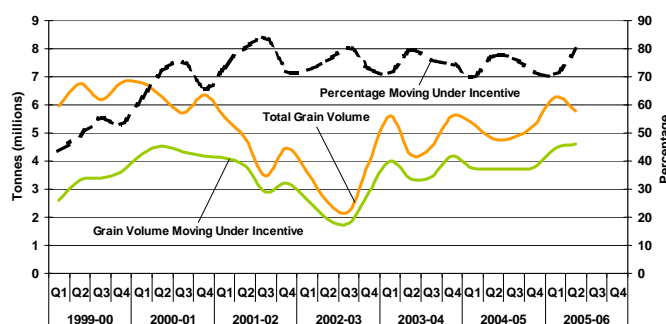
As outlined in the Monitor's previous reports, CN and CP broke with the practice of advancing largely parallel rate adjustments at the beginning of the 2003-04 crop year. At the same time, they also made the first substantive changes to the incentive discounts that they had been offering for movements in multiple-car blocks since the beginning of the 2000-01 crop year. Over the next two crop years, a new process appeared to have emerged. Although this primarily involved the setting of new single-car rates at the beginning of the crop year followed by at least one other rate adjustment in the second half, changes to the incentive programs were also noted. There is no doubt that this new process was aimed at maximizing the revenues carriers were entitled to receive under the revenue cap. Moreover, if the narrowness of the margins by which CN and CP have missed these targets serves as any indication, both carriers have become quite skilful at managing their revenues under the current regulatory framework.

For the 2005-06 crop year, both railways published noticeably greater rate increases than the 4.4% escalation that had been suggested by the Volume-Related Composite Price Index.³⁷ This was due in part to comparisons with rates that had been hurriedly reduced in the third and fourth quarters of the 2004-05 crop year in order to safeguard the carriers' compliance with the revenue cap.³⁸ In the case of CN, the carrier increased its single-car rates to the west coast ports of Vancouver and Prince Rupert by 7.0%, while increasing those applicable on movements to Thunder Bay and Churchill by a slightly greater 7.5%. In comparison, CP increased its single-car rates in both the Vancouver and Thunder Bay corridors by 7.0%. Through to the end of the second quarter, the overall increase in freight rates for movements in the Thunder Bay and Vancouver corridors has been in the order of 5.5% and 6.1% respectively, although CP's rates have not increased quite as much as those of CN over the entire span of the GMP.³⁹

Conversely, there were no substantive changes made to the incentive programs offered by both railways. CN's discounts for movements in blocks of 50-99 cars and 100 or more cars remained at \$4.00 per tonne and \$6.00 per tonne respectively. Similarly, CP chose to maintain the \$4.00-per-tonne discount it offered for movements in blocks of 50-111 cars, as well as the \$7.50-per-tonne maximum it offered for shipments in blocks of 112 cars.⁴⁰ In addition, both programs continued to emphasize the benefits of their advance booking options, all of which were supported by a diverse series of financial rewards and penalties.

In general terms, there appears to have been only a marginal increase in the relative volume of grain that moved under the railways' incentive programs in the first six months of the 2005-06 crop year, 75.1% as compared to 73.5% for the same period a year earlier. Incentive movements in blocks of 25-49 railcars, which earn the smallest per-tonne discounts available, showed signs of further weakening, and fell

Figure 13: Railway Volume Moving Under Incentive



³⁷ The revenue cap is adjusted annually for inflation by the Canadian Transportation Agency. For the 2005-06 crop year, the Agency determined that Volume-Related Composite Price Index used to accomplish this was to be increased by 4.4%. See Canadian Transportation Agency Decision Number 251-R-2005 dated 28 April 2005.

³⁸ The reductions leading to these lower rates varied but amounted to about 4% for CN, and 6% for CP. These actions are detailed more fully in the Monitor's Annual Report for the 2004-05 crop year.

³⁹ The Thunder Bay and Vancouver corridors are deemed the most competitive since both CN and CP offer direct rail services to these ports. Notwithstanding minor differences, the rate increases noted here are intended to reflect the general pricing actions of both carriers in these two corridors. With only one serving carrier at the ports of Churchill and Prince Rupert, inter-carrier comparisons of rate changes are not possible. An examination of CN's published rates to these ports shows a net increase of about 6.5% for Churchill, and a net reduction of about 5.4% for Prince Rupert, over the same period of time.

⁴⁰ To earn the maximum discount of \$7.50 per tonne, a shipper must load the 112 cars in a 10-hour window. Shippers unable to do so can instead earn the \$7.00-per-tonne discount that is available for cars loaded in a 24-hour window.

to 4.8% from 5.7%. However, movements in blocks of 50 or more cars posted a modest gain, accounting for an estimated 70.3% of the total movement in comparison to 67.8% twelve months before.

Notwithstanding these marginal shifts in relative volume, the actual quantity of grain moved under the railways' incentive programs during the first half increased in concert with overall GHTS handlings, climbing by 21.6%, to 9.1 million tonnes from 7.5 million tonnes. There was a corresponding increase in the value of the discounts earned by shippers, which rose by 26.3%, to \$42.6 million from \$33.7 million a year earlier. Owing to the relative gain in the volume moving in blocks of 50 or more cars, the average-earned discount rose by 3.9%, to \$4.70 per tonne from \$4.52 per tonne previously.

3.4 Terminal Elevator and Port Performance

3.41 Terminal Elevators

A total of 11.3 million tonnes of grain passed through the terminal elevators of Canada's western ports in the first six months of the 2005-06 crop year. This marked an 18.4% increase over the 9.6 million tonnes handled in the same period a year earlier. In all instances, there was a marked increase in the volume handled at each of the four ports.

Accounting for half of the overall throughput volume, Vancouver again proved itself to be the largest of the four. Its throughput for the first half increased by 17.4%, climbing to 5.8 million tonnes from 4.9 million tonnes a year earlier. Even so, Prince Rupert posted the largest overall gain for the period, with the port's throughput having increased by 51.2% to 1.9 million tonnes in total. For the most part, these gains reflected an improvement in the general supply of grain and stronger sales programs, particularly for barley, canola and peas.

With its comparatively shorter shipping season, Churchill had been particularly hard-hit by the previous crop year's late harvest. To a large extent, the 8.2% increase in throughput reported by the port for the period echoed some of the improvements already noted for the west coast ports. Still, better canola and pea sales only partially compensated for a second consecutive year of reduced wheat exports, with throughput having rebounded to slightly more than 0.4 million tonnes. The port of Thunder Bay on the other hand saw its throughput for the first six months of the 2005-06 crop year increase by 7.5% to 3.2 million tonnes. Increased durum sales along with a heightened volume of non-CWB grains helped compensate for declines in wheat and barley.

As was the case with country elevator inventories, a comparative improvement in the availability of most grains, along with heightened sales of barley, canola and peas, led to a build up in terminal stock levels. Terminal inventories during the first half increased by 27.5%, to an average of 1.3 million tonnes from 1.0 million tonnes a year earlier. This marks the first time since the 2001-02 crop year that the average has climbed above the 1.3-million-tonne threshold.⁴¹ This rise in stock levels also prompted a 7.5% increase in the amount of time grain spent in inventory, which climbed to an average of 20.0 days from 18.6 days a year earlier. Even so, this gain was tempered by an accelerated turnover rate for barley, which posted a 66.9% reduction in average storage time.

Although there were substantive increases in terminal elevator stocks, these did not always translate into higher stock-to-shipment ratios. For the most part, stock-to-shipment ratios moved noticeably higher only when inventories rose by a substantially greater percentage than that observed in throughput. Such was the case in Thunder Bay, where stock-to-shipment ratios generally increased by factors of 10% or more. In instances where the port's throughput expanded more than its terminal stocks, the reverse was true. This was particularly evident in the ratios produced for the ports of Vancouver and Prince Rupert, where much of the additional volume was directed.

By the same token, it was at these ports, rather than at Thunder Bay or Churchill, that stock shortages proved more frequent. Even so, the average ratios suggest that grain was in comparatively better supply during this period and that sufficient stocks were generally on hand to meet short-term demands.

⁴¹ The second quarter's average terminal stock level amounted to 1,311,000 tonnes. Average terminal stocks last exceeded this 1.3-million-tonne threshold in the first quarter of the 2001-02 crop year when they reached a record 1,337,300 tonnes.

3.42 Port Performance

Some 389 vessels called at western Canadian ports during the first six months of the 2005-06 crop year. This represented an 8.1% increase from the 360 that arrived for loading during the same period a year earlier. The amount of time spent by these vessels in port climbed by 6.1%, to an average of 5.2 days from 4.9 days. This value proved noticeably higher than the four to four-and-a-half day range typically observed over the course of the preceding six crop years.⁴²

On the whole, much of the overall gain was attributable to a substantial rise in vessel loading time, which increased by 14.8%, or 0.4 days, to an average of 3.1 days. To a large extent, this was tied to increases in average loading times at the ports of Vancouver and Prince Rupert, which climbed by 20.5% and 55.0% respectively for the first six months of the 2005-06 crop year. In contrast, waiting times in the first half actually declined by 4.5%, to an average of 2.1 days from 2.2 days, with the ports of Thunder Bay and Churchill accounting for much of the overall improvement.

When examining the amount of time spent by vessels at individual ports, only those calling at Vancouver and Prince Rupert were observed to have posted overall increases. For Vancouver, the increase amounted to 8.5%, with its year-to-date average climbing to 7.7 days from 7.1 days a year earlier. Moreover, the port's average for the second quarter rose to a record 8.8 days. Still, the most significant increase was observed at Prince Rupert, where longer waiting times were responsible for driving up the overall length of stay by 39.6%, to an average of 7.4 days from 5.3 days. As with Vancouver, the port's performance in the second quarter produced a record average stay of 8.0 days. This comparative increase in the amount of time needed to complete the loading of vessels at these two ports was largely attributable to inclement weather conditions. For Vancouver in particular, unusually heavy rains in the last six weeks of the second quarter led to frequent loading interruptions, and significant rain delays.⁴³

In comparison, vessel layovers at Thunder Bay and Churchill posted modest reductions in their year-to-date averages, falling by 13.6% and 10.0% respectively in comparison to those reported a year earlier. Moreover, the 1.9-day and 4.5-day averages posted by these ports continue to rank as the lowest in the GHTS.

3.5 The Supply Chain

As outlined in earlier editions of the Monitor's quarterly and annual reports, the supply chain model provides a useful framework by which to examine the speed with which grain moves through the GHTS. In this regard, the Monitor's Annual Report for the 2004-05 crop year concluded that the amount of time taken by grain as it moved through the supply chain had fallen to a record low under the GMP of 58.1 days.⁴⁴

However, this result was chiefly driven by an unusually steep decline in the amount of time spent by grain in storage in the primary elevator system, which fell to a record low of 22.7 days in the first quarter. The late harvest and temporary reduction in grain supplies that were responsible for this improvement were not repeated in the 2005-06 crop year. As a result, the year-to-date average for the first half of the 2005-06 crop year rebounded to a more normative 33.5 days, comparatively adding four full days to the 29.5-day average posted for the 2004-05 crop year as a whole.

However, there were other year-over-year increases to be accounted for as well. An 8.0% increase in the railways' average loaded transit time, which rose to an average of 9.4 days from the preceding crop year's 8.7-

⁴² During the course of the GMP, there were instances where the quarterly average exceeded the 4.5 days cited here as the typical maximum, with the most significant deviations having been observed in the 2000-01 and 2004-05 crop years. In the 2004-05 crop year, this average reached a height of 6.1 days in the third quarter.

⁴³ Unseasonably heavy rains began to fall in Vancouver in mid December 2005, with the total precipitation fall for the second quarter ultimately amounting to 581.0 millimetres. Almost half of this, 283.6 millimetres, fell in the month of January 2006 alone. This denoted an 84.6% increase over the city's thirty-year average of 153.6 millimetres (based on data from 1971 through 2000). In comparison, Prince Rupert, which is considered to have one of the wettest climates in Canada, received 734.5 millimetres of rain in the second quarter.

⁴⁴ In the Monitor's Annual Report for the 2004-05 Crop Year, the total amount of time taken by grain to move through the supply chain was reported as 58.0 days. Revisions to some of the data collected for the period has resulted in a restatement that raises the average to 58.1 days. The conclusions drawn in the Monitor's original report are unaffected by the changes presented here.

day average, added another 0.7 days to the time taken by grain to move through the supply chain. Similarly, a further 0.1 days was attributable to an increase in the amount of time grain spent in inventory at terminal elevators, which climbed by 0.5% to an average of 20.0 days.

Table 1: The GHTS Supply Chain

SUPPLY CHAIN ELEMENT	TABLE	1999-00	2001-02	2002-03	2003-04	2004-05	YTD 2005-06	SUPPLY CHAIN EFFECT	
<u>SPEED RELATED</u>									
2	Country Elevator – Average Days-in-Store	3B-4	41.7	38.0	47.9	34.4	29.5	33.5	▲
3	Average Railway Loaded Transit Time (days)	3C-4	9.2	8.8	10.1	8.9	8.7	9.4	▲
5	Terminal Elevator – Average Days-in-Store	3D-4	18.6	20.6	21.7	19.0	19.9	20.0	▲
Average Total Days in GHTS			69.4	67.4	79.7	62.3	58.1	63.0	▲
<u>SERVICE / ASSET RELATED</u>									
1	Average Country Elevator Capacity Turnover Ratio	3B-2	4.8	4.5	3.7	5.6	5.6	3.0	–
4	Average Terminal Elevator Capacity Turnover Ratio	3D-2	9.1	6.6	5.0	7.0	7.5	n/a	–
3	Average Railway Car Cycle (days)	3C-4	19.9	17.1	20.4	16.7	18.7	18.3	▲
6	Average Vessel Time in Port (days)	3D-7	4.3	4.9	4.3	4.0	4.9	5.2	▲

As a result, grain took an average of 63.0 days to move through the supply chain during the first six months of the 2005-06 crop year. Although this proved to be almost five days more than the 58.1-day average of the 2004-05 crop year, it still ranks among the lowest values recorded under the GMP. In conjunction with this, a number of other observations concerning the supply chain's performance during the first six months of the 2005-06 crop year should be made:

- Firstly, with a grain supply of 66.8 million tonnes, the 2005-06 crop year's potential grain movement actually constitutes the largest ever made available under the GMP. Moreover, the 11.3 million tonnes of grain that passed through western Canadian ports during the first half of the 2005-06 crop year proved to be the third largest volume for the period under the GMP, falling just 8.0% short of the record 12.3 million tonnes that were handled in the 2000-01 crop year. As a result, the pressures brought to bear on the GHTS in the first half can be deemed comparable to those experienced at the beginning of the GMP, and prior to those crop years where grain handlings were adversely affected by drought.
- Secondly, although the volume of grain moved through the GHTS in the first half was greater than it had been a year earlier, the movement was heavily influenced by other factors. In general terms, grain quality was significantly diminished for a second consecutive year. This influenced the mix of both grains and grades that moved through specific ports. By way of example, the west coast ports handled an unusually large volume of feed barley, a large portion of which moved under the CWB's tendering

program. This was one of a number of factors that contributed to a significant increase in their workload for the period.

- Finally, even though the demand for carrying capacity increased as a result of the larger crop, problems with car supply appeared to be a continuing concern for many GHTS stakeholders. Loaded transit times that are not largely different from what they were several years before underscores the fact grain continues to move through the supply chain in much the same manner as it did at the beginning of the GMP. In fact, with the exception of the amount of time spent by grain in inventory at country elevators, comparatively little material change has been noted in the speed with which grain moves through the GHTS.

4.0 Producer Impact

4.1 Producer Netback

One of the GMP's key objectives is to determine the impact on producers arising from changes in the GHTS. The principal measure in this regard is the *producer netback*, an estimation of the per-tonne financial return to producers after the various logistics costs, collectively known as the export basis, are deducted from the actual price realized in a grain sale.⁴⁵

In its earlier reports, the Monitor described how increased commodity prices had largely been responsible for the improvement in the per-tonne returns accruing to producers of wheat, durum, canola, and yellow peas in the first four crop years of the GMP. During this same period, the export basis also fell marginally, thereby adding to the gains that improved grain prices had already generated. With a downward movement in prices in both the 2003-04 and 2004-05 crop years, the per-tonne gains that had been realized by producers through the last six crop years had been significantly eroded.

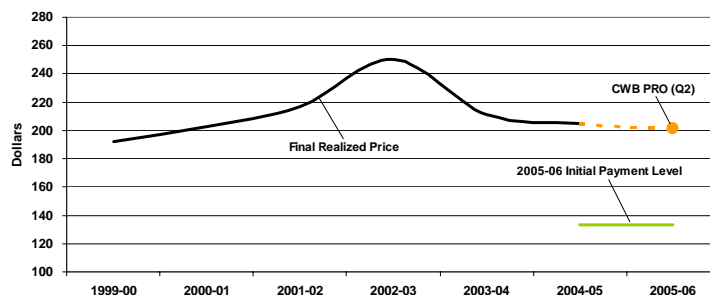
The GMP only includes these indicators in the Monitor's annual reports since certain elements integral to the calculation are not available until after the close of the crop year itself. Nevertheless, current price and input-cost data is collected for both wheat and canola as a means of providing some insight into their probable impact on the per-tonne financial return arising to producers. Some of the changes observed during the first half of the 2005-06 crop year are summarized below.

4.11 CWB Grains

The GMP uses the CWB's Pool Return Outlook (PRO) for 1 CWRS wheat (13.5% protein) as the principal barometer of changing CWB grain prices. Throughout much of the first half of the 2005-06 crop year, the CWB's PRO for 1 CWRS wheat hovered marginally below the 2004-05 crop year's final realized price of \$205.10 per tonne. By the end of January 2006, the PRO had fallen by 2.0% to \$201.00 per tonne. However, this value well exceeded the \$133.60 per tonne that had been set as the farmer's initial payment for the 2005-06 crop year by 50.4%.

The expectation of increased global production along with continued competition between exporting nations accounted for much of this additional erosion in the price of 1 CWRS wheat. This was compounded by the mounting strength of the Canadian dollar, which rose 7.5% in comparison to the US dollar during the first half. As a result, the broader indications were that the 2005-06 crop year was likely to provide producers with somewhat poorer financial returns due to reduced international commodity prices.

Figure 14: Recent Price Changes – 1 CWRS Wheat (dollars per tonne)

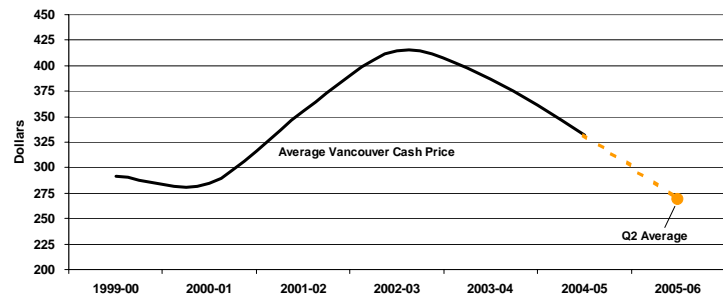


⁴⁵ Among other elements, the export basis includes the cost of trucking, elevator handling and railway movement. It also includes where applicable, the CWB's pooling costs, and other incidental charges. Similarly, it also includes a deduction for any of the financial benefits accruing to producers as a result of the receipt of trucking or any similar premiums, as well as the CWB's transportation savings.

4.12 Non-CWB Grains

The Vancouver cash price for 1 Canada Canola fell by 13.5% in the first six months of the 2005-06 crop year, to an average of \$269.32 per tonne from the \$311.19-per-tonne average of the previous crop year. As was the case with wheat, much of this price decline was attributable to the wider expectations of the global oilseed market. Although oilseed prices around the world continued to show weakness, canola prices have been particularly hard hit, having fallen further than that of soybeans. Domestically, this downward pressure on canola prices was exacerbated by the large carryover from the previous crop year as well as the expectations of a bountiful harvest.

Figure 15: Recent Price Changes – 1 Canada Canola (dollars per tonne)



The scope of the decline in price for 1 Canada canola strongly suggests that there will be an adverse impact on the per-tonne financial returns of western Canadian grain producers in the 2005-06 crop year. Owing to the relatively greater fall in canola prices during the first half, the producer netback for non-CWB grains will likely suffer comparatively more than will CWB grains.

Additional pressures from rising input costs have placed further downward pressure on these returns. The most noteworthy of these were the charges assessed for country elevator storage, which increased by an average of 15.8% since the beginning of the 2005-06 crop year. Similarly, the average increase for cleaning at primary elevators amounted to 5.5%, while the charge for receiving and elevation rose by a comparatively smaller 2.0%. The average tariff escalation on the receiving and storage activities of terminal elevators rose by averages of 1.9% and 3.6% respectively. At the same time, trucking costs rose by an estimated 3.1% while railway freight rates climbed by a minimum of 7.0%.

4.2 Producer-Car Loading

As related in the Monitor's last annual report, the aggregate number of producer-car loading sites in western Canada had fallen from 709 to 484 over the course of the last six crop years.⁴⁶ This net decline stemmed largely from a reduction of 315 sites local to both CN and CP, which fell from 644 to 329. Newly created shortline railways assumed operation of a portion of these, which resulted in their count rising from 65 to 155 in the same period.

Although there was little change to the overall number of sites operated in the first six months of the 2005-06 crop year, railway acquisitions and divestitures during the period resulted in a realignment of the sites served by major and non-major carriers. By the end of the second quarter, the number of installations served by the Class 1 carriers had risen by 7.6%, to 354 from 329. Correspondingly, the number operated by shortline carriers had fallen by 16.8%, to 129 from 155.

Producer-car shipments during the first six months of the 2005-06 crop year increased by 32.9%, to 3,853 from 2,900. Producer-car loadings accounted for just 2.8% of the overall volume of grain shipped in covered hoppers. This proportion proved significantly less than the record 4.2% it was estimated to have reached in the 2003-04 crop year, and is in part tied to previously discussed reductions in grain quality.

⁴⁶ Statistics relating to the number of active producer-car loading sites have been restated to correct previously undiscovered errors in railway reporting. The values presented here differ marginally from those presented in earlier reports.

Synopsis – Industry Overview

The purpose of the Industry Overview series of indicators is to track changes in grain production, the structure of the industry itself and the infrastructure comprising the GHTS. Changes in these areas can have a significant influence on the efficiency, effectiveness and competitiveness of the GHTS as a whole. Moreover, they may also be catalysts that shift traditional traffic patterns, the demand for particular services, and the utilization of assets.

Highlights – Second Quarter 2005-06 Crop Year

Grain Production and Supply

- Grain production increased by 4.9% to 56.0 million tonnes.
 - Largest production level since the GMP was implemented.
 - Late season growing conditions reduce crop quality for a second consecutive year.
- Carry forward stock increased by 62.0% to 10.8 million tonnes.
- Overall grain supply increased by 11.2% to 66.8 million tonnes.

Railway Traffic

- Railway tonnage for the first half increased 18.4% from the same period a year earlier to 12.4 million tonnes.
 - Benefits from 1.7-million-tonne barley movement.
- Traffic to all western Canadian ports increased in the first half.
 - Volume to Vancouver climbed by 18.3% to 6.8 million tonnes.
 - Prince Rupert volume increased by 62.1% to 2.0 million tonnes.
 - Volume to Thunder Bay increased by 1.7% to 3.1 million tonnes.
 - Churchill volume increased 13.5% to 0.4 million tonnes.

Country Elevator Infrastructure

- Minimal changes recorded during the first half.
 - Grain delivery points decrease by three to 279.
 - Number of country elevators declines by 1.3% to 380.
- Elevator storage capacity increased by 1.0% to 5.9 million tonnes.
- Elevators capable of loading in blocks of 25 or more cars fell by 2.3% to 250.
 - Accounted for 65.8% of total GHTS elevators.
 - Share of GHTS primary storage capacity remains unchanged at 88.5%.

Railway Infrastructure

- Western Canadian rail network reduced by 38.7 route-miles to 18,725.0 route-miles.
 - CN announces the addition of 328.1 route-miles to Three Year Network Plan.
 - Signals lifting of self-imposed moratorium on abandonment of prairie branch lines.
- Fife Lake Railway established in December 2005 following sale of CP's Fife Lake subdivision.
- RailAmerica Inc. sells its Albert-based shortlines to CN for \$26 million in January 2006.

Terminal Elevator Infrastructure

- Licensed GHTS terminal elevators remain unchanged at 16.
 - Licensed storage capacity remains unchanged at 2.6 million tonnes.
- Terminal elevator unloads for the first six months increases by 21.6% to 132,646.

Indicator Series 1 – Industry Overview

											2005-06	
Table	Indicator Description	Notes	1999-00	2002-03	2003-04	2004-05	Q1	Q2	Q3	YTD (1)	% VAR	
Production and Supply [Subseries 1A]												
1A-1	Crop Production (000 tonnes)	(1)	55,141.7	31,539.9	47,655.3	53,401.3	56,002.7	-	-	56,002.7	4.9%	▲
1A-2	Carry Forward Stock (000 tonnes)	(1)	7,418.2	6,070.8	5,488.9	6,647.5	10,768.0	-	-	10,768.0	62.0%	▲
	Grain Supply (000 tonnes)	(1)	62,559.9	37,610.7	53,144.2	60,048.8	66,770.7	-	-	60,770.7	11.2%	▲
Rail Traffic [Subseries 1B]												
1B-1	Railway Grain Volumes (000 tonnes) – Origin Province	(1)	26,441.0	12,736.4	20,658.9	20,832.5	6,393.0	5,964.6	-	12,357.6	18.4%	▲
1B-2	Railway Grain Volumes (000 tonnes) – Primary Commodities	(1)										
1B-3	Railway Grain Volumes (000 tonnes) – Detailed Breakdown	(1)										
Country Elevator Infrastructure [Subseries 1C]												
1C-1	Grain Delivery Points (number)	(2)	626	292	288	282	283	279	-	-	-1.1%	▼
1C-1	Grain Elevator Storage Capacity (000 tonnes)	(2)	7,443.9	5,747.3	5,688.6	5,845.6	5,880.0	5,901.3	-	-	1.0%	▲
1C-1	Grain Elevators (number) – Province	(2)	917	416	404	385	385	380	-	-	-1.3%	▼
1C-2	Grain Elevators (number) – Railway Class	(2)										
1C-3	Grain Elevators (number) – Grain Company	(2)										
1C-4	Grain Elevators Capable of Incentive Loading (number) – Province	(2)										
1C-5	Grain Elevators Capable of Incentive Loading (number) – Railway Class	(2)										
1C-6	Grain Elevators Capable of Incentive Loading (number) – Railway Line Class	(2)										
1C-7	Grain Elevator Openings (number) – Province	(2)										
1C-8	Grain Elevator Openings (number) – Railway Class	(2)										
1C-9	Grain Elevator Openings (number) – Railway Line Class	(2)										
1C-10	Grain Elevator Closures (number) – Province	(2)										
1C-11	Grain Elevator Closures (number) – Railway Class	(2)										
1C-12	Grain Elevator Closures (number) – Railway Line Class	(2)										
1C-13	Grain Delivery Points (number) – Accounting for 80% of Deliveries	(2)(3)										
Railway Infrastructure [Subseries 1D]												
1D-1	Railway Infrastructure (route-miles) – Grain-Dependent Network	(2)	4,876.6	4,495.8	4,406.1	4,390.3	4,390.3	4,351.6	-	-	-0.9%	-
1D-1	Railway Infrastructure (route-miles) – Non-Grain-Dependent Network	(2)	14,513.5	14,428.1	14,416.6	14,373.4	14,373.4	14,373.4	-	-	0.0%	-
1D-1	Railway Infrastructure (route-miles) – Total Network	(2)	19,390.1	18,923.9	18,822.7	18,763.7	18,763.7	18,725.0	-	-	-0.2%	-
1D-2	Railway Grain Volumes (000 tonnes) – Grain-Dependent Network	(1)	8,683.6	3,670.1	6,359.3	5,936.3	1,977.1	1,847.6	-	3,824.8	29.4%	▲
1D-2	Railway Grain Volumes (000 tonnes) – Non-Grain-Dependent Network	(1)	16,976.0	8,601.2	13,564.2	14,323.1	4,296.9	3,951.9	-	8,248.4	14.8%	▲
1D-2	Railway Grain Volumes (000 tonnes) – Total Network	(1)	25,659.6	12,271.3	19,923.5	20,259.5	6,273.7	5,799.5	-	12,073.2	19.1%	▲
1D-3	Shortline Railway Infrastructure (route-miles)	(2)	3,043.0	3,363.7	3,299.7	3,088.2	3,088.2	2,445.6	-	-	-20.8%	▼
1D-3	Shortline Railway Grain Volumes (000 tonnes)	(1)	2,090.5	1,111.7	2,001.4	1,676.3	443.0	526.4	-	969.4	35.6%	▲
1D-5	Railway Grain Volumes (000 tonnes) – Class 1 Carriers	(1)	23,569.1	11,159.6	17,922.1	18,583.2	5,830.7	5,273.1	-	11,103.8	17.8%	▲
1D-5	Railway Grain Volumes (000 tonnes) – Class 2 and 3 Carriers	(1)	2,090.5	1,111.7	2,001.4	1,676.3	443.0	526.4	-	969.4	35.6%	▲
1D-6	Grain Elevators (number) – Grain-Dependent Network	(2)	371	141	135	132	133	131	-	-	-0.8%	▼
1D-6	Grain Elevators (number) – Non-Grain-Dependent Network	(2)	513	261	255	239	238	235	-	-	-1.7%	▼
1D-6	Grain Elevator Storage Capacity (000 tonnes) – Grain-Dependent Network	(2)	2,475.4	1,569.3	1,543.1	1,659.2	1,671.7	1,666.3	-	-	0.4%	-
1D-6	Grain Elevator Storage Capacity (000 tonnes) – Non-Grain-Dependent Network	(2)	4,847.6	4,123.5	4,093.4	4,133.4	4,155.3	4,182.0	-	-	1.2%	-
Terminal Elevator Infrastructure												
1E-1	Terminal Elevators (number)	(2)	15	17	16	16	16	16	-	-	0.0%	-
1E-1	Terminal Elevator Storage Capacity (000 tonnes)	(2)	2,678.6	2,733.6	2,642.6	2,642.6	2,642.6	2,642.6	-	-	0.0%	-
1E-2	Terminal Elevator Unloads (number) – Covered Hopper Cars	(1)	278,255	125,339	218,447	217,666	66,069	66,577	-	132,646	21.6%	▲

- (1) – Year-To-Date values are reported for volume-related indicators only (i.e., Railway Grain Volumes). The accompanying percentage variance denotes the relative change in the current YTD value as compared to the same period a year earlier.
- (2) – Quarterly values for non-volume-related indicators (i.e., Grain Delivery Points) are “as at” the end of the reporting period. The accompanying percentage variance denotes the relative change in the value of the most recent reporting period as compared to that at the end of the preceding crop year.
- (3) – Statistics relating to grain deliveries by station, as produced by the Canadian Grain Commission, are generally produced a full six months after the close of the crop year. The most recent statistics available are those from the 2004-05 crop year.

Synopsis – Commercial Relations

One of the objectives of the government's regulatory reforms was to provide the GHTS with a more commercial orientation. To this end, a cornerstone element in the reforms was the introduction, and gradual expansion of tendering for Canadian Wheat Board (CWB) grain shipments to Western Canadian ports. For the 2005-06 crop year, the CWB has once again committed itself to moving 40% of its grain shipments under a new program that combines tendering as well as advance car awards.

The government also expects that industry stakeholders will forge new commercial processes that will ultimately lead to improved accountability. The purpose of this monitoring element is twofold: to track and assess the impact of the CWB's tendering practices as well as the accompanying changes in the commercial relations existing between the various stakeholders within the grain industry.

Highlights – Second Quarter 2005-06 Crop Year

Tendering Program

- 130 tender calls were issued by the CWB during the first six months of the 2005-06 crop year.
 - Calls for the movement of 2.6 million tonnes to export positions in western Canada.
 - Vancouver delivery – 59.1%; Prince Rupert – 26.3%; Thunder Bay – 14.6%; and Churchill – 0.0%.
 - West coast ports benefit from substantial movement of feed barley.
- 656 bids received; offered an aggregated 5.0 million tonnes.
 - Response rate significantly greater than in the 2004-05 crop year.
 - Reflects generally better availability for export.
- 226 contracts concluded for the movement of 1.7 million tonnes.
 - Vancouver deliveries – 61.4%; Prince Rupert – 19.3%; Thunder Bay – 19.3%; and Churchill – 0.0%.
 - Represented 24.9% of volume shipped by CWB to port positions in western Canada.
 - Marginally exceeded maximum 20% target.
- Tenders for 35.0% of the tonnage called either partially, or not at all, filled.
 - Substantial reduction from the 58.7% recorded in the 2004-05 crop year.
 - 171,600 tonnes – volume not required (relates specifically to tendered barley).
 - 258,900 tonnes – insufficient quantity bid.
 - 115,300 tonnes – no bid.
 - 256,500 tonnes – unacceptable bid price.
 - 93,700 tonnes – non-compliance with bid specifications.
- Proportion of tendered grain volume moving in multiple car blocks falls marginally to 87.6%.
 - Proportion moving in blocks of 50 or more cars falls to 57.8% from 63.3% in the 2004-05 crop year.
- 84.8% of all tendered movements originated at high-throughput elevators.
 - Marginally higher than the 82.3% observed in the 2004-05 crop year.
- CWB estimated that the overall transportation savings for the first half increased by 10.3% to \$13.9 million.
 - Underscored effects of improved grain supplies.

Other Commercial Developments

- Ocean freight rates end the second quarter 20% higher.
 - Marks the third year where rates initially rise before then falling to lower levels.
 - Rates gradually declining as new vessels are constructed.
- Competition Bureau blocks two proposed industry transactions.
 - Proposed joint operation of SWP and JRI terminal facilities in Vancouver.
 - Tentative sale of former UGG terminal elevator in Vancouver to Terminal One Vancouver Ltd.
- Pulse growers eye possible trade action over US exports to Canada.
- Joint Task Force releases final report on Vancouver truckers strike.
 - Recommendations reflect long-term strategy for improved industry relations and the prevention of future disruptions.
- CWB exercises an option to purchase 1,660 covered hopper cars that had been under long-term lease.

Indicator Series 2 – Commercial Relations

											2005-06	
Table	Indicator Description	Notes	1999-00	2002-03	2003-04	2004-05	Q1	Q2	Q3	YTD (1)	% VAR	
Tendering Program [Subseries 2A]												
2A-1	Tenders Called (000 tonnes) – Grain	(1)	n/a	5,794.2	2,971.3	6,218.5	1,940.2	618.7	-	2,559.0	11.2%	▲
2A-2	Tenders Called (000 tonnes) – Grade	(1)										
2A-3	Tender Bids (000 tonnes) – Grain	(1)	n/a	11,778.1	10,288.5	5,722.9	3,962.2	1,027.8	-	4,990.0	87.5%	▲
2A-4	Tender Bids (000 tonnes) – Grade	(1)										
2A-5	Total CWB Movements (000 tonnes)	(1)(2)	n/a	8,000.6	13,617.3	13,281.2	3,562.2	3,333.8	-	6,896.1	5.5%	▲
2A-5	Tendered Movements (%) – Proportion of Total CWB Movements	(1)(2)	n/a	46.1%	18.1%	18.0%	36.6%	12.5%	-	24.9%	54.7%	▲
2A-5	Tendered Movements (000 tonnes) – Grain	(1)(2)	n/a	3,685.2	2,469.9	2,387.7	1,303.4	415.3	-	1,718.7	62.9%	▲
2A-6	Tendered Movements (000 tonnes) – Grade	(1)(2)										
2A-7	Unfilled Tender Volumes (000 tonnes)	(1)	n/a	1,742.5	467.4	3,651.2	556.4	339.6	-	896.0	-23.3%	▼
2A-8	Tendered Movements (000 tonnes) – Not Awarded to Lowest Bidder	(1)	n/a	126.8	72.2	65.9	58.1	32.1	-	90.2	398.3%	▲
2A-9	Tendered Movements (000 tonnes) – FOB	(1)(2)	n/a	0.0	0.0	43.2	0.0	155.6	-	155.6	260.2%	▲
2A-9	Tendered Movements (000 tonnes) – In-Store	(1)	n/a	3,685.2	2,469.9	2,344.5	1,303.4	260.0	-	1,563.1	54.5%	▲
2A-10	Distribution of Tendered Movements – Port	(3)										
2A-11	Distribution of Tendered Movements – Railway	(3)										
2A-12	Distribution of Tendered Movements – Multiple-Car Blocks	(3)										
2A-13	Distribution of Tendered Movements – Penalties	(3)										
2A-14	Distribution of Tendered Movements – Province / Elevator Class	(3)										
2A-15	Distribution of Tendered Movements – Month	(3)										
2A-16	Distribution of Tender Delivery Points (number) – Contracted Cars	(3)										
2A-17	Average Tendered Multiple-Car Block Size (railcars) – Port		n/a	54.3	58.7	55.5	53.9	49.4	-	53.2	-4.0%	▼
2A-18	Railway Car Cycle (days) – Tendered Grain		n/a	19.3	14.7	16.3	17.3	15.6	-	16.5	-1.2%	▼
2A-18	Railway Car Cycle (days) – Non-Tendered Grain		n/a	20.0	16.1	17.5	19.7	17.0	-	18.2	2.2%	▲
2A-19	Maximum Accepted Tender Bid (\$ per tonne) – Wheat		n/a	-\$16.99	-\$23.04	-\$21.86	-\$18.58	-\$18.56	-	-\$18.58	-15.0%	▼
2A-19	Maximum Accepted Tender Bid (\$ per tonne) – Durum		n/a	-\$17.27	-\$24.07	-\$19.03	-\$18.05	-\$16.17	-	-\$18.05	-5.0%	▼
2A-20	Market Share (%) – CWB Grains – Major Grain Companies		n/a	72.9%	73.1%	77.2%	77.3%	78.6	-	78.0%	1.3%	▲
2A-20	Market Share (%) – CWB Grains – Non-Major Grain Companies		n/a	27.1%	26.9%	22.8%	22.7%	21.4	-	22.0%	-4.3%	▼
Advance Car Awards Program [Subseries 2B]												
2B-1	Advance Award Movements (%) – Proportion of Total CWB Movements		n/a	n/a	13.9%	15.8%	13.0%	12.1%	-	12.5%	-22.8%	▼
2B-1	Advance Award Movements (000 tonnes) – Grain		n/a	n/a	1,888.0	2,100.7	461.7	401.9	-	863.7	-18.5%	▼
2B-2	Distribution of Advance Award Movements – Port	(4)										
2B-3	Distribution of Advance Award Movements – Railway	(4)										
2B-4	Distribution of Advance Award Movements – Province / Elevator Class	(4)										
2B-5	Distribution of Advance Award Movements – Month	(4)										
2B-6	Railway Car Cycle (days) – Advance Award Grain		n/a	n/a	15.0	17.2	18.7	15.5	-	17.2	-1.7%	▼
2B-7	Distribution of Advance Award Movements – Multiple-Car Blocks	(4)										
2B-8	Weighted Average Tendered and Advance Award Multiple-Car Block Size (railcars) – Port		n/a	n/a	49.9	47.3	49.1	40.9	-	47.1	3.5%	▲

- (1) – Year-To-Date values are reported for volume-related indicators only (i.e., Tenders Called). The accompanying percentage variance denotes the relative change in the current YTD value as compared to the same period a year earlier. Significant variances may be observed as a result of a change in the Canadian Wheat Board's tendering commitment.
- (2) – Includes tendered malting barley volumes.
- (3) – Indicators 2A-10 through 2A-16 examine tendered movements along a series of different dimensions. This examination is intended to provide greater insight into the movements themselves, and cannot be depicted within the summary framework presented here. The reader is encouraged to consult the corresponding data table directly.
- (4) – Indicators 2B-2 through 2B-5, as well as 2B-7, examine advance car awards movements along a series of different dimensions. This examination is intended to provide greater insight into the movements themselves, and cannot be depicted within the summary framework presented here. The reader is encouraged to consult the corresponding data table directly.

Synopsis – System Efficiency

One of the chief aims in the government's decision to move the GHTS towards a more commercial orientation was to improve overall system efficiency. This stems from the belief that a more efficient system will ultimately enhance the competitiveness of Canadian grain in international markets to the benefit of all stakeholders.

The indicators presented here are intended to examine the relative change in the efficiency of the GHTS. A preceding chapter – Industry Overview – addressed changes observed in the basic components of the GHTS (country elevators, railways, and terminal elevators). In comparison, the following series of indicators largely concentrates on how these assets are utilized, and the overall time it takes grain to move through the system.

Highlights – Second Quarter 2005-06 Crop Year

Trucking

- Composite Freight Rate Index for short-haul trucking rises by 3.1% in the first half.
 - Reflects increased pressure from rising input costs, particularly fuel.

Country Elevators

- Throughput increased by 6.6% to 15.5 million tonnes for the first six months of the 2005-06 crop year.
- The average elevator capacity turnover ratio increased 3.4% to 3.0 turns in the first half.
 - Reflects effects of 182,500-tonne increase in storage capacity.
- Average inventory level rises by 37.6% to 2.9 million tonnes.
- Average number of days-in-store increased by 28.4% to 33.5 days.
 - Directly reflects the effects of improved grain availability.
- Average weekly stock-to-shipment ratio climbs by 34.3% to 4.7 for the first half.
- Average posted tariff rates for elevator storage increased by up to 15.8% in the first half.

Rail Operations

- Average car cycle decreased by 0.3% to 18.3 days during the first six months of the crop year.
 - Significant differences in underlying empty and loaded transit time averages.
 - Average empty transit time decreases 9.1% to 9.0 days.
 - Average loaded transit time increases 9.6% to 9.4 days.
 - Partially reflects increased GHTS handlings.
- Proportion of grain traffic moving under incentive programs increases marginally to 75.1%.
 - Railways make no significant changes to their incentive programs.
 - Grain moving in blocks of 50 or more cars accounts for 70.3% of total traffic volume.
 - Railway incentive payments estimated to have increased by 26.3% to \$42.6 million in the first half.
 - Largely reflects a proportionate increase in overall grain volumes.
- Greater symmetry in CN and CP pricing actions at the beginning of the 2005-06 crop year.
 - CP raises rates in its two major corridors by 7.0%.
 - CN raises rates to the west coast by 7.0% and to Thunder Bay and Churchill by 7.5%.

Terminal Elevators and Port Performance

- Terminal throughput increased by 18.4% to 11.3 million tonnes during the first half.
- 389 vessels loaded at western Canadian ports during the first six months of the crop year.
 - Average time in port climbed by 6.1% to 5.2 days.
- Average posted tariff rates for elevator handling increases by 1.9% in the first half.
 - Posted tariff rates for storage increase by 3.6%.

Indicator Series 3 – System Efficiency

		2005-06										
Table	Indicator Description	Notes	1999-00	2002-03	2003-04	2004-05	Q1	Q2	Q3	YTD (1)	% VAR	
Trucking [Subseries 3A]												
3A-1	Composite Freight Rate Index – Short-haul Trucking	(2)	100.0	100.0	100.0	111.3	114.7	114.7	-	-	3.1%	▲
Primary Country Elevators [Subseries 3B]												
3B-1	Grain Volume Throughput (000 tonnes)	(1)	32,493.9	19,052.1	28,526.9	28,593.5	7,649.1	7,867.7	-	15,516.8	6.6%	▲
3B-2	Average Elevator Capacity Turnover Ratio	(1)	4.8	3.7	5.6	5.6	1.5	1.5	-	3.0	3.4%	▲
3B-3	Average Weekly Elevator Stock Level (000 tonnes)	(1)	3,699.3	2,502.0	2,691.9	2,314.3	2,813.6	2,909.6	-	2,859.7	37.6%	▲
3B-4	Average Days-in-Store (days)	(1)	41.7	47.9	34.4	29.5	33.5	33.7	-	33.5	28.4%	▲
3B-5	Average Weekly Stock-to-Shipment Ratio – Grain	(1)	6.2	7.1	5.0	4.1	4.9	4.6	-	4.7	34.3%	▲
3B-6	Average Handling Charges – Country Delivery Points	(3)										
Rail Operations [Subseries 3C]												
3C-1	Hopper Car Grain Volumes (000 tonnes) – Province	(1)	25,659.6	12,271.3	19,923.5	20,259.5	6,273.7	5,799.5	-	12,073.2	19.1%	▲
3C-2	Hopper Car Grain Volumes (000 tonnes) – Primary Commodities	(1)										
3C-3	Hopper Car Grain Volumes (000 tonnes) – Detailed Breakdown	(1)										
3C-4	Railway Car Cycle (days) – Empty Transit Time	(1)	10.7	10.2	7.8	10.1	9.6	8.4	-	9.0	-9.1%	▼
3C-4	Railway Car Cycle (days) – Loaded Transit Time	(1)	9.2	10.1	8.9	8.7	9.5	9.2	-	9.4	9.6%	▲
3C-4	Railway Car Cycle (days) – Total Transit Time	(1)	19.9	20.4	16.7	18.7	19.1	17.6	-	18.3	-0.3%	-
3C-5	Hopper Car Grain Volumes (000 tonnes) – Non-Incentive	(1)	12,715.8	2,954.3	4,957.3	5,294.1	1,818.3	1,187.1	-	3,005.4	12.0%	▲
3C-5	Hopper Car Grain Volumes (000 tonnes) – Incentive	(1)	12,943.8	9,317.1	14,966.3	14,965.3	4,455.5	4,612.4	-	9,067.8	21.6%	▲
3C-6	Hopper Car Grain Volumes (\$ millions) – Incentive Discount Value	(1)	\$31.1	\$37.1	\$67.9	\$67.7	\$20.6	\$22.0	-	\$42.6	26.3%	▲
3C-7	Traffic Density (tonnes per route mile) – Grain-Dependent Network	(1)	442.3	204.1	356.7	337.1	450.3	424.6	-	437.5	30.4%	▲
3C-7	Traffic Density (tonnes per route mile) – Non-Grain-Dependent Network	(1)	292.4	149.0	235.1	249.1	298.9	274.9	-	286.9	14.8%	▲
3C-7	Traffic Density (tonnes per route mile) – Total Network	(1)	330.3	162.1	263.8	269.8	334.4	309.7	-	322.0	19.3%	▲
3C-8	Composite Freight Rates (\$ per tonne) – Rail	(2)(3)										
3C-9	Multiple-Car Shipment Incentives (\$ per tonne) – Rail	(2)(3)										
3C-10	Effective Freight Rates (\$ per tonne) – CTA Revenue Cap	(2)(4)	n/a	\$24.52	\$25.72	\$25.87	n/a	n/a	n/a	n/a	n/a	-
Terminal Elevator and Port Performance [Subseries 3D]												
3D-1	Annual Port Throughput (000 tonnes) – Grain	(1)	23,555.5	11,806.9	18,962.0	18,943.5	5,715.9	5,633.5	-	11,349.4	18.4%	▲
3D-2	Average Terminal Elevator Capacity Turnover Ratio	(1)(5)	9.1	5.0	7.0	7.5	n/a	n/a	n/a	n/a	n/a	-
3D-3	Average Weekly Terminal Elevator Stock Level (000 tonnes)	(1)	1,216.2	1,016.5	1,069.2	1,127.5	1,292.3	1,311.0	-	1,301.3	27.5%	▲
3D-4	Average Days-in-Store – Operating Season (days)	(1)	18.6	21.7	19.0	19.9	20.3	19.6	-	20.0	7.5%	▲
3D-5	Average Weekly Stock-to-Shipment Ratio – Grain	(1)(3)										
3D-6	Average Weekly Stock-to-Shipment Ratio – Grade	(1)(3)										
3D-7	Average Vessel Time in Port (days)	(1)	4.3	4.3	4.0	4.9	4.7	5.9	-	5.2	6.1%	▲
3D-8	Distribution of Vessel Time in Port	(1)(3)										
3D-9	Distribution of Berths per Vessel	(1)(3)										
3D-10	Annual Demurrage Costs (\$millions)	(5)	\$7.6	\$0.8	\$4.7	\$16.0	n/a	n/a	n/a	n/a	n/a	-
3D-10	Annual Dispatch Earnings (\$millions)	(5)	\$14.5	\$4.4	\$20.0	\$17.5	n/a	n/a	n/a	n/a	n/a	-
3D-11	Average Handling Charges – Terminal Elevators	(2)(3)										

- (1) – Year-To-Date values are reported for volume-related indicators only (i.e., Grain Volume Throughput). The accompanying percentage variance denotes the relative change in the current YTD value as compared to the same period a year earlier.
- (2) – Quarterly values for non-volume-related indicators (i.e., Composite Freight Rate Index) are “as at” the end of the reporting period. The accompanying percentage variance denotes the relative change in the value of the most recent reporting period as compared to that at the end of the preceding crop year.
- (3) – Changes in the indicator cited cannot be depicted within the summary framework presented here. The reader is encouraged to consult the corresponding data table directly.
- (4) – Statistics relating to effective railway freight rates, as determined by the Canadian Transportation Agency, are generally produced about six months after the close of the crop year. The most recent statistics available are those from the 2004-05 crop year.
- (5) – The GMP provides for the calculation of this indicator on an annual basis. Quarterly values are not available.

Synopsis – Service Reliability

The true test of any logistics chain is its ability to provide for the timely delivery of product, as it is needed – whether it is raw materials, semi-processed goods, component parts, or finished products. This applies in equal measure to both industrial and consumer products, and is summarized by a widely used colloquialism within the logistics industry: “to deliver the right product, to the right customer, at the right time.” The indicators that follow are largely used to determine whether grain is indeed moving through the system in a timely manner, and whether the right grain is in stock at port when a vessel calls for loading.

Highlights – Second Quarter 2005-06 Crop Year

Port Performance

- Average weekly stock-to-vessel-requirements ratios rose for most CWB grains, while falling for most Non-CWB grains.
 - Vancouver
 - Wheat – 4.5 for the first six months of the 2005-06 crop year, up by 75.5%.
 - Canola – 2.2, down by 7.9%.
 - Thunder Bay
 - Wheat – 8.2 for the first six months of the 2005-06 crop year, up by 58.7%.
 - Canola – 4.1, up by 143.2%.
 - Indicates that grain inventories were generally sufficient to meet short-term demand.
 - Most shortages related to barley and canola movements.
- Average stock-to-shipment ratios provide similar evidence of the ability of these ports to meet short-term demand.
 - Vancouver
 - CWB grains – 3.2 for the first six months of the 2005-06 crop year, down by 6.3%.
 - Non-CWB grains – 3.2, down by 13.7%.
 - Thunder Bay
 - CWB grains – 8.2 for the first six months of the 2005-06 crop year; up by 30.9%.
 - Non-CWB grains – 3.6; up by 37.1%.

Indicator Series 4 – Service Reliability

		2005-06										
Table	Indicator Description	Notes	1999-00	2002-03	2003-04	2004-05	Q1	Q2	Q3	YTD (1)	% VAR	
Port Performance [Subseries 4A]												
4A-1	Avg. Weekly Stock-to-Vessel Requirements Ratio – VCR – Wheat	(1)	3.1	4.9	3.5	2.7	3.0	5.9	-	4.5	75.5%	▲
4A-1	Avg. Weekly Stock-to-Vessel Requirements Ratio – VCR – Canola	(1)	2.5	2.9	3.6	2.8	2.0	2.4	-	2.2	-7.9%	▼
4A-1	Avg. Weekly Stock-to-Vessel Requirements Ratio – TBY – Wheat	(1)	5.6	6.8	4.8	6.0	8.6	7.6	-	8.2	58.7%	▲
4A-1	Avg. Weekly Stock-to-Vessel Requirements Ratio – TBY – Canola	(1)	2.8	4.3	3.0	2.2	3.7	4.8	-	4.1	143.2%	▲
4A-2	Avg. Weekly Stock-to-Vessel Requirements Ratio – Grade	(1)(2)										
4A-3	Avg. Weekly Stock-to-Shipment Ratio – VCR – CWB Grains	(1)	3.5	4.3	3.3	3.2	2.9	3.5	-	3.2	-6.3%	▼
4A-3	Avg. Weekly Stock-to-Shipment Ratio – VCR – Non-CWB Grains	(1)	3.6	4.3	3.7	3.6	2.5	3.8	-	3.2	-13.7%	▼
4A-3	Avg. Weekly Stock-to-Shipment Ratio – TBY – CWB Grains	(1)	4.6	6.6	6.0	7.2	8.7	7.6	-	8.2	30.9%	▲
4A-3	Avg. Weekly Stock-to-Shipment Ratio – TBY – Non-CWB Grains	(1)	3.3	5.0	3.1	3.6	3.4	3.8	-	3.6	37.1%	▲
4A-4	Terminal Handling Revenue (\$millions) – Vancouver	(1)(3)	\$192.7	\$49.7	\$134.9	\$150.9	n/a	n/a	n/a		n/a	-
4A-4	Terminal Handling Revenue (\$millions) – Thunder Bay	(1)(3)	\$82.1	\$58.6	\$61.7	\$68.4	n/a	n/a	n/a		n/a	-
4A-4	CWB Carrying Costs (\$millions) – Pacific Seaboard	(1)(3)	\$63.3	\$22.4	\$52.5	\$73.8	n/a	n/a	n/a		n/a	-
4A-4	CWB Carrying Costs (\$millions) – Thunder Bay	(1)(3)	\$31.3	\$30.1	\$40.9	\$36.1	n/a	n/a	n/a		n/a	-

(1) – Year-To-Date values are reported for volume-related indicators only (i.e., Average Weekly Stock-to-Vessel Requirements Ratio). The accompanying percentage variance denotes the relative change in the current YTD value as compared to the same period a year earlier.

(2) – Changes in the indicator cited cannot be depicted within the summary framework presented here. The reader is encouraged to consult the corresponding data table directly.

(3) – The GMP provides for the calculation of this indicator on an annual basis. Quarterly values are not available.

Synopsis – Producer Impact

One of the key objectives of the GMP rests in determining the producer impacts that stem from changes in the GHTS. The principal measure in this regard is the producer netback – an estimation of the financial return to producers after deduction of the “export basis.” The methodology employed in calculating these measures was developed following an extensive study conducted as a Supplemental Work Item under the GMP, and approved for incorporation into the mainstream indicators of the GMP by Transport Canada and Agriculture and Agri-Food Canada.

Highlights – Second Quarter 2005-06 Crop Year

Export Basis and Producer Netback – CWB Grains

- Changes in the CWB’s Pool Return Outlook (PRO) for 1 CWRS wheat:
 - Farmer’s initial payment set at \$133.60 per tonne.
 - Represents a 34.9% reduction from the final realized price for the 2004-05 crop year of \$205.10 per tonne.
 - PRO fell to \$201.00 per tonne by the end of the second quarter.
 - Represents a 50.4% premium to the farmer’s initial payment.
 - Reduction largely fuelled by the expectation of increased global production in 2005.
- Recent changes in input costs:
 - Country elevator handling – up by 2.0% for elevation.
 - Storage charges increased by an average 15.8%.
 - Rail transportation – up by at least 7.0% from all origins.
 - Terminal elevator handling – up by as much as 3.6% for storage.
- Changes in the PRO for 1 CWRS wheat, and input costs to the export basis, suggests a reduction in the producer’s per-tonne netback for CWB grains in the 2005-06 crop year.

Export Basis and Producer Netback – Non-CWB Commodities

- Changes in Vancouver cash price for 1 Canada canola:
 - Price falls to an average of \$269.32 per tonne for the first six months of the 2005-06 crop year.
 - Represents a 13.5% reduction from the 2004-05 crop year’s monthly average of \$311.19 per tonne.
 - Reduction largely fuelled by larger global oilseed production in 2005.
- Recent changes in input costs:
 - Country elevator handling – up by 2.0% for elevation.
 - Storage charges increased by an average 15.8%.
 - Rail transportation – up by at least 7.0% from all origins.
 - Terminal elevator handling – up by as much as 3.6% for storage.
- Changes in the price of 1 Canada canola, and input costs to the export basis, suggests a reduction in the producer’s per-tonne netback for non-CWB commodities in the 2005-06 crop year.

Producer-Car Loading

- Number of producer-car-loading sites falls by one to 483.
- Producer-car shipments increased by 32.9% to 3,853 railcars in the first half.
 - Grain quality continues to adversely impact shipments.

Indicator Series 5 – Producer Impact

							2005-06				
Table	Indicator Description	Notes	1999-00	2002-03	2003-04	2004-05	Q1	Q2	Q3	YTD (1)	% VAR
Export Basis											
Western Canada											
5A-10	CWRS Wheat (\$ per tonne)	(1)(3)	\$54.58	\$56.65	\$55.51	\$57.77					
5A-10	CWA Durum (\$ per tonne)	(1)(3)	\$67.63	\$73.05	\$64.72	\$70.73					
5A-10	1 Canada Canola (\$ per tonne)	(1)(3)	\$52.51	\$48.97	\$42.51	\$40.97					
5A-10	Canadian Large Yellow Peas – No. 2 or Better (\$ per tonne)	(1)(3)	\$54.76	\$83.19	\$67.75	\$67.98					
Producer-Car Loading											
5B-1	Producer-Car-Loading Sites (number) – Class 1 Carriers	(2)	415	380	348	329	331	354	-		7.6%
5B-1	Producer-Car-Loading Sites (number) – Class 2 and 3 Carriers	(2)	122	138	166	155	155	129	-		-16.8%
5B-1	Producer-Car-Loading Sites (number) – All Carriers	(2)	537	518	514	484	486	483	-		-0.2%
5B-2	Producer-Car Shipments (number) – Covered Hopper Cars	(1)	3,441	3,209	9,399	8,061	1,446	2,407	-	3,853	32.9%

(1) – Year-To-Date values are reported for volume-related indicators only (i.e., Producer-Car Shipments). The accompanying percentage variance denotes the relative change in the current YTD value as compared to the same period a year earlier.

(2) – Quarterly values for non-volume-related indicators (i.e., Producer-Car-Loading Sites) are “as at” the end of the reporting period. The accompanying percentage variance denotes the relative change in the value of the most recent reporting period as compared to that at the end of the preceding crop year.

(3) – The GMP provides for the calculation of this indicator on an annual basis. Quarterly values are not available.



Members of the Quorum Corporation Advisory Board

Mark A. Hemmes

*Chairman of the Advisory Board
President, Quorum Corporation
Edmonton, Alberta*

J. Marcel Beaulieu

*Director – Research and Analysis, Quorum Corporation
Sherwood Park, Alberta*

Richard B. Boyd

*Senior Vice President, Canadian National Railway Company (retired)
Edmonton, Alberta*

A. Bruce McFadden

*Director – Research and Analysis, Quorum Corporation
Edmonton, Alberta*

Shelley J. Thompson

*President, SJT Solutions
Souhey, Saskatchewan*

Members of the Quorum Corporation Grain Monitoring Team

Mark Hemmes President

Marcel Beaulieu Director – Research and Analysis
Bruce McFadden Director – Research and Analysis
Vincent Roy Senior Technical Officer

Corporate Offices

Quorum Corporation
Suite 701, 9707–110 Street
Edmonton, Alberta
T5K 2L9

Telephone: 780 / 447-2111
Fax: 780 / 447-2630

Website: www.quorumcorp.net
Email: info@quorumcorp.net

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Appendix 1: Program Background

On June 19, 2001, the Government of Canada announced that Quorum Corporation had been selected to serve as the Monitor of Canada's Grain Handling and Transportation System (GHTS). Under its mandate, Quorum Corporation provides the federal government with quarterly and annual reports aimed at measuring the system's performance, as well as assessing the effects arising from the government's two principal reforms, namely:

- The introduction, and gradual expansion of tendered grain movements by the Canadian Wheat Board; and
- The replacement of the maximum rate scale for rail shipments with a cap on the annual revenues that railways can earn from the movement of regulated grain.

In a larger sense, these reforms are expected to alter the commercial relations that have traditionally existed between the primary participants in the GHTS: producers; the Canadian Wheat Board; grain companies; railway companies; and port terminal operators. Using a series of indicators, the government's Grain Monitoring Program (GMP) aims to measure the performance of both the system as a whole, and its constituent parts, as this evolution unfolds. With this in mind, the GMP is designed to reveal whether the movement of grain from the farm gate to lake- and sea-going vessels (i.e., the supply chain) is being done more efficiently and reliably than before.

To this end, the GMP provides for a number of specific performance indicators grouped under five broad series, namely:

- Series 1 – Industry Overview
Measurements relating to annual grain production, traffic flows and changes in the GHTS infrastructure (country and terminal elevators as well as railway lines).
- Series 2 – Commercial Relations
Measurements focusing on the tendering activities of the Canadian Wheat Board as it moves towards a more commercial orientation as well as changes in operating policies and practices related to grain logistics
- Series 3 – System Efficiency
Measurements aimed at gauging the operational efficiency with which grain moves through the logistics chain.
- Series 4 – Service Reliability
Measurements focusing on whether the GHTS provides for the timely delivery of grain to port in response to prevailing market demands.
- Series 5 – Producer Impact
Measurements designed to capture the value to producers from changes in the GHTS, and is focused largely on the calculation of "producer netback."

Appendix 2: Producer Netback Calculator

A prime issue with many stakeholders is the impact that the shrinking GHTS network has had on the length of truck haul from farm gate to elevator. While all evidence suggests that truck hauls are increasing because of the reduced number of delivery points, the exact – or even approximate – amount of this increase is unknown. Following discussions with stakeholders and the government, a methodology that would allow the Monitor to gather the data necessary to enhance the quality and reliability of this component of the export basis has been developed.⁴⁷ The Producer Netback Calculator (PNC) was designed to provide a cost-effective and non-intrusive means of gathering this data.

At the same time, and in response to producers' requests, the Monitor will provide access to data on the costs associated with moving grain from farm-specific locations to export position (the export basis). These costs are the same ones reflected as deductions on cash tickets. The PNC has been designed to assist farmers in determining the delivery options that may provide the best returns for their wheat, durum and feed barley. When these costs are subtracted from the most recent CWB Pool Return Outlook (PRO), the resulting calculation of producer netback provides the best possible estimate of the real returns to be had for their grain.

To gain access to the PNC, producers are provided with their own personal log-in identification and password. Once they have logged into the system, all communication will be secured through 128 bit encryption technology, identical to that used by major banks to allow customers access to their accounts over the internet. This ensures that all information is communicated and held with the strictest confidentiality, while allowing the Monitor to classify data according to the demographics of the specific producer. Producers can be assured that no data specific to any individual will be published, or shared, by Quorum Corporation.

Calculation of a producer's estimated export basis and netback is based on the entry of movement-specific information (i.e., delivery point, grain company, grain, grade, etc.). After entering this basic information, the producer can then run a calculation that will return a tabular accounting of the export basis and producer netback based on the PRO. The producer also has the option of "recalculating" these estimates by returning to a previous screen, and changing any of the parameters used in the calculation (i.e., destination station, grain company, etc.).

The screenshot shows the 'Producer NetBack Calculation' form. It includes the following fields and options:

- Origin:** Radio buttons for 'Use my home location' (selected) and 'Use this location'.
- Location Details:** Quarter: SW, Section: 18, Township: 12, Range: 20, Meridian: W1, Province: Manitoba.
- Delivery Point and Elevator:** Pioneer Grain Company, Limited 4 BRANDON, MB. Includes a 'Search Elevator' link.
- Distance to Elevator (Miles):** 23. Includes a 'Calculate Mileage' button.
- Commodity:** Wheat. Binned Grade: #2 CWRS 13.5. Paid At Grade: #1 CWRS 13.5.
- Estimated Dockage (%):** 1.0. Gross Tonnes to Deliver: 60.
- Trucking Rate:** 5 per Tonne.
- Number of Trips:** 2.
- Trucking Mode:** Commercial. Truck Type: Tridom (tri-axle).
- Anticipated Trucking Premium (leave blank if none):** 3.50 (\$ per Net Tonne).
- Other Premiums (leave blank if none):** (\$ per Net Tonne).
- Calculate Estimate** button.

Figure A1: An image of the input screen for Quorum Corporation's Netback Calculator.

⁴⁷ The GMP currently incorporates trucking costs based on the commercial short-haul trucking rates for an average haul of 40 miles, as presented in Table 3A-1.

Every estimate will be recorded and accessible to the producer through a "history" listing. It is through this screen that producers are given the ability to create comparative reports that can present these estimates – or those they wish to see – in summary or detail. These reports can also be printed or presented as a computer spreadsheet. This is also the section of the system where the producer identifies estimates that subsequently resulted in actual grain movements.

The Grain Monitoring Program will gain valuable data on grain logistics by retaining a record of the individual transactions that pertain to actual deliveries. In specific terms, this data will assist in analyzing the average length of haul to elevators, modal utilization, and other farm gate to elevator delivery issues. This information will be incorporated into the calculation of producer netback in future reports of the Monitor.

Input	Results	Binned		Paid	
		Tonne	Bushel	Tonne	Bushel
Origin Point: SW 18X 12 X 20X W1	CWB Pool Return Outlook	\$192.00	\$5.23	\$196.00	\$5.33
Delivery Point: BRANDON	(Adj.) Freight To Vancouver				
Grain Company: Pioneer Grain Company, Limited	(Adj.) Freight To Thunder Bay				
Commodity: Wheat	Freight Adjustment Factor				
Binned Grade: #2 CWRS 13.5	Applicable Freight		\$32.77		
Paid At Grade: #1 CWRS 13.5	Trucking		\$5.05		
Estimated Dockage (%): 1.0	Primary Elevation		\$12.12		
Trucking Mode: Commercial	Dockage Cleaning		\$4.04		
Truck Type: Tridem (tri-axle)	Sub-Total Other Costs		\$21.21		
Number of Trips: 2	Trucking Premiums		\$(3.50)		
Gross Tonnes To Elevator: 60	Other Premiums		\$(0.00)		
Distance To Elevator (Miles): 23	Sub-Total Producer Premiums		\$(3.50)		
Trucking Premiums: \$3.50	Total Export Basis		\$50.48		\$50.48
Other Premiums: \$0.00	Producer Netback		\$141.52	\$3.85	\$145.52
					\$3.96

Figure A2: An image of the output screen for Quorum Corporation's Netback Calculator.

Appendix 3: Acknowledgements

The scope of this review is far-reaching and could not have been completed without the assistance of the various stakeholders that submitted views on the detailed monitoring design and provided the data in support of the Grain Monitoring Program (GMP). Quorum Corporation would like to thank the following organizations, and more particularly the individuals within them, for the cooperation they have extended in our efforts to implement the GMP. We have come to appreciate not only their cooperation as suppliers of data under the program, but to value their assistance in helping to improve the quality of the program as a whole. We look forward to their continued input and cooperation throughout the duration of the program.

Agricore United	Mission Terminal Inc.
Agricultural Producers Association of Saskatchewan	National Farmers Union
Agriculture and Agri-Food Canada	North East Terminal Ltd.
Alberta Agriculture, Food and Rural Development	North West Terminal Ltd.
Alberta Transportation	OmniTRAX Canada, Inc.
Alberta RailNet	Parrish & Heimbecker Ltd.
Canadian Canola Growers Association	Paterson Grain
Canadian Grain Commission	Port of Churchill
Canadian Maritime Chamber of Commerce	Port of Prince Rupert
Canadian National Railway	Port of Thunder Bay
Canadian Pacific Railway	Port of Vancouver
Canadian Ports Clearance Association	Prairie West Terminal
Canadian Ship Owners Association	Prince Rupert Grain Ltd.
Canadian Special Crops Association	Red Coat Road and Rail
Canadian Transportation Agency	Saskatchewan Agriculture and Food
Canadian Wheat Board	Saskatchewan Highways and Transportation
Cando Contracting Ltd.	Saskatchewan Association of Rural Municipalities
Cargill Limited	Saskatchewan Wheat Pool
CMI Terminal	South West Terminal
Gardiner Dam Terminal	Statistics Canada
Government of BC	Terminal 22 Inc
Grain Growers of Canada	Transport Canada
Great Sandhills Terminal	Vancouver Wharves Ltd.
Great Western Rail	Western Barley Growers Association
Inland Terminal Association of Canada	Western Canadian Wheat Growers Association
James Richardson International Ltd. (Pioneer Grain)	Western Grain By-Products Storage Ltd.
Keystone Agricultural Producers	Western Grain Elevator Association
Louis Dreyfus Canada Ltd.	Weyburn Inland Terminal Ltd.
Manitoba Agriculture	Wild Rose Agricultural Producers
Manitoba Transportation and Government Services	Winnipeg Commodity Exchange
Mid-Sask Terminal Ltd.	

