

Third Quarter Report

2010-2011 Crop Year

Monitoring the Canadian Grain
Handling and Transportation System

1 Summary
Report



Government of Canada
Gouvernement du Canada



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Foreword

The following report details the performance of Canada's Grain Handling and Transportation System (GHTS) for the nine months ended 30 April 2011, and focuses on the various events, issues and trends manifest in the movement of Western Canadian grain during the first three quarters of the 2010-11 crop year.

As with the Monitor's previous quarterly and annual reports, the report that follows is structured around a number of measurement indicators. The close of the 2009-10 crop year saw the traditional five-group subdivision of these indicators changed, with their reorganization into a new six-group series, comprising:

- Series 1 - Production and Supply
- Series 2 - Traffic and Movement
- Series 3 - Infrastructure
- Series 4 - Commercial Relations
- Series 5 - System Efficiency and Performance
- Series 6 - Producer Impact

As in the past, each series builds on data collected by the Monitor from the industry's various stakeholders, and frames the discussion using year-over-year comparisons. To that end, activity in the 2010-11 crop year is largely gauged against that of the 2009-10 crop year. But the GMP was also intended to frame recent activity against the backdrop of a longer time series. Beginning with the 1999-2000 crop year - referred to as the GMP's "base" year - the Monitor has now assembled reliable quarterly data in a time series that extends into twelve crop years. This data constitutes the backbone of the GMP, and is used widely to identify significant trends and changes in GHTS performance.

Although the data tables presented in Appendix 5 of this report can only depict a portion of this time series, the full series can be obtained as an .XLSX spreadsheet from the Monitor's website (www.quorumcorp.net). Additional .PDF copies of this report, as well as all past reports, can also be downloaded from the Monitor's website.

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Executive Summary

PRODUCTION AND SUPPLY

The 2010 growing season began poorly, with extensive rains blanketing much of western Canada. Grain growers were forced to defer seeding an estimated 10.5 million acres of land across the prairies until early June 2010. Although significant inroads were subsequently made, it was not supported by hot, dry weather. Rather, record or near-record rainfalls continued to vex farmers through much of the remaining growing season. This was accompanied by an equally cool and wet fall, which tempered the pace of the harvest significantly. Compounding these problems were the effects of a mid September frost, which undermined the quality of the crop yet to be gathered.

Not surprisingly, both the quality and quantity of the grain brought in from the field were affected. Overall grain production for the 2010-11 crop year fell to 50.1 million tonnes, a 10.8% reduction from the previous crop year's 56.1 million tonnes. When combined with the 11.0 million tonnes of stock carried forward from the preceding crop year, the overall grain supply reached 61.0 million tonnes. This embodied a reduction of 7.1% from the previous crop year's 65.7 million tonnes.

TRAFFIC AND MOVEMENT

Despite a reduction in the grain supply, the GHTS's total handlings in the first nine months of the 2010-11 crop year proved largely comparable with that experienced in the same period a year earlier.

- Country elevator throughput, as gauged by all road and rail shipments from the primary elevators situated across western Canada, decreased by 4.7%, to 23.9 million tonnes from 25.1. Increased volumes from Alberta did much to counter the reductions posted by Saskatchewan, Manitoba and British Columbia.
- The amount of grain moved by rail to western Canadian ports increased by just 0.3% in the first nine months of the crop year, rising to 20.7 million tonnes from 20.6 million tonnes a year earlier. As in past years, the vast majority of this traffic, some 19.9 million tonnes, moved in covered hopper cars. The remaining 733,100 tonnes moved in different forms of railway equipment, with the predominant form being containers.
- The port of Vancouver remained the principal export destination for western Canadian grain, receiving a GMP record of 12.8 million tonnes in the first nine months of the crop year, against 12.6 million tonnes in the same period a year earlier. Shipments to Prince Rupert fell by 6.5%, to 3.2 million tonnes from 3.4 million tonnes. Thunder Bay also posted a reduction in traffic volume, with shipments falling by 9.2%, to 3.3 million tonnes from 3.7 million tonnes a year earlier. In contrast, rail shipments to Churchill increased by 33.5%, to 598,800 tonnes from 448,600 tonnes.

- Port throughput in the first nine months of the crop year, as measured by the volume of grain shipped from terminal elevator and bulk loading facilities located at Canada's four western ports, totalled 18.5 million tonnes. This volume was effectively unchanged from that shipped in the same period a year earlier, declining only 0.2%. Vancouver accounted for 61.3% of this volume, with total marine shipments climbing to 11.3 million tonnes from 11.2 million tonnes. West-coast shipments were bolstered by another 3.2 million tonnes exported through Prince Rupert, although the port's throughput for the period declined by 2.9%. Thunder Bay also saw a reduction in throughput, with volume falling 5.7%, to 3.2 million tonnes from 3.4 million tonnes. Churchill reported a 24.2% increase in its handlings, which rose to 657,500 tonnes from 529,600 tonnes.

INFRASTRUCTURE

The infrastructure that defines the GHTS in western Canada has undergone significant change in the last dozen years. Much of this reflects the rationalization of the country elevator network, which saw significant transformation in the first years of the GMP. Still, the evolution continues, with the following changes being noted in the first nine months of the 2010-11 crop year.

- The total number of country elevators increased by just one in the first nine months of the crop year, to 367 from 366 at the close of the previous crop year. This brought the accumulated loss to 637 facilities, or 63.4%, since the beginning of the GMP. An equally modest change in grain delivery points was also recorded during the period, with the total being reduced by one to 273. This was complemented by yet another 91,400 tonnes of additional storage capacity, with the overall total being raised to more than 6.4 million tonnes for the first time since the 2001-02 crop year.
 - With CN's abandonment of another 74.4 route-miles of track, the scope of the western Canadian railway network was reduced to 17,830.3 route-miles. Although this denotes a contraction of 8.4% from the 19,468.2 route-miles in place at the beginning of the GMP, it remains a modest reduction in comparison to the broader decline in the elevator system it serves. The first nine months of the crop year also saw a further shift in the balance between the Class 1 and non-Class-1 carriers as a result of the creation of yet another shortline, the Stewart Southern Railway, in August 2010. This served to reduce the infrastructure under CN and CP management to 15,249.5 route-miles, or 85.5%, while increasing that under shortline control to 2,580.8 route-miles, or 14.5%.
 - With no changes to the terminal elevator network in the first nine months of the 2010-11 crop year, the system remained comprised of 15 licensed facilities with 2.5 million tonnes of storage capacity. These values proved only marginally greater than those of the GMP's base year, which were benchmarked at 14 elevators with 2.6 million tonnes of storage capacity. With seven of the elevators and 47.3% of the storage capacity, Thunder Bay continued to hold the largest share of these assets. Vancouver held second place with six facilities and 38.5% of the system's storage capacity. Prince Rupert and Churchill both followed with one terminal elevator each, and storage-capacity shares of 8.5% and 5.7% respectively.
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COMMERCIAL RELATIONS

The 2010-11 crop year ushered in a broad-based series of increases for most of the commercial services used to move grain through the GHTS. These ranged from a substantive hike in the rates for short-haul trucking to more moderate increases in the fees for country and terminal elevator handling.

- Commercial trucking rates for the movement of grain moved sharply higher in the first quarter of the 2010-11 crop year, followed by a more modest hike in the third. This was driven largely by the resurgence in oil prices as well as the continuing demand for commercial carrying capacity. As a result, the composite price index for short-haul trucking rose by 22.5%, to 162.0 from the 132.2 posted at the close of the previous crop year.
- Railway freight rates moved generally higher in the first quarter, with much of this seemingly tied to the seasonal pricing initiatives introduced by the railways four years earlier. These increases also proved to be corridor specific, and ranged from 1% to 7% depending on the originating carrier. For the most part, these actions underscored the growing complexity in railway pricing, and accentuated the pricing differentials between CN and CP. The rates published by CN remained unchanged through the third quarter while those posted by CP were reduced by about 2.5% towards the close of the period.
- Changes to the per-tonne rates assessed by grain companies for a variety of primary elevator handling activities proved mixed in the first nine months of the 2010-11 crop year. Chief among the decliners were the rates assessed for the receiving, elevating and loading out of grain, which fell by an average of 1.0%. An even sharper reduction of 8.5% was noted in the fees assessed for elevator storage. Running counter to these reductions were the charges assessed for the removal of dockage, which rose by 2.5%.
- Most of the GHTS's terminal elevators increased their per-tonne rates for the receiving, elevating and loading out of grain in the first nine months of the 2010-11 crop year. The only exception was found in the rates posted by Churchill, which remained unchanged for a seventh consecutive shipping season. On the whole, these pricing actions served to raise the composite price index by a further 1.5%. Storage charges also rose by about 2.0%.

Tendering

The CWB issued a total of 171 tenders calling for the shipment of approximately 2.9 million tonnes of grain in the first nine months of the 2010-11 crop year. This represented a 47.6% increase over the 2.0 million tonnes put out to tender in the same period a year earlier. Unlike past years, the majority of this tonnage, 52.4%, related to barley. This entailed a potential movement of 1.5 million tonnes, more than seven times what had been called a year earlier. Wheat ranked second, with calls for 1.2 million tonnes having been issued. This denoted 41.4% of the overall total compared to 71.2% the year previous. Durum calls, which fell to a 6.2% share from the 18.6% share seen a year earlier, encompassed a mere 182,300 tonnes.

The CWB's tender calls were met by 502 bids offering to move 8.1 million tonnes of grain, more than twice the amount sought. The majority of these bids, 67.4%, responded to calls for the movement of barley. Another 29.4% responded to those issued for wheat, while the remaining 3.2% answered those for durum. Ultimately, this resulted in the awarding of 195 contracts for the movement of almost 1.5 million tonnes of grain. This marked a reduction of 517,800 tonnes from the 2.0 million tonnes awarded a year earlier. The largest proportion, 47.6%, was directed to the port of Vancouver. This was followed in turn by Prince Rupert, Thunder Bay and Churchill, which secured shares of 38.5%, 13.3% and 0.6% respectively. These shipments represented 15.5% of the total tonnage shipped by the CWB to western Canadian ports in the first nine months of the 2010-11 crop year.

Advance Awards

The total tonnage moved under the CWB's advance car awards program fell by 29.1% in the first nine months of the 2010-11 crop year, to 756,600 tonnes from 1.1 million tonnes a year earlier. This represented 8.0% of the total tonnage shipped to the four ports in western Canada by the CWB, against the 9.9% share garnered in the same period a year earlier.

In conjunction with the 1.5 million tonnes that moved under the CWB's tendering program, a total of 2.2 million tonnes of CWB grain were moved under the auspices of these two programs. On a combined basis, this represented 23.5% of the CWB's total grain shipments to the four ports. This fell considerably short of the 40% that had been targeted, and moderately below the 28.3% that had been handled under these same two programs a year earlier.

Commercial Developments

There were a few notable developments in the commercial activities surrounding the movement of grain in the first nine months of the 2010-11 crop year, these included:

- In the wake of the concerns that had been raised by a wide number of shippers regarding the state of railway service in Canada, the federal government committed itself in 2008 to an examination of the country's freight logistics system, with an eye towards identifying any systemic problems or issues with railway service. The panel charged with this review submitted its final report to the Minister of State (Transport) in late December 2010, with its public release following in March 2011. In broad terms, the panel found that there was an imbalance in the commercial relationship between the railways and other stakeholders, but believed that a commercial - rather than a regulatory - approach provided the best means of rectifying this imbalance. On the whole, the federal government accepted the panel's recommendations, promising a four-point course of action encompassing: a six-month facilitated process to negotiate a template service agreement and commercial dispute resolution mechanism; the introduction of a bill in Parliament that would give shippers the right to a service agreement; and to establish a Commodity Supply Chain Table that would address logistical concerns and develop performance metrics to improve competitiveness. Also, Transport Canada and Agriculture and Agri-Food Canada were to initiate an in-depth analysis of the grain supply chain.
 - The federal minister of finance announced in early October 2010 that the Canadian government had decided to waive its long-standing 25% customs duty on all general cargo vessels and tankers, as well as ferries longer than 129 metres, imported into the
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country. The measure, which was to be applicable on any ship imported into the country from 1 January 2010 onwards, was aimed chiefly at aiding Canada's marine transportation industry with the renewal of its aging fleet of vessels. By December 2010 it appeared that the change in governmental policy was beginning to have its desired effect. Algoma Central Corporation, the operator of one of Canada's largest domestic vessel fleets, announced that it had entered into a contract with a Chinese shipyard for the construction of four new dry bulk lake freighters. Surprisingly, it also spurred the Canadian Wheat Board into placing an order for two vessels of its own, with the estimated cost of \$65 million to be spread out over four crop years. Despite an estimated financial return of \$10 million annually, the investment came under fire from a number of farmer groups, with many arguing that it constituted an inappropriate use of the CWB's funds.

- Following several years of study, and the placement of new emphasis on reducing costs, the Montreal Port Authority (MPA) decided to seek a private operator for its 262,000-tonne grain terminal. Unlike other terminal elevators in Canada, all of which are privately operated, the Montreal facility had remained under the management of the MPA since its construction in the early 1960s. Moreover, this had increasingly come to be viewed as a commercial disadvantage by the MPA, which was desirous of improving Montreal's competitive position. Building on its formal Call for an Expression of Interest, the MPA revealed in late January 2011 that it had entered into discussions with Canada's largest grain handler, Viterro, Inc., concerning a management takeover of the facility. This was followed in April 2011 with the announcement that the two parties had in fact signed an agreement that would see Viterro lease the MPA grain terminal, and take over its operation effective 1 July 2011. For Viterro, taking over the MPA grain terminal presented the company with an opportunity to fill a void in its own network, extending its physical reach beyond the terminals it already owned on the west coast and at Thunder Bay, Ontario.

SYSTEM EFFICIENCY AND PERFORMANCE

Although the grain supply declined by 7.1%, to 61.0 million tonnes from 65.7 million tonnes a year earlier, the 20.7 million tonnes of grain shipped in the first nine months of the 2010-11 crop year proved comparable to that handled in the same period the year previous. As a result, the pressures brought to bear on the GHTS during this period remained at heightened levels. Unfortunately, system performance declined noticeably as a result of the significant operating challenges that confronted CP in the first nine months of the 2010-11 crop year.

- The overall amount of time involved in moving grain through the supply chain rose by 5.6% in the first nine months of the 2010-11 crop year, to an average of 55.1 days from the previous crop year's overall 52.2-day average. This was largely due to a 2.9-day increase in the amount of time spent by grain in storage at a country elevator, with a 0.5-day increase in the railways' loaded transit time having been nullified by a 0.5-day decline in terminal-elevator storage time. Despite the overall increase, grain still spent 13.0 fewer days moving through the GHTS in the first nine months of the 2010-11 crop year than it did in the GMP's base year.
- Many of the problems that undermined the GHTS's performance in the first quarter only grew in the second and third. Although much of this was rooted in the disruptive effects of harsh winter weather on CP's operations through the Rockies, it served only

to compound the delays and car-supply problems that had already been plaguing the carrier's customers since the beginning of the crop year. The most visible consequences of this were the growing delays to ships awaiting the arrival of CP grain trains at Vancouver.

PRODUCER IMPACT

All of the data assembled since the beginning of the GMP has consistently shown that the financial returns accruing to producers have been heavily influenced by the prevailing price of grain. While the export basis has unquestionably risen over time, it is the prevailing price of the commodity that continues to have the most sway over these returns. The GMP only includes the producer netback 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 are 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 nine months of the 2010-11 crop year are summarized below.

- The CWB's Pool Return Outlook (PRO) for 1 CWRS wheat (13.5% protein) moved steadily upwards throughout much of the first nine months of the crop year. Gauged against the 2009-10 crop year's final realized price of \$236.80 per tonne, the PRO rose by a factor of 44.8%, closing out the period at \$343.00 per tonne. Much of the impetus for this improvement came from the expectation of tighter global wheat supplies in the face of a severe drought experienced by Russia and other Black-Sea exporters. This gain suggests a substantive improvement in the financial returns accruing to western producers in the 2010-11 crop year.
- The Vancouver cash price for 1 Canada canola also climbed steadily throughout much of the crop year's first nine months, raising the average by 31.5%, to \$557.62 per tonne against the previous crop year's final average of \$424.19 per tonne. This was fuelled in large measure by a growing export demand that saw canola reaching into new markets around the globe. The magnitude of this price increase strongly suggests that this will have a positive impact on the per-tonne financial returns of western Canadian canola producers.

Producer-car loading has increased substantially since the beginning of the GMP. This has come about as a result of many factors, not the least of which has been the formation of producer-car loading groups. Some of the more significant changes observed in the first nine months of the 2010-11 crop year are highlighted below.

- The number of producer-car loading sites situated throughout western Canada has been reduced by about a half since the beginning of the GMP, with only 378 of the original 709 left in service at the close of the 2009-10 crop year. Early in the first quarter another four were closed, which reduced the total number of remaining sites to 374.
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- Even with reduced producer-car-loading sites, producer-car shipments have continued to grow, if somewhat sluggishly. Total shipments fell by 3.5% in the first nine months of the crop year, to 8,332 carloads from 8,632 carloads a year earlier, largely as a result of sharply reduced shipments in the third quarter.
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Section 1: Western Canadian Production and Supply

Indicator Description	Table	1999-00	2008-09	2009-10	2010-11				YTD	% VAR
					Q1	Q2	Q3	Q4		
Production and Supply										
Crop Production (000 tonnes)	1A-1	55,141.7	60,351.7	56,144.2	50,071.2				50,071.2	-10.8%
Carry Forward Stock (000 tonnes)	1A-2	7,418.2	5,646.6	9,515.3	10,955.1				10,955.1	15.1%
Grain Supply (000 tonnes)		62,559.9	65,998.3	65,659.5	61,026.3				61,026.3	-7.1%
Crop Production (000 tonnes) - Special Crops	1A-3	3,936.7	5,157.4	5,573.7	5,617.4				5,617.4	0.8%

PRODUCTION AND SUPPLY

The 2010 growing season began poorly, with extensive rains blanketing much of western Canada. Grain growers were forced to defer seeding an estimated 10.5 million acres of land across the prairies until early June 2010. Although significant inroads were subsequently made, it was not supported by hot, dry weather. Rather, record or near-record rainfalls continued to vex farmers through much of the remaining growing season. This was accompanied by an equally cool and wet fall, which tempered the pace of the harvest significantly. Compounding these problems were the effects of a mid September frost.

Not surprisingly, both the quality and quantity of the grain brought in from the field were affected. Overall grain production for the 2010-11 crop year fell to 50.1 million tonnes, a 10.8% reduction from the previous crop year's 56.1 million tonnes.¹ Although this denoted an average-sized harvest under the GMP, the most pressing issue facing the industry centred on how best to market a crop wherein two-thirds of the grain was of markedly lower quality.

Provincial Distribution

Much of the reduction was concentrated in Saskatchewan and Manitoba, where production fell by a combined 9.4 million tonnes. The most sizeable loss was registered by Saskatchewan, where production fell by 7.2 million tonnes, or 24.2%, to 22.6 million tonnes from 29.9 million tonnes a year earlier. This was amplified by a 2.2-million-tonne decline in Manitoba, where output slumped by 21.6%, to 7.9 million tonnes from 10.1 million tonnes. Widening these losses by another 49,700 tonnes was British Columbia, where production fell by 26.0%, to 141,100 tonnes from 190,800 tonnes.

¹ Total crop production was reported in the Monitor's first and second quarter reports as 48.8 million tonnes. Owing in large measure to a revision in its estimate of canola production, this value was subsequently raised by Statistics Canada to 50.1 million tonnes.

Figure 1: Precipitation Compared to Historical Distribution (1 April to 31 August 2010)

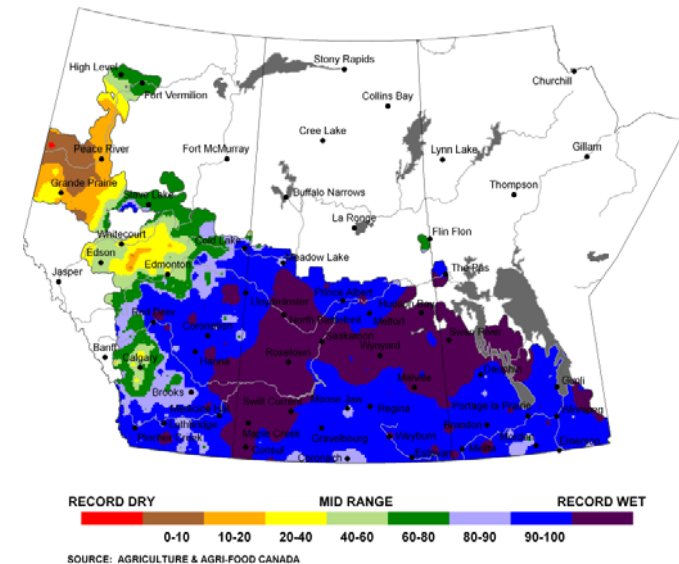
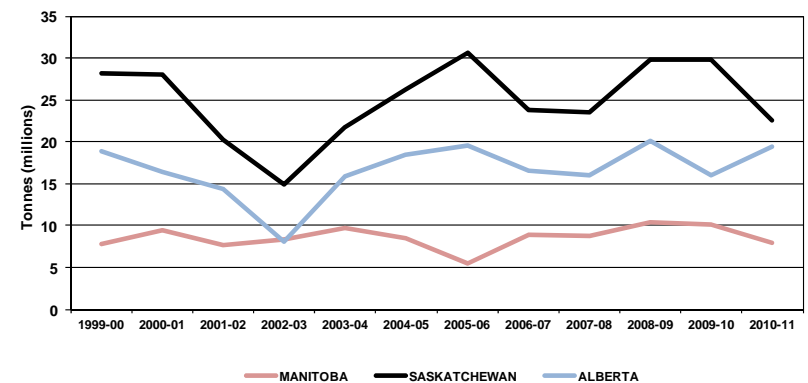


Figure 2: Provincial Grain Production



Running counter to these tonnage losses was a 21.2% gain for Alberta, which saw production rise to 19.4 million tonnes from 16.0 million tonnes a year earlier. This anomaly was largely occasioned by the return of better growing conditions in that province.

Commodity Distribution

The decline in grain production was reflected in the reduced output of all major crops. CWB grains posted the largest relative loss, with a decrease of 16.5% as compared to 2.3% for non-CWB grains. With production falling by 5.5 million tonnes, to 28.0 million tonnes from 33.6 million tonnes a year earlier, CWB grains laid claim to over 90% of the overall reduction. In comparison, the decline in non-CWB grain production, which fell to 22.0 million tonnes from the previous crop year's 22.6 million tonnes, enhanced these losses by another 523,700 tonnes.

The decline in CWB-grain production was largely shaped by a 44.0% reduction in the amount of durum harvested, which fell to 3.0 million tonnes from 5.4 million tonnes a year earlier. This was supported by a 21.7% reduction in barley production, with output falling to 7.0 million tonnes from 8.9 million tonnes the year previous. A 6.4% decrease in wheat production contributed another 1.2 million tonnes to the shortfall.

With 12.7 million tonnes of production, canola accounted for more than half of the 22.0 million tonnes of non-CWB grains harvested in the 2010-11 crop year. Moreover, a 330,000-tonne increase in the size of the canola crop served to offset much of the decline amassed by the reduced production of other non-CWB grains. Among the more notable of these reductions were those for flaxseed, which fell by 507,100 tonnes; oats, 466,900 tonnes; and dry peas, 361,200 tonnes.

Figure 3: Grain Production - CWB and Non-CWB Grains

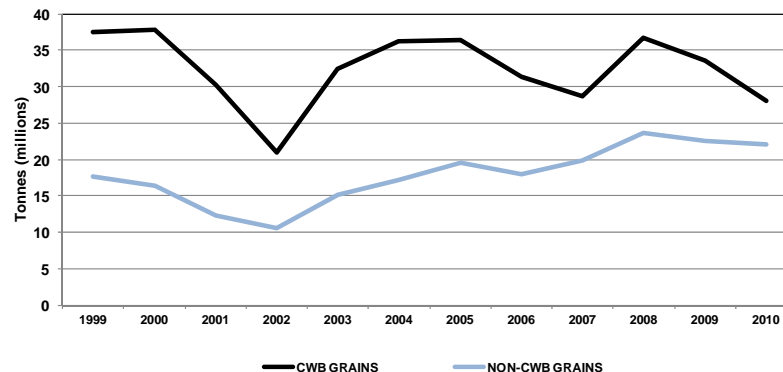
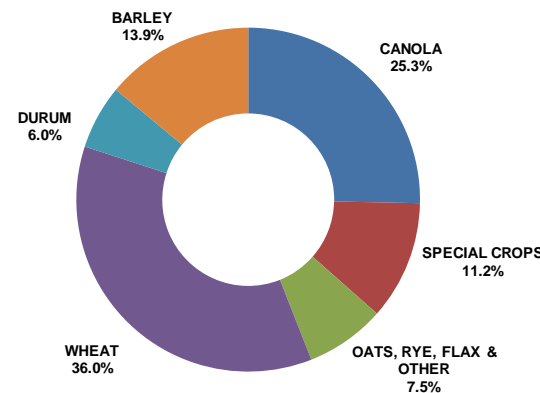


Figure 4: Major Grain Production - 2010-11 Crop Year



Special Crops

Special crop production remained largely unchanged at 5.6 million tonnes, increasing by just 0.8%.² However, this result was shaped by a broad mix of individual gains and losses. The most influential gain came from the production of lentils, which rose by 28.9%, to 1.9 million tonnes from 1.5 million tonnes a year earlier. Complementing this was a 69.9% increase in chickpea production, which added a further 52,800 tonnes to the mix. The largest offset to these gains came from dry peas - the sector's largest single crop - which posted a 10.7% reduction, falling to 3.0 million tonnes from 3.4 million tonnes a year earlier. This was widened by the losses for a host of other commodities, including mustard seed, canary seed, sunflower seed and dry beans. [Table 1A-3]

Carry-Forward Stock and Western Canadian Grain Supply

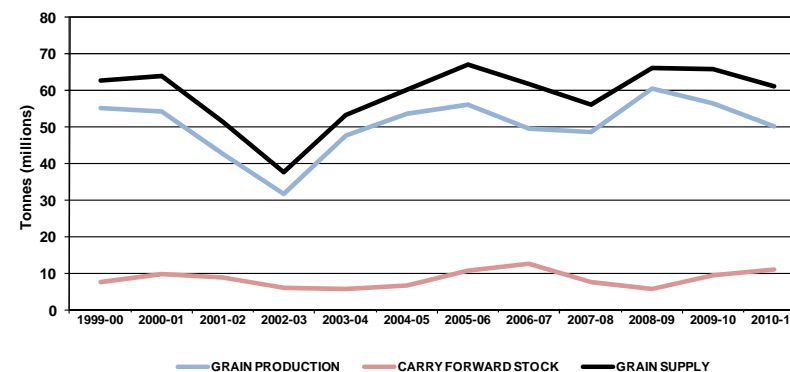
While grain production has the most immediate impact on the grain supply, it is also affected by the amount of grain held over in inventory from the previous crop year. In fact, carry-forward stocks typically account for about one-sixth of the overall grain supply.³ These stocks tend to move in conjunction with changes in grain production, albeit on a lagging basis.

Totalling some 11.0 million tonnes, the carry-forward stocks proved to be 15.1% greater than the 9.5 million tonnes reported a year earlier. Much of the impetus for this 1.5-million-tonne increase came from mounting global grain supplies, particularly for wheat and durum, which also

² For the purposes of the GMP, special crops are defined as including the following: dry peas; lentils; mustard seed; canary seed; chickpeas; dry beans; sunflower seed; safflower seed; buckwheat; and fababeans. An often referenced subset of special crops, known as pulse crops, encompasses dry peas, lentils, chickpeas, dry beans and fababeans.

³ Carry-forward stocks are defined as inventories on hand, be it on farms or at primary elevators, at the close of any given crop year (i.e., 31 July). As such, they are also deemed to be the stocks on hand as the new crop year begins (i.e., 1 August). The carry-forward stocks cited here are derived from data provided by Statistics Canada and the Canadian Grain Commission.

Figure 5: Western Canadian Grain Supply



contributed to the softening of commodity prices in the 2009-10 crop year. When combined with 50.1 million tonnes of new production, the grain supply reached 61.0 million tonnes. This embodied a reduction of 7.1% from the previous crop year's 65.7 million tonnes. [Table 1A-2]

Although increases were recorded in the carry-forward stocks of every province, the most substantive gain was in Saskatchewan. With some 1.4 million tonnes of additional stocks, Saskatchewan accounted for just over 95% of the overall increase. Over three-quarters of the province's increase related to heightened wheat and durum stocks.

Section 2: Traffic and Movement

Indicator Description	Table	2010-11								
		1999-00	2008-09	2009-10	Q1	Q2	Q3	Q4	YTD	% VAR
Country Elevator Throughput										
Grain Throughput (000 tonnes) - Primary Elevators	2A-1	32,493.9	35,349.1	33,861.4	8,240.0	7,729.4	7,970.6	-	23,940.0	-4.7%
Railway Traffic										
Railway Shipments (000 tonnes) - All Grains	2B-1	26,439.2	27,338.4	28,443.8	7,551.1	6,686.4	6,416.3	-	20,653.9	0.3%
Railway Shipments (000 tonnes) - Hopper Cars	2B-1	25,664.6	26,792.6	27,777.8	7,303.9	6,400.1	6,216.7	-	19,920.7	-1.2%
Railway Shipments (000 tonnes) - Non-Hopper Cars	2B-1	774.7	545.8	666.0	247.2	286.3	199.7	-	733.1	72.3%
Special Crop Shipments (000 tonnes) - All Grains	2B-2	2,102.9	2,945.4	2,718.9	1,100.6	801.9	939.5	-	2,842.0	41.1%
Special Crop Shipments (000 tonnes) - Hopper Cars	2B-2	1,844.1	2,851.8	2,665.3	1,087.9	788.1	930.1	-	2,806.1	42.3%
Special Crop Shipments (000 tonnes) - Non-Hopper Cars	2B-2	258.7	93.6	53.5	12.7	13.8	9.4	-	36.0	-13.5%
Hopper Car Shipments (000 tonnes) - Origin Province	2B-3									
Hopper Car Shipments (000 tonnes) - Primary Commodities	2B-4	25,664.6	26,792.6	27,777.8	7,303.9	6,400.1	6,216.7	-	19,920.7	-1.2%
Hopper Car Shipments (000 tonnes) - Detailed Breakdown	2B-5									
Hopper Car Shipments (000 tonnes) - Grain-Dependent Network	2B-6	8,685.9	7,597.9	8,741.9	2,315.8	1,908.7	1,639.4	-	5,863.9	-8.4%
Hopper Car Shipments (000 tonnes) - Non-Grain-Dependent Network	2B-6	16,978.7	19,194.7	19,035.9	4,988.2	4,491.5	4,577.2	-	14,056.9	2.1%
Hopper Car Shipments (000 tonnes) - Class 1 Carriers	2B-7	23,573.5	26,019.6	26,945.8	7,028.7	6,171.0	6,010.3	-	19,209.9	-1.8%
Hopper Car Shipments (000 tonnes) - Non-Class-1 Carriers	2B-7	2,091.0	773.0	832.0	275.3	229.1	206.4	-	710.8	18.5%
Terminal Elevator Throughput										
Grain Throughput (000 tonnes) - All Commodities	2C-1	23,555.5	25,639.0	25,760.4	6,392.9	6,461.6	5,625.9	-	18,480.4	-0.2%
Hopper Cars Unloaded (number) - All Carriers	2C-2	278,255	294,335	286,630	74,792	69,691	64,045	-	208,528	-0.3%
Hopper Cars Unloaded (number) - CN	2C-2	144,800	144,943	144,894	37,795	40,642	38,423	-	116,860	9.8%
Hopper Cars Unloaded (number) - CP	2C-2	133,455	149,392	141,736	36,997	29,049	25,622	-	91,668	-10.7%

COUNTRY ELEVATOR THROUGHPUT

Country elevator throughput, as gauged by all road and rail shipments from the primary elevators situated across western Canada, decreased by 4.7% in the first nine months of the 2010-11 crop year, falling to 23.9 million tonnes from 25.1 million tonnes a year earlier. This decline had a broad geographic base, with the majority of provinces registering lower throughputs.

With a 17.7% reduction, British Columbia led the list of decliners, posting a throughput of 145,900 tonnes against 177,300 tonnes a year earlier. Ranking second was Manitoba, where a reduction of 17.0% saw shipments fall to 4.2 million tonnes from 5.0 million tonnes. And even though Saskatchewan showed a comparatively lesser decline of 11.6%, its total shipments fell by a more substantive 1.5 million tonnes, to 11.7 million tonnes from 13.3 million tonnes. The only province to post a gain was Alberta, where throughput rose by 18.6%, to 7.9 million tonnes from 6.7 million tonnes. Much of this increase was attributable to the strong gains made in the second and third quarters, which were shaped – at least in part – by shippers attempting to draw more grain into CN-served facilities in order to circumvent the operational problems being experienced by CP at that time. [Table 2A-1]

RAILWAY TRAFFIC

The amount of regulated grain moved by rail to western Canadian ports increased by just 0.3% in the first nine months of the 2010-11 crop year, with the total volume rising to 20.7 million tonnes from 20.6 million tonnes a year earlier. As in past years, the vast majority of this traffic, some 19.9 million tonnes, moved in covered hopper cars. The remaining 733,100 tonnes moved in different forms of railway equipment, the most predominant being containers. Owing to a substantive rise in these latter movements, their share of total railway shipments rose to 3.2% from 2.1% a year earlier. [Table 2B-1]

Special-crop shipments posted a comparatively greater gain, rising by 41.1%, to 2.8 million tonnes from 2.0 million tonnes a year earlier. The

Figure 6: Primary Elevator Throughput

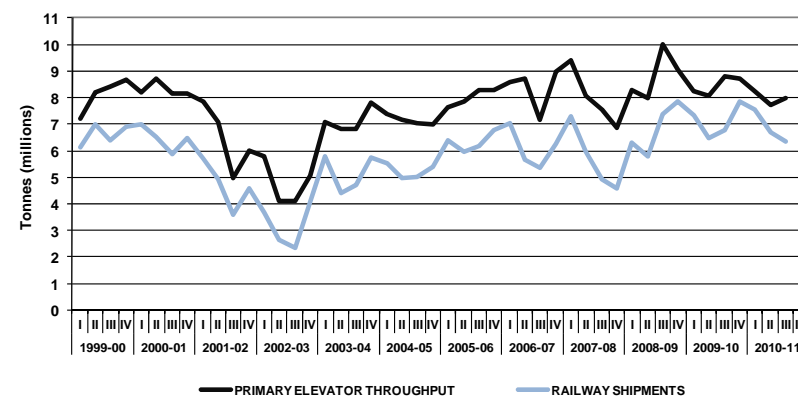
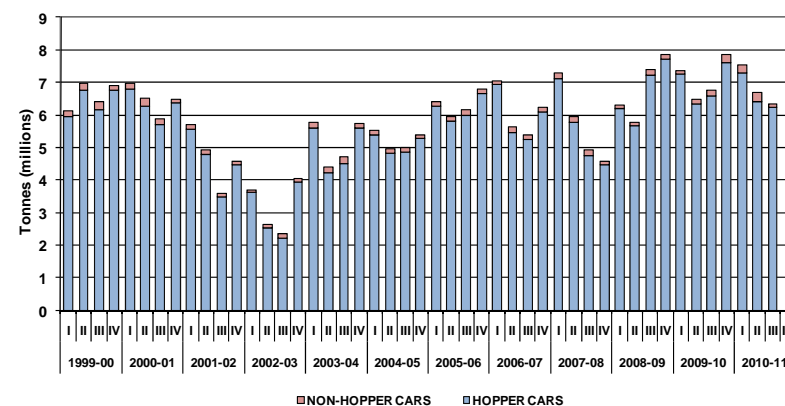


Figure 7: Railway Shipments - Hopper and Non-Hopper Cars



vast majority of this tonnage, 98.3%, also moved to export position as hopper-car shipments. In fact, non-hopper-car shipments for the period actually declined by 13.5%, falling to 36,000 tonnes from 41,600 a year earlier. [Table 2B-2]

Hopper Car Movements

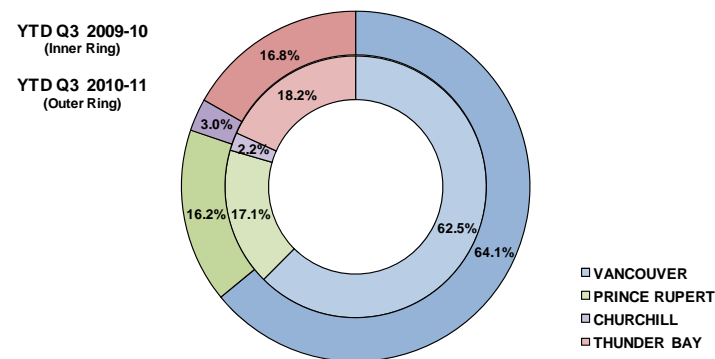
Western Canadian hopper-car shipments decreased by 1.2% in the first nine months of the 2010-11 crop year, to 19.9 million tonnes from 20.2 million tonnes. This reduction proved noticeably less than either the 10.8% decline in grain production or the 7.1% decrease in the overall grain supply.

This result was largely shaped by reduced shipments from most producing provinces. The most sizable of these reductions was posted by Saskatchewan, where shipments fell by 1.1 million tonnes, or 10.1%, to 9.7 million tonnes. Despite a corresponding 10.1% reduction in volume, shipments from Manitoba declined by a noticeably lesser 272,800 tonnes, to 2.4 million tonnes. British Columbia followed suit, shipping a total of 229,300 tonnes during this period, some 20,600 tonnes less than that posted a year earlier. Even so, an 18.1% increase in shipments from Alberta did much to counteract these losses, with an incremental gain of 1.2 million tonnes raising the province’s originations to 7.5 million tonnes. [Tables 2B-3 through 2B-5]

Destination Ports

The port of Vancouver remained the principal export destination for western Canadian grain in the first nine months of the crop year. Traffic to Vancouver totalled 12.8 million tonnes, a gain of 1.3% against the 12.6 million tonnes directed there a year earlier. This also constituted a new volume record for the period studied by the GMP, and raised the port’s share of railway shipments to 64.1% from 62.5% a year earlier. Running counter to this was the traffic volume directed to Prince Rupert, which fell by 6.5%, to 3.2 million tonnes from 3.4 million tonnes. The overall share for Prince Rupert fell accordingly, to 16.2% from 17.1%. Notwithstanding these shifts, the two ports received a combined 80.2% of

Figure 8: Railway Hopper Car Shipments - Destination Port



the grain moved to export position in covered hopper cars, a marginal gain over the 79.5% share garnered in the same period a year earlier.

Owing to the gains made by the west-coast ports in recent years, the volume and share of traffic directed to Thunder Bay has largely been declining. Although the port saw a 9.2% decrease in rail shipments in the first nine months of the crop year, it still ranked as the second largest destination for export grain, receiving 3.3 million tonnes against 3.7 million tonnes for the same period a year earlier. In contrast, rail shipments to Churchill increased by 33.5%, climbing to 598,800 tonnes from 448,600 tonnes. Buoyed in part by the first movements of canola and peas in three years, this translated into a marginally greater share for the port, 3.0% as compared to 2.2% a year earlier.

Grain-Dependent and Non-Grain-Dependent Originations

Traffic moved by the GHTS continues to reflect the changes that have been made to both the elevator and railway networks as a result of rationalization. In the first nine months of the 2010-11 crop year, the

tonnage originated by the non-grain-dependent network increased 2.1%, to 14.1 million tonnes from 13.8 million tonnes a year earlier. At the same time, traffic originating at points on the grain-dependent network decreased by 8.4%, to 5.9 million tonnes from 6.4 million tonnes.

As these results suggest, the non-grain-dependent network continues to garner a larger share of the overall traffic volume. In the first nine months of the 2010-11 crop year, 70.6% of all the grain originated in western Canada was forwarded from points on the non-grain-dependent network. Still, this value stands only marginally ahead of the 66.2% share it earned during the same period of the GMP's base year. Of course, the reverse is true of the traffic originated by the grain-dependent network, where the relative share has fallen to 29.4% from a benchmark 33.8% over the same span of time. [Table 2B-6]

Class 1 and Non-Class-1 Originations

The same structural influences are also apparent in the volumes of grain originated by the Class 1 and non-Class-1 railways. Nominally, the tonnage originated by the Class 1 carriers decreased by 1.8% in the first nine months of the crop year, while the volume originated by the smaller, non-Class-1 carriers increased by 18.5%. Although the tonnage increases enjoyed by several recently established shortlines figured into this latter gain, much of the rise could be traced to the August 2010 start-up of the Stewart Southern Railway. Despite this, the tonnage originated by non-Class 1 carriers has declined by a factor of 40% over the course of the GMP, to claim just 3.6% of the total volume against a benchmark 8.4% share in the same nine-month period of the GMP's base year. [Table 2B-7]

Even so, the amount of traffic originated by shortline railways has not fallen as sharply as the number of licensed elevators served by them, which were reduced by 64.6% in the same period. In fact, the data indicates that increased producer-car loading has helped replace a significant portion of the grain volume that would otherwise have been lost following the closure of these licensed facilities. By current estimates, producer-car shipments now account for at least half of the

Figure 9: Hopper Car Shipments - Grain-Dependent Originations

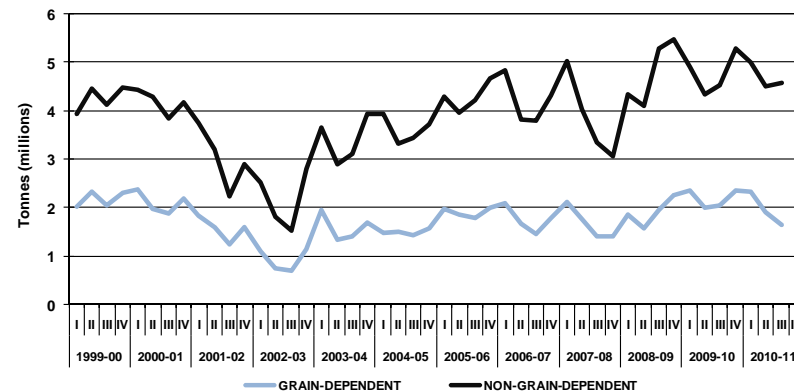
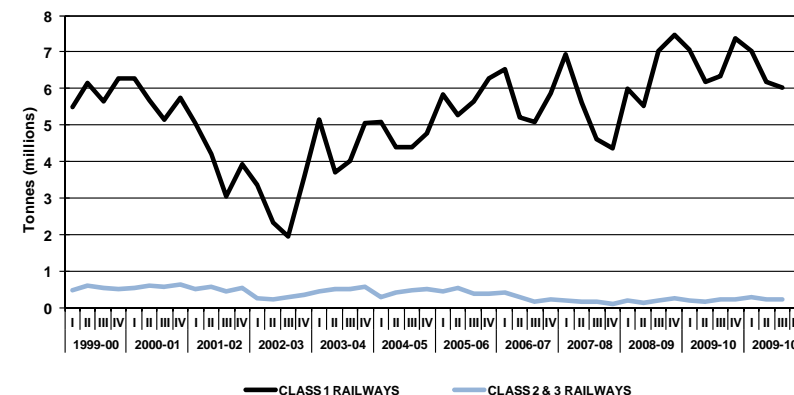


Figure 10: Hopper Car Shipments - Carrier Originations



traffic originated by these carriers, more than three times what was observed in the first year of the GMP.

TERMINAL ELEVATOR THROUGHPUT

Port throughput, as measured by the volume of grain shipped from the terminal elevator and bulk loading facilities located at Canada’s four western ports, totalled 18.5 million tonnes in the first nine months of the 2010-11 crop year. This effectively proved unchanged from the volume shipped in the same period a year earlier, having declined by a mere 0.2%. [Table 2C-1]

Throughput increases were posted by two of the GHTS’s four western ports. For the largest of these, Vancouver, total marine shipments through to the end of the third quarter rose by 1.2%, to 11.3 million tonnes from 11.2 million tonnes a year earlier. This represented 61.3% of the system’s total throughput. Running counter to this was Prince Rupert, where shipments fell by 2.9%, to 3.2 million tonnes from 3.3 million tonnes. When combined, the tonnage passing through these two west coast ports represented 78.9% of the overall total, a marginal gain over the 78.5% share garnered in the same period a year earlier.

Correspondingly, the modest gain noted for the west coast ports was reflected in a marginal decline for the GHTS’s eastern gateways, with the combined share secured by the ports of Thunder Bay and Churchill falling to 21.1% from 21.5% a year earlier. Throughput at Thunder Bay fell by 5.7% in the first nine months of the 2010-11 crop year, to 3.2 million tonnes from 3.4 million tonnes. However, Churchill, the port traditionally having the lowest volume, saw its throughput soar by 24.2%, climbing to 657,500 tonnes from 529,600 tonnes a year earlier.

Terminal Elevator Unloads

The number of covered hopper cars unloaded at terminal elevators decreased by 0.3% in the first nine months of the 2010-11 crop year, to 208,528 cars from 209,172 cars a year earlier. Despite this, there was a pronounced shift between the number of cars unloaded by CN and CP. In

Figure 11: Terminal Elevator Throughput

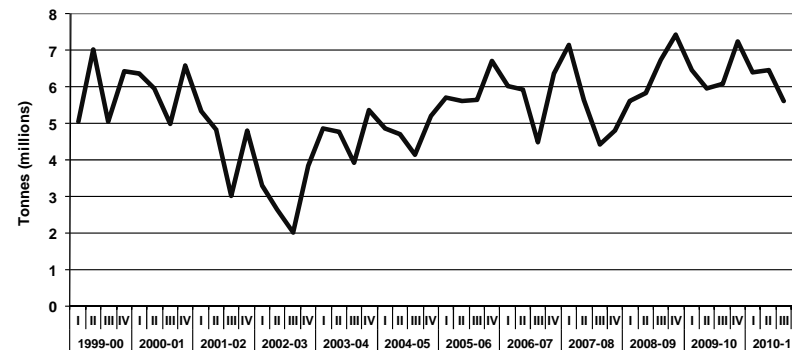
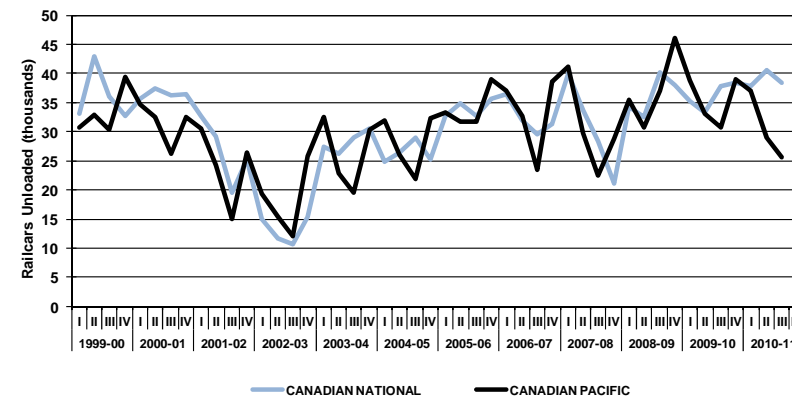


Figure 12: Terminal Elevator Unloads - Delivering Carrier



the case of CN, the number of cars unloaded rose by 9.8%, to 116,860 from 106,476. Conversely, CP's handlings during this period fell by 10.7%, to 91,668 cars from 102,696. This made CN the largest grain handler in western Canada, with an overall share of 56.0% against 44.0% for CP.

A more telling facet of this shift was its progressive nature, which saw CN's share rise from 50.5% in the first quarter to a more substantive 60.0% in the third. This steady gain largely paralleled the mounting frustration of shippers with the deterioration in CP's service since the beginning of the crop year, many of whom had begun to funnel more grain into their CN-served elevators. These efforts at bypassing CP's service problems not only enhanced CN's market share but did much to reshape west-coast movements as well.

This became evident in the second and third quarters when, after having witnessed a 51.2% decline in its first-quarter receipts, movements to the port of Prince Rupert surged to record-tying levels. Much of this reflected the actions being taken to relieve the pressure that had been bearing down on Vancouver, and which had begun to struggle under record-setting volumes. By the close of the third quarter, this accretion had trimmed Prince Rupert's volume loss to just 4.7%, with total unloads falling to 34,792 cars from 36,497 cars a year earlier.

Even so, traffic into Vancouver still rose by 0.9%, with unloading in the first nine months of the 2010-11 crop year reaching a GMP record of 129,640 cars. Profiting from the change in shipper sentiment, CN saw its handlings into Vancouver increase by 22.5%, unloading a GMP record of 65,033 cars during the period, and taking a 50.2% market share. Conversely, CP saw its handlings into the port decline by 14.3%, to 64,607 cars, reducing its share to 49.8% from 58.7% a year earlier.

The shift in market share was much less pronounced on movements through Thunder Bay, which saw its handlings fall by 4.8%, to 37,226 cars unloaded from 39,088 cars a year earlier. Here, CP remained the dominant carrier, although its market share was trimmed to 68.7% from

69.2%, and its handlings into the port declined by 5.5%, to 25,560 cars unloaded from 27,039 cars.

Despite CN's marginal gain in market share, the carrier's handlings into Thunder Bay declined by 3.2%, to 11,666 cars unloaded from 12,049 cars a year earlier. However, this was offset by a 34.0% gain in its handlings into Churchill, which reached a nine-month GMP record of 6,870 cars against 5,127 cars twelve months before. [Table 2C-2]

Section 3: Infrastructure

Indicator Description	Table	2010-11								
		1999-00	2008-09	2009-10	Q1	Q2	Q3	Q4	YTD	% VAR
Country Elevator Infrastructure										
Delivery Points (number)	3A-1	626	273	274	273	273	273	-	273	-0.4%
Elevator Capacity (000 tonnes)	3A-1	7,443.9	6,060.3	6,343.3	6,434.7	6,434.7	6,434.7	-	6,434.7	1.4%
Elevators (number) - Province	3A-1									
Elevators (number) - Railway Class	3A-2	917	367	366	367	367	367	-	367	0.3%
Elevators (number) - Grain Company	3A-3									
Elevators Capable of MCB Loading (number) - Province	3A-4									
Elevators Capable of MCB Loading (number) - Railway Class	3A-5	317	243	243	242	242	242	-	242	-0.4%
Elevators Capable of MCB Loading (number) - Railway Line Class	3A-6									
Elevator Closures (number)	3A-7	130	30	21	11	11	11	-	11	-47.6%
Elevator Openings (number)	3A-8	43	18	20	12	12	12	-	12	-40.0%
Delivery Points (number) - Accounting for 80% of Deliveries	3A-9	217	89	90	n/a	n/a	n/a	-	n/a	n/a
Railway Infrastructure										
Railway Infrastructure (route-miles) - Total Network	3B-1	19,390.1	17,904.7	17,904.7	17,836.7	17,830.3	17,830.3	-	17,830.3	-0.4%
Railway Infrastructure (route-miles) - Class 1 Network	3B-1	14,503.0	15,493.4	15,403.7	15,255.9	15,249.5	15,249.5	-	15,249.5	-1.0%
Railway Infrastructure (route-miles) - Non-Class-1 Network	3B-1	4,887.1	2,411.3	2,501.0	2,580.8	2,580.8	2,580.8	-	2,580.8	3.2%
Railway Infrastructure (route-miles) - Non-Grain-Dependent Network	3B-1	14,513.5	14,313.1	14,313.1	14,245.1	14,245.1	14,245.1	-	14,245.1	-0.5%
Railway Infrastructure (route-miles) - Grain-Dependent Network	3B-1	4,876.6	3,591.6	3,591.6	3,591.6	3,585.2	3,585.2	-	3,585.2	-0.2%
Served Elevators (number)	3B-3	884	347	347	350	350	350	-	350	0.9%
Served Elevators (number) - Class 1 Carriers	3B-3	797	328	327	321	321	321	-	321	-1.8%
Served Elevators (number) - Non-Class-1 Carriers	3B-3	87	19	20	29	29	29	-	29	45.0%
Served Elevators (number) - Grain-Dependent Network	3B-3	371	113	118	117	117	117	-	117	-0.8%
Served Elevators (number) - Non-Grain-Dependent Network	3B-3	513	234	229	233	233	233	-	233	1.7%
Served Elevator Capacity (000 tonnes)	3B-3	7,323.0	5,981.9	6,254.7	6,356.0	6,356.0	6,356.0	-	6,356.0	1.6%
Served Elevator Capacity (000 tonnes) - Class 1 Carriers	3B-3	6,823.2	5,861.7	6,130.8	6,184.3	6,184.3	6,184.3	-	6,184.3	0.9%
Served Elevator Capacity (000 tonnes) - Non-Class-1 Carriers	3B-3	499.7	120.2	123.9	171.7	171.7	171.7	-	171.7	38.6%
Served Elevator Capacity (000 tonnes) - Grain-Dependent Network	3B-3	2,475.4	1,611.1	1,742.7	1,755.6	1,755.6	1,755.6	-	1,755.6	0.7%
Served Elevator Capacity (000 tonnes) - Non-Grain-Dependent Network	3B-3	4,847.6	4,370.8	4,512.0	4,600.5	4,600.5	4,600.5	-	4,600.5	2.0%
Terminal Elevator Infrastructure										
Terminal Elevators (number)	3C-1	15	15	15	15	15	15	-	15	0.0%
Terminal Elevator Storage Capacity (000 tonnes)	3C-1	2,678.6	2,475.6	2,475.6	2,475.6	2,475.6	2,475.6	-	2,475.6	0.0%

COUNTRY ELEVATOR INFRASTRUCTURE

The decline in the number of licensed country elevators in western Canada remains one of the most visible facets of the GHTS's continuing evolution. At the outset of the 1999-2000 crop year, there were 1,004 licensed primary and process elevators on the prairies. By the end of the 2009-10 crop year, that number had fallen by 63.5% to 366.⁴ [Table 3A-1]

With a net gain of but one elevator in the first quarter, the first nine months of the 2010-11 crop year produced little material change in the composition of the elevator network. Still, this raised the total number of elevators in western Canada to 367, with an accumulated loss of 637 facilities, or 63.4%, since the beginning of the GMP. The limited scope of the changes made in the last several years continues to suggest that most grain companies have concluded their elevator rationalization programs.

Much the same is true of the decline in grain delivery points, which have largely fallen in conjunction with the reduction in licensed elevators. By the close of the 2009-10 crop year the scope of this network had been reduced by 60.0%, to 274 delivery points from the 685 that had been in place at the beginning of the GMP. This was also reduced marginally in the first nine months of the 2010-11 crop year, with the overall number falling by one to 273, thus widening the net reduction in delivery points to 60.1%.

Provincial Distribution

With the close of the third quarter, 182 of western Canada's licensed elevators were situated in Saskatchewan. This constituted 49.6% of the system's active total, and proved to be consistent with the proportion held by the province at the beginning of the GMP. This was followed in succession by Alberta and Manitoba, whose respective 90 and 88 elevators each accounted for about another one-quarter. The GHTS's

Figure 13: Licensed Grain Elevators and Delivery Points

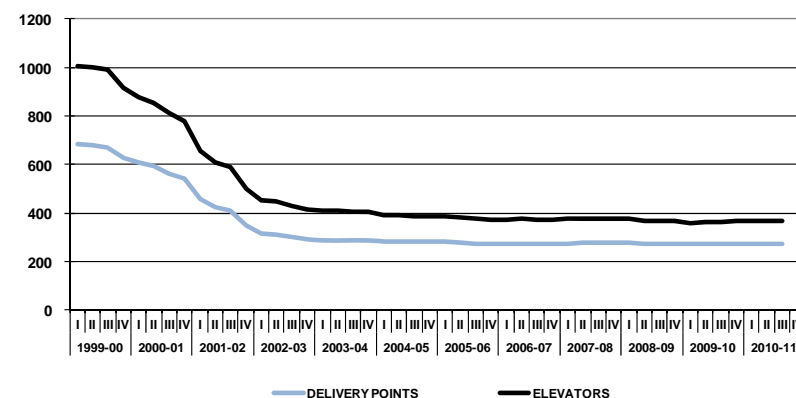
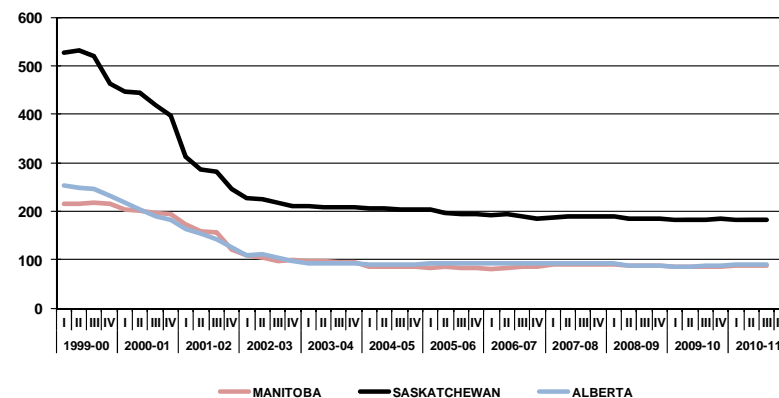


Figure 14: Licensed Grain Elevators - Provincial Distribution



⁴ The reduction in licensed elevators cited here reflects the net change arising from elevator openings and closures over a given period.

remaining seven facilities were divided between British Columbia, with six, and Ontario with one.

Saskatchewan posted the greatest numerical reduction in licensed facilities, with the closure of 345 elevators. This also constituted the largest relative decline in facilities among the prairie provinces, with a reduction of 65.5% since the beginning of the GMP. In comparative terms, the 162-elevator reduction posted by Alberta trailed only slightly, having fallen by 64.3% over the course of the GMP. Manitoba followed with a 59.3%, or 128-elevator, reduction in its facilities. The comparable nature of these reductions indicates that elevator rationalization has been broadly based, and that the facilities of any single province have not been unduly targeted.

Elevator Storage Capacity

Despite the GHTS's 63.4% decline in country elevators, its associated storage capacity has only fallen by 8.4%. This lower decline rate simply reflects the fact that while grain companies were methodically closing their less-efficient smaller elevators, they were also opening and expanding larger ones. Although the capacity added through investment in larger facilities actually outpaced that removed by the closure of smaller elevators early in the GMP, the effect was not long lasting. Within just two crop years, system capacity was beginning to wane. By the end of the 2003-04 crop year, total GHTS storage capacity had fallen by 19.0% to 5.7 million tonnes.

This trend began to reverse itself in the 2004-05 crop year when the system posted an increase of 157,000 tonnes. By the close of the 2009-10 crop year, the system's total storage capacity had gradually risen to over 6.3 million tonnes. Further expansion in the 2010-11 crop year resulted in another 91,400 tonnes of storage capacity being added by the close of third quarter. Although this constituted a 1.4% gain, it served to raise overall storage capacity to more than 6.4 million tonnes for the first time since the 2001-02 crop year.

Figure 15: Change in Licensed Elevators and Storage Capacity

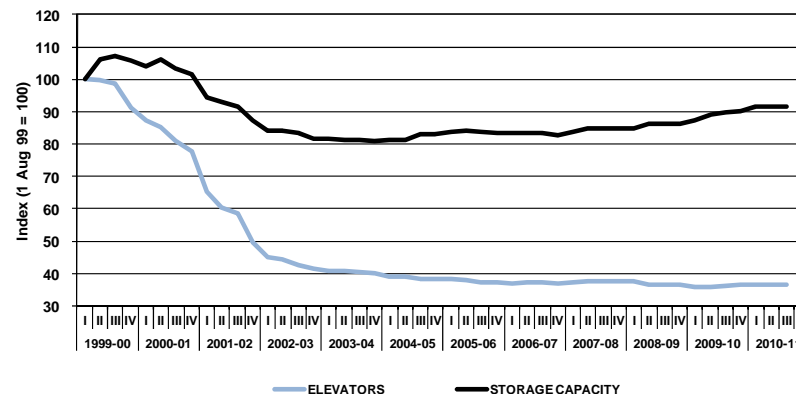
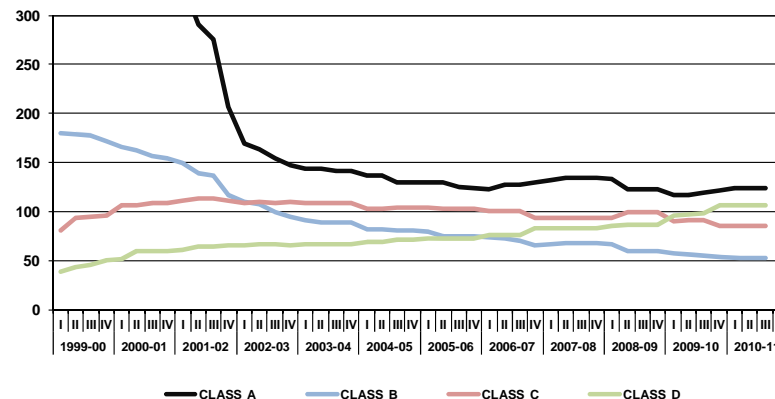


Figure 16: Licensed Elevators - Facility Class



Facility Class

For comparative purposes, the GMP groups elevators into four classes. These classes are based on the loading capability of each facility, which is in turn defined by the number of car spots each possesses. Those with less than 25 car spots are deemed to be Class A facilities; those with 25-49, Class B; those with 50-99, Class C; and those with 100 or more, Class D.⁵ In addition, the GMP deems Class C and D facilities to be high-throughput elevators given their ability to load railcars in larger numbers.

Within this framework, the composition of the elevator network has changed significantly over the course of the GMP. The most striking aspect has been the 82.4% decline in the number of Class A facilities, which dropped to 124 from the 705 in place at the beginning of the GMP. This was followed closely by a 71.1% reduction in Class B facilities, which fell to 52 from 180 over the same period. Juxtaposed against this was the trade's pronounced shift towards the use of high-throughput elevators. During this same period the number of Class C facilities grew by 4.9%, to 85 from 81, while the number of Class D facilities almost tripled, rising to 106 from 38.

These statistics illustrate that the primary target in elevator rationalization has been the conventional wood-crib facility. Of the 909 elevator closures recorded since the beginning of the GMP, 695 related to the shutdown of Class A facilities.⁶ To a large extent, this was because the economic efficiency of the high-throughput elevator had rendered these facilities obsolete. But they had also been undermined by the

⁵ The facility classes employed here mirror the thresholds delineated by Canada's major railways at the beginning of the GMP for the receipt of discounts on grain shipped in multiple-car blocks. At that time, these thresholds involved shipments of 25, 50 or 100 railcars. First introduced in 1987, these incentives were aimed at drawing significantly greater grain volumes into facilities that could provide for movement in either partial, or full, trainload lots.

⁶ Statistics associated with elevator closures and openings are gross measures and do not distinguish between licensed facilities that may have been closed by one operator but, as a result of its subsequent sale, later reopened by another.

financial incentives that the railways used to encourage grain to move in blocks of 25 or more railcars at a time.

These same forces also disfavoured the Class B facilities, albeit not to the same degree. More particularly, even though grain movements from these facilities were eligible to receive discounted freight rates, they were not as generous as those accorded shipments from high-throughput elevators. These small-block discounts were later reduced and ultimately eliminated.⁷ As a result, over the course of the GMP, a total of 147 Class B facilities also closed. Together, Class A and B facilities account for 92.6% of all recorded elevator closures. [Table 3A-7]

In contrast to their share of closures, 157 of the 272 elevators opened during this period were Class A and B facilities. This differential calls attention to the fact that high-throughput facilities accounted for a much greater proportion of elevator openings than closures, 42.3% versus 7.4% respectively. Class C and D elevators were the only ones to have posted net increases since the 1999-2000 crop year. [Table 3A-8]

Since the close of the 2008-09 crop year high-throughput elevators have represented the majority of GHTS facilities. More importantly, these facilities have claimed the lion's share of the system's storage capacity since the 2000-01 crop year. By the close of the third quarter of the 2010-11 crop year, high-throughput facilities accounted for 52.0% of system elevators and 81.1% of its storage capacity. Both values differ considerably from the 11.9% and 39.4% shares they respectively held at the beginning of the GMP.

⁷ With the commencement of the 2003-04 crop year, CN eliminated the \$1.00-per-tonne discount that had been given to movements from Class B facilities since the beginning of the GMP, while CP reduced it to \$0.50 per tonne. By the close of the 2005-06 crop year, CP had also eliminated its discount on movements in blocks of 25-49 cars.

Grain Companies

For a number of grain companies, the key to improving the economic efficiency of their grain-gathering networks has been to rationalize their elevator assets. With the cornerstone of this strategy being the replacement of smaller elevators by larger high-throughput facilities, it follows that this would better lend itself to those grain companies having large physical networks. In fact, the largest companies proved to be the primary practitioners of elevator rationalization.

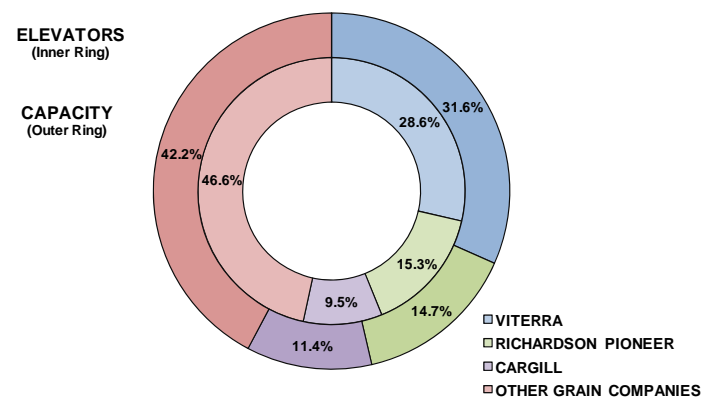
Furthermore, the vast majority of the 637-elevator reduction posted through to the end of the third quarter of the 2010-11 crop year, encompassing 595 facilities, were attributable to the predecessors of today's Viterra Inc.⁸ This constituted a net reduction of 85.0% in the company's facilities. Richardson Pioneer and Cargill posted the next deepest cuts, with elevator reductions of 46.7% and 40.7% respectively. This was complimented by Paterson Grain, with a 26.0% decrease, as well as Parrish and Heimbecker, with a 19.2% reduction.

Elevator closures have abated significantly since the creation of Viterra in 2007. Moreover, the total number of facilities actually began to rise after reaching a GMP low of 360 elevators in the first quarter of the 2009-10 crop year. However, much of the subsequent increase is misleading, since it largely reflects changes in the licensing requirements of the Canadian Grain Commission rather than in the physical addition of new elevators. Viterra figures prominently in this gain since a number of its previously unlicensed facilities have now been licensed.

In addition to controlling over half of the GHTS's elevators and storage capacity, Viterra, Richardson Pioneer and Cargill remain the dominant

⁸ Viterra Inc. was formed in 2007 following Saskatchewan Wheat Pool's purchase of Agricore United, which was itself the product of a merger between Agricore Cooperative Ltd. and United Grain Growers Limited in 2001. Given this heritage, Viterra Inc. is the corporate successor to the three largest grain companies in existence at the beginning of the GMP. The 595 closures cited here represent the net reduction posted by Viterra's predecessor companies, which had a total of 700 elevators at the outset of the GMP.

Figure 17: Licensed Elevators and Capacity - Q3 2009-10 Crop Year



handlers of grain in western Canada. This is reflected in the fact that these three companies have consistently handled about 75% of the export grain moved by the GHTS since the beginning of the GMP. [Table 3A-3]

This concentration is also reflected in the way grain is gathered into the system, with the vast majority of grain collected at fewer than half of the GHTS's delivery points. In the 2009-10 crop year - the last for which statistics are available - 90 of the GHTS's 222 active delivery points took in 80% of the grain delivered. Although this share is somewhat greater than the 33.5% recorded in the GMP's base year, it suggests that the concentration in grain deliveries has not changed significantly in the face of a reduction in the elevator network itself. [Table 3A-8]

RAILWAY INFRASTRUCTURE

At the outset of the 1999-2000 crop year, the railway network in western Canada encompassed 19,468.2 route-miles of track. Of this, Class 1 carriers operated 76.2%, or 14,827.9 route-miles, while the smaller Class 2 and 3 carriers operated the remaining 23.8%, or 4,640.3 route-miles.⁹ Although the railway network has contracted, the reduction has proven substantially less than that of the elevator system it serves. By the end of the 2009-10 crop year, the net reduction in western Canadian railway infrastructure amounted to just 8.0%, with the network's total mileage having been reduced to 17,904.7 route-miles overall. The largest share of this 1,563.5-route-mile reduction came from the abandonment of 1,363.1 route-miles of light-density, grain-dependent branch lines.¹⁰ [Table 3B-1]

In addition to the reduction in overall mileage, there were other changes to the makeup of the railway network. Much of this related to the transfer by CN and CP of various branch line operations to a host of new shortline railways. This practice, which began in the mid 1990s, was one of the cornerstones in a wider industry restructuring that effectively resulted in slightly more than one-quarter of the railway network in western Canada being operated by smaller regional and shortline carriers.

The first important variation in this restructuring strategy came in 2004 when CN acquired the operations of what was then western Canada's only Class 2 carrier, BC Rail Ltd. In addition, the waning financial health of

9 The classes used here to group railways are based on industry convention: Class 1 denotes major carriers such as the Canadian National Railway or the Canadian Pacific Railway; Class 2, regional railways such as the former BC Rail; and Class 3, shortline entities such as the Great Western Railway.

10 The term "grain-dependent branch line", while largely self-explanatory, denotes a legal designation under the Canada Transportation Act. Since the Act has application to federally regulated railways only, grain-dependent branch lines transferred to provincially regulated carriers lose their federal designation. As a result, the legally defined grain-dependent branch line network is continuously declining. For comparison purposes only, the term has been affixed to those railway lines so designated under Schedule I of the Canada Transportation Act (1996) regardless of any subsequent change in ownership or legal designation.

Figure 18: Change in Route-Miles - Railway Class

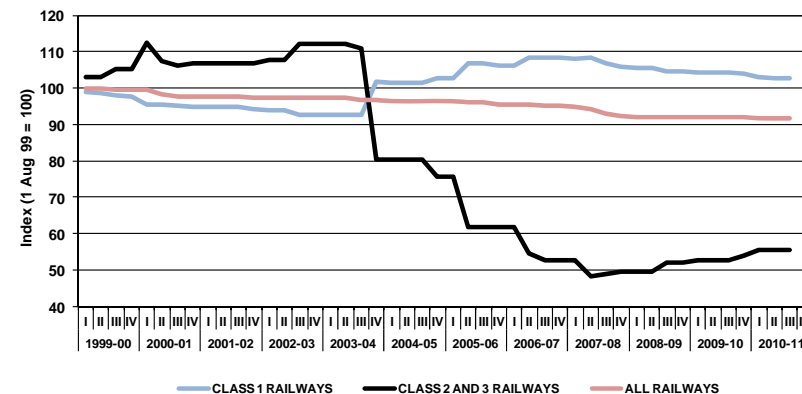
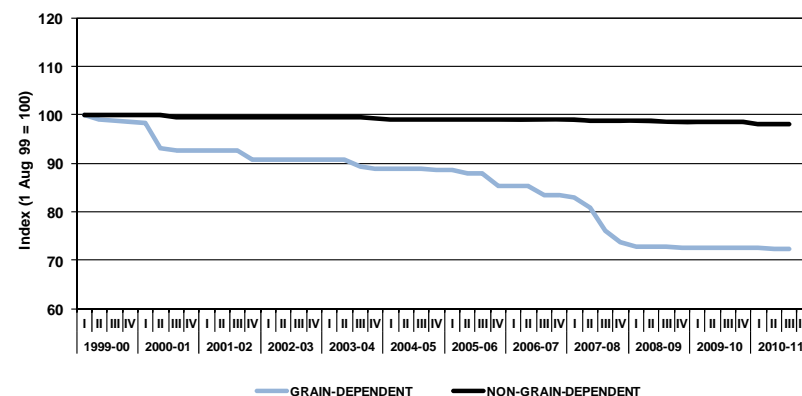


Figure 19: Change in Route-Miles - Railway Network



most shortline carriers led many to either sell or rationalize their own operations. This resulted in a number of shortline operations reverting back to the control of the Class 1 carrier that had spun them off in the first place. The most significant of these reversals came in January 2006 when RailAmerica Inc. sold most of its holdings in western Canada back to CN. This was followed later that same year by CN's reacquisition of what had evolved into the Savage Alberta Railway, and in late 2007, the Athabasca Northern Railway.

Many of these shortline operations had been established with an eye towards preserving railway service on what the Class 1 carriers had come to regard as uneconomic branch lines. While many of these were dependent on the movement of grain, most shortline railways proved incapable of reshaping the economics that gave rise to the grain industry's broader elevator-rationalization programs. Although these smaller carriers could point to some success in attracting new business - much of which has been tied to increased producer-car loading - they could not prevent the grain companies from continuing to close the smaller elevators that remained critical to their commercial success. As a result of several ensuing business failures, the railway network under shortline management had contracted to a mere 2,244.0 miles by the middle of the 2007-08 crop year.

Despite this, the shortline railway industry was beginning to show signs of resurgence. Much of this could be traced back to the successful takeover of the Great Western Railway by a consortium of local municipal and business interests in 2004. Their model, which essentially integrated the railway's operations with local producer-car loading activity, fostered imitation. By the close of the 2009-10 crop year, another five¹¹ such operations had been established across the prairies. Most of these were

based in Saskatchewan, where the provincial government proved more receptive to providing financial assistance.¹²

Although the creation of these new entities had a comparatively modest impact on the division between Class 1 and non-Class-1 infrastructure, the shortline network was again expanding. With the close of the 2009-10 crop year another 257.0 route-miles had been added to the span of their control, giving them a network of 2,501.0 route-miles.

The 2010-11 crop year brought still another example of this expansion, with the formation of the Stewart Southern Railway in August 2010. Like many of the shortlines that had preceded it, the SSR arose out of a community effort aimed at preserving local railway service along a 79.8-mile section of CP's Tyvan subdivision, located southeast of Regina, Saskatchewan. With little more than one hundred carloads of traffic being generated annually, CP had earmarked the subdivision for discontinuance. Still, the line was considered particularly vital to the needs of Fill-More Seeds, which chose to spearhead the takeover effort.

This transfer was coincident with the removal of another 74.4 route-miles from the western Canadian network. The majority of this reduction came in October 2010, when CN retired 68.0 route-miles of its Oyen subdivision, which bridged the railway's secondary route between Saskatoon and Calgary.¹³ The discontinuance came as a result of the carrier's decision to begin redirecting traffic via Edmonton some two years earlier. Although local interests envisioned establishing a shortline operation westward from Oyen, Alberta, to Lyalta, Alberta, the effort ultimately collapsed when the two parties failed to come to terms. The abandonment effectively severed the route, leaving two grain-gathering

12 The Government of Saskatchewan lent financial support to several shortline initiatives, most often through the extension of interest-free loans. Additional financial support has also come through the province's Shortline Railway Sustainability Program.

13 The abandoned section of CN's Oyen subdivision was situated almost at the centre of the Saskatoon-Calgary route, between mileage points 68.4 and 136.4, which extended westwards from Oyen, Alberta, to Hanna, Alberta.

11 These five shortline railways were the Great Sandhills Railway, the Last Mountain Railway, Torch River Rail Inc., the Boundary Trail Railway Co., and the Fife Lake Railway.

branchlines: one extending westward from Saskatoon; and the other eastward from Calgary.

In December 2010 CN formally abandoned another 6.4-route-mile section of track that extended westward from Falher to Girouxville, in the Peace River district of Alberta.¹⁴ Service had actually been suspended shortly after the carrier announced the line's planned discontinuance in 2009. Customers located at Girouxville, which operated two producer-car loading sites generating about 1,200 carloads worth of traffic annually, were relocated to sites in nearby Falher later that fall.

All of this resulted in comparatively modest changes to the railway infrastructure in the first nine months of the 2010-11 crop year. The Class 1 network was reduced by 1.0%, to 15,249.5 route-miles, while the shortline network grew by another 3.2%, to 2,580.8 route-miles.

Local Elevators

Despite the limited change to the railway network over the course of the past twelve years, the number of elevators served by it has declined substantially. In broad terms, these facilities have decreased by 64.2% in number, to 350 from 979, and by 8.3% in terms of associated storage capacity, to 6.4 million tonnes from 6.9 million tonnes.¹⁵

But there were significant differences between the rates of decline in the elevator networks served by the Class 1 and non-Class 1 railways. Although the former initially declined more quickly than the latter, this pattern began to reverse itself in about 2004. More importantly, the

¹⁴ The section abandoned extended from mileage points 274.3 to 280.7 of the CN's Smoky subdivision. The Smoky subdivision, which originally extended over a distance of 95 miles, from McLennan, Alberta, to Spirit River, Alberta, was effectively severed into two sections following CN's abandonment of the Watino Bridge, which was used to traverse the Smoky River, some 20 years earlier. The line to Girouxville marked the westernmost end of the eastern section.

¹⁵ The reductions cited here relate only to the facilities directly served by rail.

Figure 20: Change in Local Elevators – Railway Class

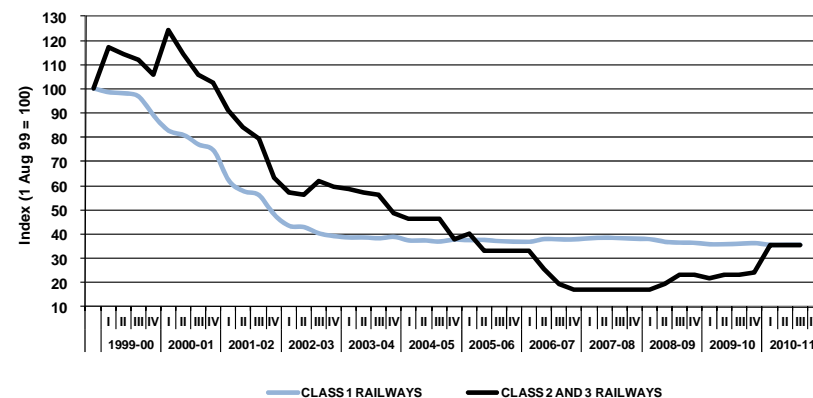
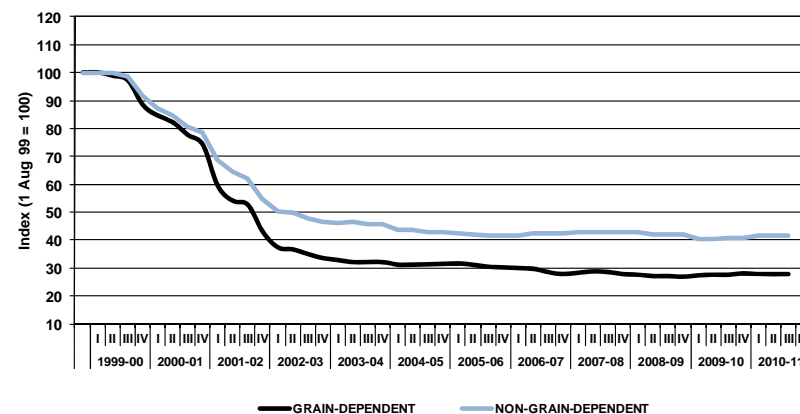


Figure 21: Change in Local Elevators – Railway Network



establishment of several new shortlines in recent years has actually prompted an increase in the number of elevators served by the non-Class 1 carriers.

By the close of the third quarter of the 2010-11 crop year, the elevator networks served by both carrier groups had fallen by comparable amounts: 64.2% in the case of those served by the major carriers; and 64.6% in the case of those served by the shortline carriers. Still, there was a far more pronounced change in storage capacity, with only a 4.2% decline in the case of elevators local to Class 1 carriers versus a 64.0% reduction for those tied to non-Class 1 carriers. These latter changes underscore the fact that the grain companies have been investing in facilities served by the major railways rather than the shortlines, and that they consciously decided to situate virtually all of their high-throughput elevators along the routes of both CN and CP.¹⁶ [Table 3B-3]

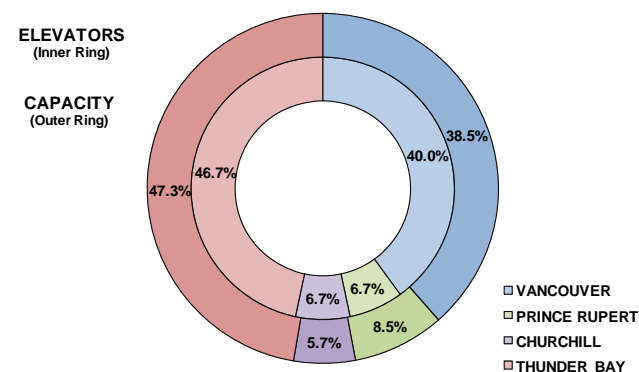
A more telling portrayal comes from examining the change in facilities local to both the grain-dependent, and non-grain-dependent, railway networks. Elevators situated along the grain-dependent network have fallen by 72.1% since the beginning of the GMP, to 117 from 420. In the case of those situated along the non-grain-dependent network, the decline was 58.3%, with the number of elevators having fallen to 233 from 559. On the whole, these patterns clearly indicate that the elevators tied to the grain-dependent railway network have diminished at a noticeably faster pace.

TERMINAL ELEVATOR INFRASTRUCTURE

There were no changes to the licensed terminal elevator network in the first nine months of the 2010-11 crop year. As a result, it still comprised 15 facilities with an associated storage capacity of 2.5 million tonnes. These values are only marginally greater than those of the GMP's base year, which sat at 14 elevators with 2.6 million tonnes of storage

¹⁶ As at 30 April 2011 95.8% of the GHTS's 191 high-throughput elevators were served by CN and CP.

Figure 22: Terminal Elevators - Q3 2010-11 Crop Year



capacity. With seven of the elevators and 47.3% of the storage capacity, Thunder Bay held the largest share of these assets. Vancouver took second place with six facilities and 38.5% of the system's storage capacity. Prince Rupert and Churchill both followed with one terminal elevator apiece, and storage capacity shares of 8.5% and 5.7% respectively. [Table 3C-1]

And while the physical scope of the changes in this network has been minimal, there have been a number of significant changes in terminal ownership. Each of these was rooted in the various corporate mergers and acquisitions that have taken place since the GMP began.¹⁷ No changes in this regard have been recorded since 2007.

¹⁷ Those with the most direct bearing on terminal ownership involved the merger of Agricore Cooperative Ltd. and United Grain Growers Limited, which combined to form Agricore United in 2001, and the subsequent purchase of Agricore United by Saskatchewan Wheat Pool to form Viterra Inc. in 2007.

Section 4: Commercial Relations

Indicator Description	Table	2010-11								
		1999-00	2008-09	2009-10	Q1	Q2	Q3	Q4	YTD	% VAR
Trucking Rates										
Composite Freight Rate Index - Short-haul Trucking	4A-1	100.0	132.2	132.2	157.0	157.0	162.0	-	162.0	22.5%
Country Elevators Handling Charges										
Average Handling Charges - Country Delivery Points	4B-1									
Railway Freight Rates										
Composite Freight Rates (\$ per tonne) - Rail	4C-1									
Multiple-Car Shipment Incentives (\$ per tonne) - Rail	4C-2									
Effective Freight Rates (\$ per tonne) - CTA Revenue Cap	4C-3	n/a	\$30.92	28.76	n/a	n/a	n/a	-	n/a	n/a
Terminal Elevator Handling Charges										
Average Handling Charges - Terminal Elevators	4D-1									
Terminal Handling Revenue (\$millions) - Vancouver	4D-2	\$192.7	\$284.8	\$320.6	n/a	n/a	n/a	-	n/a	n/a
Terminal Handling Revenue (\$millions) - Thunder Bay	4D-2	\$82.1	\$84.4	\$68.6	n/a	n/a	n/a	-	n/a	n/a
CWB Carrying Costs (\$millions) - Pacific Seaboard	4D-2	\$63.3	\$124.9	\$114.7	n/a	n/a	n/a	-	n/a	n/a
CWB Carrying Costs (\$millions) - Thunder Bay	4D-2	\$31.3	\$45.2	\$33.0	n/a	n/a	n/a	-	n/a	n/a
Tendering Program										
Tenders Called (000 tonnes)	4E-1	n/a	3,416.2	2,431.4	1,438.5	571.4	924.6	-	2,934.5	47.6%
Tender Bids (000 tonnes)	4E-3	n/a	5,622.1	4,969.6	1,499.8	3,116.3	3,500.1	-	8,116.2	84.8%
Total CWB Movements (000 tonnes)	4E-5	n/a	15,612.8	15,175.0	3,563.2	2,919.9	3,015.7	-	9,498.8	-12.3%
Tendered Movements (%) - Proportion of Total CWB Movements	4E-5	n/a	14.4%	16.4%	18.9%	11.7%	15.2%	-	15.5%	-15.8%
Tendered Movements (000 tonnes) - Grain	4E-5	n/a	2,246.6	2,495.2	673.2	342.2	457.6	-	1,473.0	-26.0%
Average Tendered Multiple-Car Block Size (railcars) - Port	4E-17	n/a	59.7	64.8	53.2	60.9	71.4	-	60.4	-9.3%
Railway Car Cycle (days) - Tendered Grain	4E-18	n/a	11.8	11.1	14.3	12.3	11.9	-	12.5	13.6%
Railway Car Cycle (days) - Non-Tendered Grain	4E-18	n/a	13.0	13.1	13.4	14.7	13.9	-	14.0	6.9%
Maximum Accepted Tender Bid (\$ per tonne) - Wheat	4E-19	n/a	-\$23.01	-\$21.28	-\$21.87	-\$25.02	-\$23.00	-	-\$25.02	17.6%
Maximum Accepted Tender Bid (\$ per tonne) - Durum	4E-19	n/a	-\$14.95	-\$23.56	-\$11.07	-\$5.08	-\$7.98	-	-\$11.07	-53.0%
Market Share (%) - CWB Grains - Major Grain Companies	4E-20	n/a	72.9%	74.3%	76.6%	71.0%	75.7%	-	74.6%	0.5%
Market Share (%) - CWB Grains - Non-Major Grain Companies	4E-20	n/a	27.1%	25.7%	23.4%	29.0%	24.3%	-	25.4%	-1.6%
Advance Car Awards Program										
Advance Award Movements (%) - Proportion of Total CWB Movements	4F-1	n/a	12.1%	10.8%	6.4%	11.7%	6.2%	-	8.0%	-19.2%
Advance Award Movements (000 tonnes) - Grain	4F-1	n/a	1,896.5	1,633.3	228.7	340.4	187.5	-	756.6	-29.1%
Railway Car Cycle (days) - Advance Award Grain	4F-6	n/a	12.2	12.3	12.3	14.4	12.9	-	13.4	8.9%

TRUCKING RATES

Short-haul trucking rates rose substantially between the 2004-05 and 2008-09 crop years, increasing by a factor of one-third from what they had been at the beginning of the GMP. Although this escalation was largely derived from rising fuel and labour costs, it was supported by a heightened demand for carrying capacity, which allowed service providers a greater degree of latitude in passing these costs onto grain producers.

Despite the collapse in crude oil prices that came in the latter half of 2008, the rates applicable on the short-haul movement of prairie grain by truck remained largely unchanged through to the close of the 2009-10 crop year.¹⁸ But the price of oil has since regained a lot of this lost ground, climbing back to a height of about \$110US per barrel by the end of April 2011. This put increasing pressure on fuel prices and, in turn, the cost of moving grain by truck. The first quarter of the 2010-11 crop year saw an 18.8% increase in these costs, with the composite price index for short-haul trucking rising to 157.0 from 132.2. The third quarter witnessed an additional 3.2% increase, which furthered the rise over nine months to 22.5%, raising the index's value to 162.0. [Table 4A-1]

COUNTRY ELEVATOR HANDLING CHARGES

The per-tonne rates assessed by grain companies for a variety of primary elevator handling activities are the primary drivers of corporate revenues. Comparatively, those assessed for the receiving, elevating and loading out of grain are the most costly for producers. These are in turn followed by the charges levied for the removal of dockage (cleaning) and storage. These rates vary widely, reflecting not only the different services offered, but the diversity of grains involved as well as the province in which the service is provided.

Given the wide variety of tariff rates, the GMP necessarily uses a composite price index to track changes in them. Since the beginning of

Figure 23: Change in Composite Freight Rates - Short-Haul Trucking

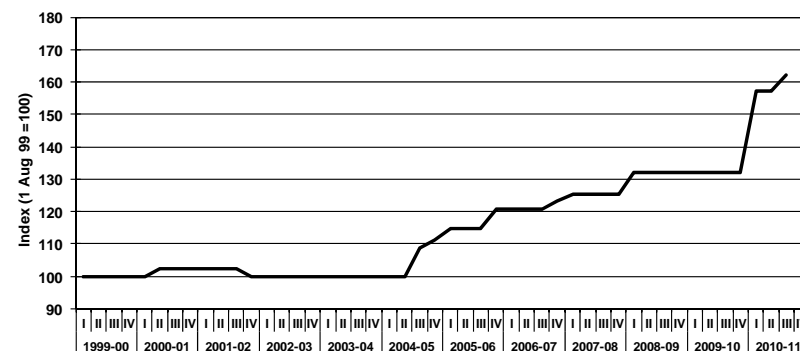
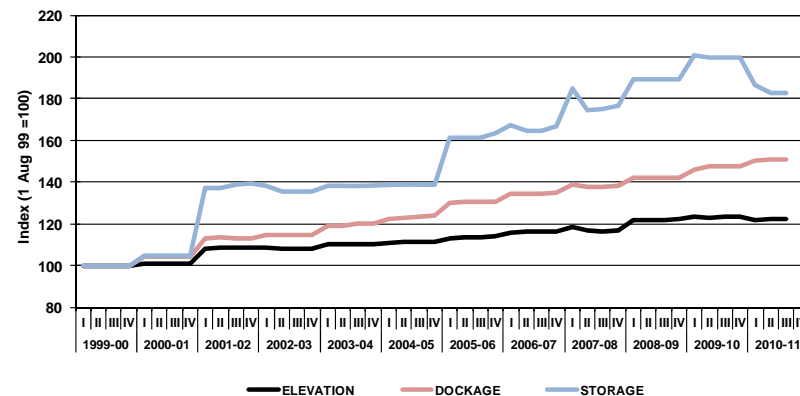


Figure 24: Change in Primary Elevator Handling Charges



18 The price of WTI crude oil plummeted from an average of almost \$140US per barrel to just \$40US per barrel during this six-month period.

the GMP, the rates for all of these services have risen considerably. The smallest increases have been in those tied to the receiving, elevating and loading out of grain. Through to the end of the 2009-10 crop year, these costs had risen by 23.3%. Modest price changes in the first nine months of the 2010-11 crop year produced a net reduction of 1.0% in the index's value, which lowered the cumulative increase recorded since the beginning of the GMP to 22.1%.

The rates associated with the removal of dockage have increased at a faster pace. Through to the end of the 2009-10 crop year, these rates had already increased by 47.3%. With the close of the third quarter, the composite price index had risen another 2.5%, bringing the cumulative increase to 51.0%.

The most substantive rate escalations observed thus far have related to elevator storage. Much of the initial price shock came towards the end of the 2000-01 crop year, when these rates were raised by a factor of almost one-third. Since then they have continued to climb, virtually doubling by the close of the 2009-10 crop year. However, the first nine months of the 2010-11 crop year saw a rollback in many of the rates applicable on the storage of non-CWB commodities, which produced an 8.5% reduction in these costs, and lowered the cumulative increase since the beginning of the GMP to 82.6%. [Table 4B-1]

RAILWAY FREIGHT RATES

The single-car freight rates assessed by CN and CP for the movement of regulated grain have changed substantially since the beginning of the GMP, evolving from what were largely mileage-based tariffs into a less rigidly structured set of more market-responsive rates. This became evident in the rate differentials that arose between specific grains and the ports to which they were destined. Much of this began to take shape at the beginning of the 2006-07 crop year when CN initiated a partial changeover to commodity-specific, per-car charges. With CP following suit, a wholesale conversion in the rate structures of both carriers was completed by the close of the 2007-08 crop year. [Table 4C-1]

Figure 25: CN Single-Car Freight Rates - Primary Corridors

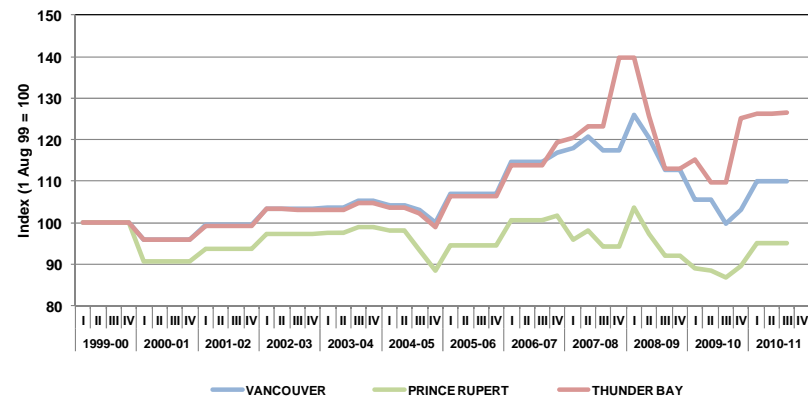
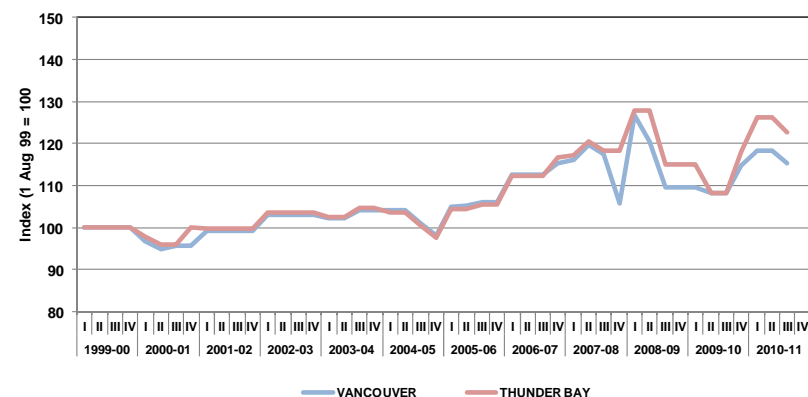


Figure 26: CP Single-Car Freight Rates - Primary Corridors



This restructuring also resulted in more substantive rate increases being applied against shipments to Thunder Bay and Churchill rather than those to the west coast. Even within this broader initiative, CN widened the financial advantage it had begun giving single-car shipments to Prince Rupert. Not to be overlooked was an initial move towards seasonal pricing, which attempted to link freight rates to the rhythmic demand change for railway carrying capacity. This structure was complicated even further as both carriers began to adjust rates with greater geographic selectivity in response to evolving competitive pressures.

The first quarter of the 2010-11 crop year brought more of the same, with rates rising by differing amounts in the various corridors. Much of CN's pricing actions focused on westbound grain shipments, with its rates in the Vancouver corridor rising at the outset of the period by a factor of 7.0% while those in the Prince Rupert corridor were held to a slightly lesser 6.0%. The carrier restricted the escalation of its rates to Thunder Bay to about 0.8% by selectively applying a 10.0% increase to traffic originating only in southern Saskatchewan and Manitoba. This approach was also paralleled in the rate adjustments applied against grain moving to Churchill.¹⁹ These rates remained unchanged through both the second and third quarters.

For its part, CP initiated an across-the-board rate increase of about 5.0% at the beginning of the 2010-11 crop year. This, however, was followed by a secondary round of pricing adjustments in mid October 2010, which incorporated a mix of increases as well as decreases. At the close of the first quarter, the carrier's rates in the Vancouver corridor had risen by approximately 3.1%, while those in its Thunder Bay corridor rose by a more substantive 7.0%.

As was the case with CN, CP initiated no change to these rates in the second quarter. However, the carrier did bring forward a series of rate

¹⁹ Single-car rates to Churchill have been published in accordance with the port's operating season since the 2008-09 crop year, and are typically not issued in the second and third quarters.

reductions towards the close of the third quarter. On movements to Vancouver these reductions averaged about 2.5%, and ranged from a low of 2.1% on shipments from Manitoba to a high of 3.3% on those from Alberta. Much the same was true of movements to Thunder Bay, with the average rate reduction amounting to 2.9%, and which ranged from a low of 2.2% on shipments from Alberta to a high of 4.1% on those from Manitoba.

Multiple-Car-Block Discounts

There have been equally significant changes to the structure of the freight discounts both carriers use to promote the movement of grain in multiple car blocks. The most noteworthy aspect of this evolution was the gradual elimination of the discounts applicable on movements in blocks of less than 50 cars, along with a progressive escalation in the discounts tied to blocks of 50 or more cars. Over the course of the GMP, the discount applicable on the largest of these has risen by a factor of 60%, to \$8.00 per tonne from \$5.00 per tonne. More importantly, there can be little doubt that this has been a central force in the rationalization of the western Canadian elevator system and in the expansion of high-throughput facilities.

These discounts remained unchanged in the first nine months of the 2010-11 crop year. CN continued to offer discounts on movements in blocks of 50-99 cars that equated to \$4.00 per tonne, and to \$8.00 per tonne on movements of 100 or more cars. The corresponding discounts for CP remained at \$4.00 per tonne for shipments in blocks of 56-111 cars, and at \$8.00 per tonne for shipments in blocks of 112 cars. [Table 4C-2]

TERMINAL ELEVATOR HANDLING CHARGES

The rates posted by terminal elevators for the receiving, elevating and loading out of grain are the most costly. As with other measures, an examination of price movement is best performed using a composite index, given the myriad of different tariff rates. At the end of the 2009-10 crop year these ranged from a low of about \$8.08 per tonne for wheat

delivered at Churchill, to a high of \$14.62 per tonne for canola and flaxseed handled at Vancouver.

Increases were noted for virtually all port locations in the first nine months of the 2010-11 crop year. At Vancouver, these ranged from a low of 0.8% on canola to a high of 2.6% on peas. Prince Rupert also posted increases that topped out at 2.2%. The story was much the same at Thunder Bay, where rate hikes ranged from 0.9% to 4.4%. The only exception was found in the rates posted by Churchill, which remained unchanged for yet a seventh consecutive shipping season. On the whole, these pricing actions served to raise the composite price index by a further 1.5%, bringing the combined value of all increases made since the beginning of the GMP to 35.2%. [Table 4D-1]

As with the cost of elevation, the daily charge for storage also varied widely, ranging from a low of about \$0.07 per tonne on the majority of commodities held at Churchill to a high of \$0.15 per tonne on oats maintained in inventory at Vancouver. With the exception of Churchill, which chose to extend its storage rates for another shipping season, these costs all moved generally higher in the first nine months of the 2010-11 crop year. Thunder Bay reported the largest escalation, with an overall increase of about 3.1%. This was followed by Prince Rupert with increases averaging 2.5%, and a 2.4% increase for terminals operating in Vancouver. These actions served to raise the composite price index on storage by a further 2.0%, bringing the cumulative rise since the beginning of the GMP to 46.4%.

TENDERING PROGRAM

The 2010-11 crop year denoted the tenth for the Canadian Wheat Board's tendering program. Initially established with a three-year life under a Memorandum of Understanding between the Minister Responsible for the Canadian Wheat Board and the CWB, the program has evolved significantly since the MOU expired at the end of the 2002-03 crop year. The most notable change involved the development of a tacit agreement between the CWB and its agents to combine tendering with advance car awards to move about 40% of the grain shipped by the CWB to the four ports in western Canada.

Figure 27: Change in Terminal Elevator Handling Charges

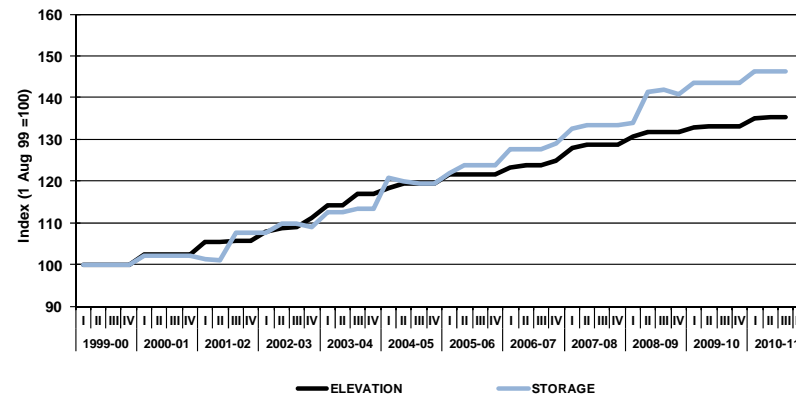
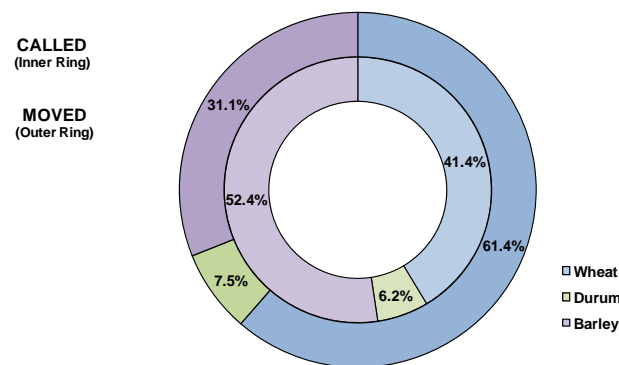


Figure 28: Tendered Grain - Q3 2010-11 Crop Year



While the amount of grain shipped under these two programs never reached much beyond a third of the overall movement, this proportion has been drifting steadily lower in recent years. Much of this is due to the CWB's adoption of a less rigid target, and one that gives it a greater degree of flexibility in moving grain.

Tender Calls

The CWB issued a total of 171 tenders calling for the shipment of approximately 2.9 million tonnes of grain in the first nine months of the 2010-11 crop year. This represented a 47.6% increase over the 2.0 million tonnes put out to tender in the same period a year earlier. Unlike previous years, the majority of this tonnage, 52.4%, related to the movement of barley. This entailed a potential movement of 1.5 million tonnes, more than seven times what had been called a year earlier. Wheat ranked second in terms of overall size, with calls for 1.2 million tonnes having been issued. This denoted 41.4% of the overall total compared to 71.2% the year previous. Owing to a sharp decline in production, durum calls encompassed a mere 182,300 tonnes, garnering only a 6.2% share against 18.6% a year earlier.

The CWB sought to move the majority of the grain, representing 89.3% of the tonnage called, through the west coast ports of Vancouver and Prince Rupert. This was well ahead of the 78.8% share for these ports a year earlier, with both posting gains. Prince Rupert reported the largest relative gain, with its share rising to 51.1% from the previous crop year's 42.7%, while Vancouver's share inched up to 38.1% from 36.1%. As a result of the larger allocation to the west coast, Thunder Bay posted a significant reduction, taking a 10.4% share against its 21.2% share a year earlier. This was complemented by Churchill, which owing to the first tenders issued in its favour in six years, garnered a 0.3% share. [Tables 4E-1 and 4E-2]

Tender Bids

The CWB's tender calls were met by 502 bids offering to move 8.1 million tonnes of grain, more than twice the amount sought. The majority of these bids, 67.4%, responded to calls for the movement of barley.

Figure 29: Tonnage-Bid-to-Called Ratio - Q3 2010-11 Crop Year

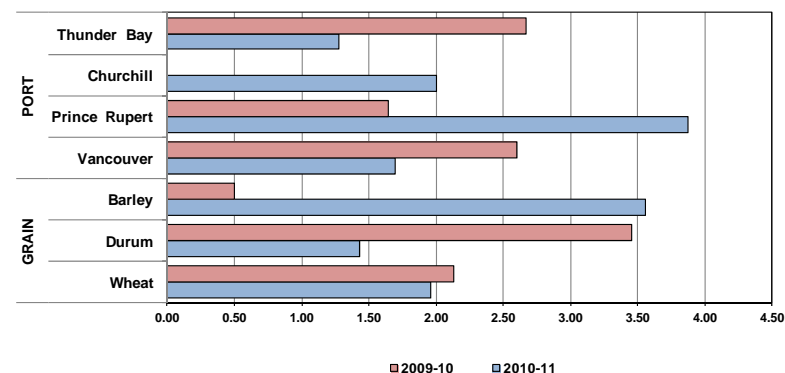
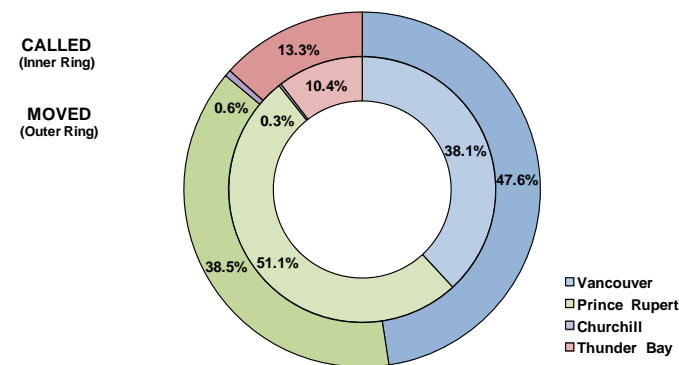


Figure 30: Destination Port - Q3 2010-11 Crop Year



Another 29.4% responded to those issued for wheat, while the remaining 3.2% answered those for durum. When examined with respect to the port specified in the tender calls, 71.6% of the bids were directed to Prince Rupert, 23.4% to Vancouver, 4.8% to Thunder Bay, and 0.2% to Churchill. [Tables 4E-3 and 4E-4]

The relative strength of the grain companies' response to this segment of the CWB's business can be gauged through the ratio derived from comparing the number of tonnes bid against the number of tonnes called. With the exception of barley, overall bidding in the first nine months of the 2010-11 crop year proved generally weaker than in the same period a year earlier. Moreover, the response rate for barley, which posted a ratio of 3.6 against just 0.5 twelve months before, proved substantially stronger than that of either wheat or durum. Wheat elicited the next strongest response, although its ratio fell by 7.7%, to 2.0 from 2.1 a year earlier. The decline in the response rate on durum tenders was even more sizeable, with a reduction of 58.6% lowering the associated ratio to 1.4 from 3.5.

The response rates for the port specified in the tender calls were also mixed. Prince Rupert registered the most significant gain in intensity, with its ratio more than doubling, to 3.9 from 1.7. Just as noteworthy was the trade's reaction to the first calls issued in favour of Churchill in several years, and which garnered the second highest response rate among the four ports, 2.0. The ratio associated with delivery at Vancouver proved the next strongest, although it was cut by 34.9%, falling to 1.7 from 2.6 a year earlier. The response rate for Thunder Bay fell by more than a half, to 1.3 from 2.7.

For the most part, these response rates reflected changes in the mix of grain that had been put out for tender. This was particularly true of barley and durum, where dramatic shifts in the called tonnages precipitated corresponding changes in the maximum discounts put forward by the grain companies in their bids. By way of example, the maximum bid put forward on barley in the first nine months of the 2010-11 crop year reached \$20.00 per tonne against just \$4.00 per tonne in the 2009-10 crop year. The highest accepted bid on durum was cut virtually in half, falling to \$11.07 per tonne from \$21.76 per tonne.

Contracts Awarded

A total of 195 contracts were subsequently signed for the movement of almost 1.5 million tonnes of grain.²⁰ This marked a reduction of 517,800 tonnes from the 2.0 million tonnes awarded a year earlier. In its broader context, this denoted 15.5% of the tonnage shipped by the CWB to western Canadian ports in the first nine months of the 2010-11 crop year, falling well short of its 20% target. [Tables 4E-5 and 4E-6]

In contrast to the tonnage specified in the tender calls, 47.6% of the grain contracted for movement under the tendering program was directed to the port of Vancouver. This somewhat larger share was complemented by a correspondingly lower one for Prince Rupert, which garnered 38.5% of the contracted tonnage. The proportion for Thunder Bay and Churchill also proved to be greater than was outlined in the CWB's tender calls, with earned shares of 13.3% and 0.6% respectively.

Malting Barley

Owing to poorer quality, no tenders were issued by the CWB for the movement of malting barley in the first nine months of the 2010-11 crop year. As a result, there were no contracts awarded in this period. Since malting barley represents the sole grain sold on a Free-on-Board basis, all tendered grain shipments moved through the end of the third quarter were sold on an "in-store" basis. [Table 4E-9]

Originating Carrier

CN secured 54.8% of the volume that moved under tender in the first nine months of the 2010-11 crop year. This denoted a significant gain over the 42.5% share the carrier moved in the same period a year earlier. Much of this gain reflected the sway for barley as a result of the large volumes being directed to Prince Rupert by the CWB during this period. But it also reflected, at least in part, the efforts of the trade to circumvent

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

their mounting frustration with CP's service by drawing more grain into CN-served elevators. [Table 4E-11]

Multiple-Car Blocks

The majority of the grain shipped under tender moves in multiple-car blocks. In fact, since the beginning of the CWB's tendering program, the proportion moving in blocks of 25 or more railcars has never fallen below 80%. Such was again the case in the first half of the 2010-11 crop year, when 89.8% of tendered grain shipments moved in such blocks. Still, this value fell marginally below the 92.8% value recorded in the same period a year earlier. Indicative of this weakening was the fact that shipments in blocks of 50 or more cars assumed a somewhat lesser role, garnering a 61.8% share against 72.9% a year earlier. [Table 4E-12]

Tendered Origins

With 767,400 tonnes of grain shipped in the first nine months of the 2010-11 crop year, Alberta was the largest originator of tendered grain in western Canada, increasing its share to 52.1% from 35.3% a year earlier. Much of this gain was due to a reduction in shipments from Saskatchewan, which accounted for another 568,300 tonnes, and claimed a 38.6% share against a 54.7% the year previous. This was followed by Manitoba, which originated 135,200 tonnes and saw its share fall to 9.2% from 9.7% a year earlier.

High-throughput elevators have been the principal facilities used in moving tendered grain. From the outset of the GMP, over 90% of the annual tendered grain movement originated at such facilities. In more recent years, this share has moved steadily higher, reaching a record 97.6% in the 2008-09 crop year. Shipments in the first three quarters of the 2010-11 crop year were consistent with this, with 96.1% of tendered grain movements having originated at high-throughput elevators. [Table 4E-14]

Figure 31: Tendered Grain - Originations

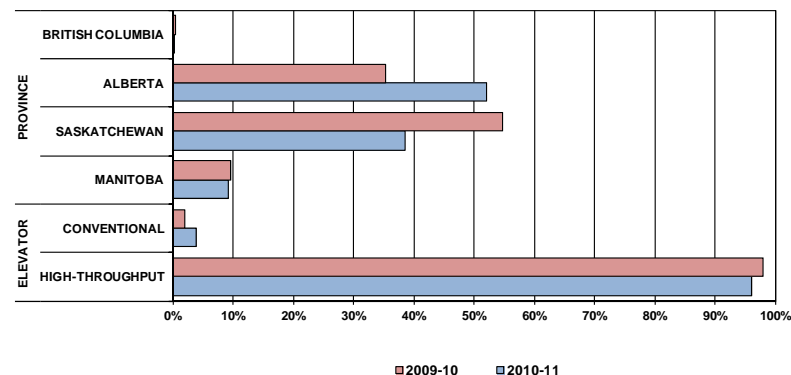
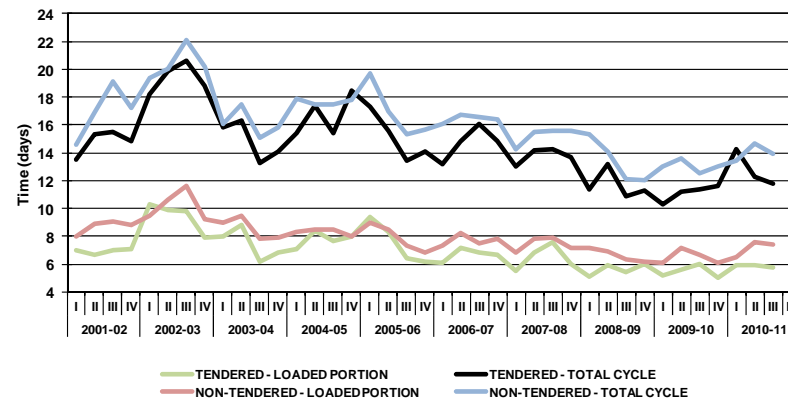


Figure 32: Car Cycles - Tendered and Non-Tendered Grain



Car Cycles

The average car cycle for tendered grain shipments increased sharply in the first nine months of the 2010-11 crop year, rising 13.6%, to 12.5 days from the 11.0-day average recorded in the same period a year earlier. Although this marked a significant reversal in a longer-term pattern of reduction, much of the gain was attributable to movements in the Vancouver and Prince Rupert corridors. Much of this elongation could itself be tied to the operational problems that had been plaguing CP since the beginning of the crop year. [Table 4E-18]

These problems appeared to have given rise to some anomalous results in the first quarter, with the traditional relationship between tendered and non-tendered CWB grain shipments seemingly having been reversed. Still, by the close of the third quarter the car cycle for tendered grain had once again fallen below that of non-tendered CWB grain. Even so, the nine-month average for non-tendered CWB shipments had also risen, to 14.0 days from 13.0 days a year earlier.

Accepted Bids

Although the actual winning bids remain confidential, the CWB discloses the range of bids received for each tender it issues. As “price takers,” it is in the CWB’s best interest to accept the highest bid put forward.²¹ As a result, the maximum discount offered by grain companies, and generally accepted by the CWB, provides a reasonable basis by which to compare differences in the bidding behaviours of both the major, and non-major, grain companies.²²

21 The bids submitted are expressed as a per-tonne discount to the CWB’s initial price for wheat, durum and barley.

22 As used here, the term “major grain companies” refers specifically to Viterra Inc., Cargill Limited and Richardson Pioneer Limited. These companies effectively constitute the three largest firms sourcing grain within western Canada.

Figure 33: Maximum Discount from Initial Price - Wheat

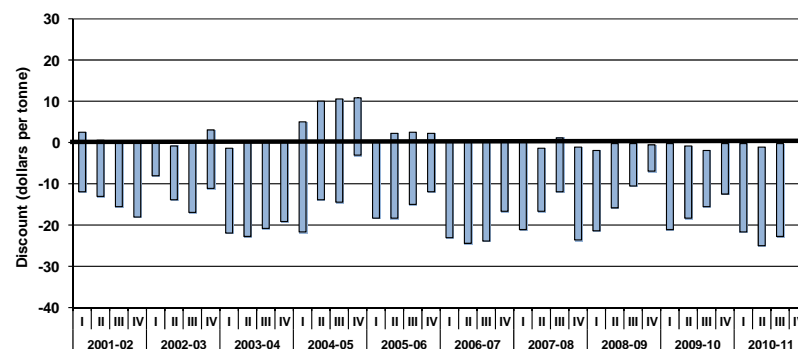
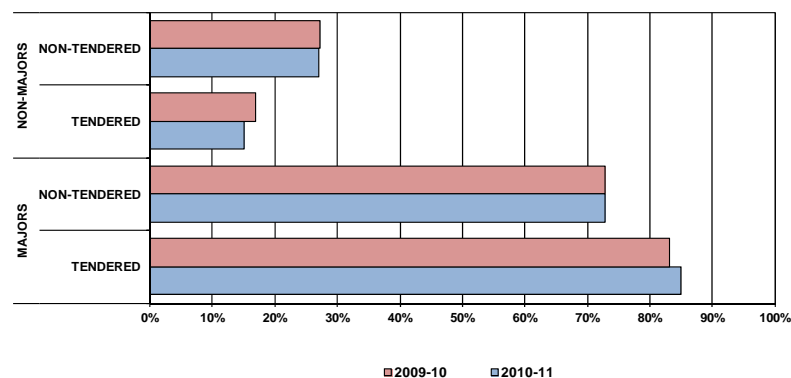


Figure 34: Market Share - Q3 2010-11 Crop Year



The maximum discounts put forward by both groups show a significant degree of variation over the course of the last decade, be it on a quarterly or an annual basis. To a large extent, these fluctuations reflected their response to changing marketplace conditions. Even so, the maximum discounts offered by the major grain companies typically exceeded those advanced by their smaller competitors, although there were numerous instances where the latter outbid their larger rivals. In addition, the deepest discounts have often manifested themselves early in the crop year, with a gradual easing following thereafter. [Table 4E-19]

The 2010-11 crop year provided a somewhat different pattern in as much as the deepest discounts advanced for wheat came in the second quarter. The maximum bid put forward during the first nine months of the crop year increased by 17.6%, rising to \$25.02 per tonne from \$21.28 per tonne a year earlier. The maximum bid put forward on barley also increased in the face of a much larger movement, rising to \$20.00 per tonne from \$4.00 per tonne. Durum was the only grain to post a year-over-year reduction, with its maximum bid slumping to \$11.07 per tonne from a \$23.56 per tonne.

Market Share

The best indicator of dominance remains the market shares held by the major and non-major grain companies. The share secured by the larger grain companies in the movement of CWB grain, be it tendered or non-tendered, has not changed all that significantly over the course of the last decade. In the case of tendered-grain shipments, their share has floated around 85%, while on non-tendered shipments, their share has taken a somewhat lesser 75%. [Table 4E-20]

Necessarily, the market shares held by the non-major grain companies have demonstrated a corresponding similarity: amounting to about 15% on tendered grain; and to approximately 25% on non-tendered grain. Notwithstanding this generalization of the annualized results, the market shares of both groups show greater quarterly volatility, particularly in the case of the non-major grain companies.

The shares accorded the major and non-major grain companies in the first nine months of the 2010-11 crop year were consistent with these broad measures, amounting to 84.9% and 15.1% respectively in the case of tendered grain shipments, and to 72.9% and 27.1% respectively in the case of non-tendered grain shipments. Despite this, it is worth noting that the major grain companies secured an unusually greater share of tendered grain shipments in the second quarter, claiming a 94.9% share against just 5.1% for the non-major grain companies.

Financial Savings

Although the discounts advanced by the grain companies figure prominently in the calculation of the CWB's overall transportation savings, they are but one component. Freight and terminal rebates, as well as any financial penalties for non-performance, also figure into this calculation. For the first nine months of the 2010-11 crop year, the CWB estimated that these savings - which are ultimately passed back to producers through its pool accounts - totalled \$27.1 million. This proved to be 23.9% less than the \$35.6 million saved in the same period a year earlier.

ADVANCE CAR AWARDS PROGRAM

A total of 756,600 tonnes moved under the CWB's advance car awards program in the first nine months of the 2010-11 crop year, a reduction of 29.1% from the 1.1 million tonnes moved in the same period a year earlier. This denoted 8.0% of the total tonnage shipped to the four ports in western Canada by the CWB, and a sizable decrease from the 9.9% share garnered a year earlier.

In conjunction with the 1.5 million tonnes that moved under the CWB's tendering program, a total of 2.2 million tonnes of CWB grain were moved under the auspices of these two programs. This constituted 23.5% of the CWB's total grain shipments to the four ports in the first three quarters. These shipments fell considerably short of the 40% that had been targeted, and moderately below the 28.3% that had been handled under these programs a year earlier.

Traffic Composition

Grain shipped under the advance car awards program often parallels that moved under the tendering program, but frequently differs in a number of respects. Owing to the substantial amount of feed barley that moved under the CWB's tendering program in the first nine months of the crop year, these differences proved even more pronounced. Foremost among these was the fact that wheat constituted a much larger share of the movement, 76.0% as compared to 61.4% for tendered grain shipments. Secondly, all of the remaining 24.0% was for durum, whereas this commodity represented just 7.5% of tendered grain shipments. [Table 4F-1]

The largest portion of the volume that moved under the advance car awards program, 370,000 tonnes, or 48.9%, was destined to the port of Vancouver. This was in turn followed by Thunder Bay with 197,100 tonnes, and a 26.1% share; and Prince Rupert with 189,500 tonnes, and a 25.0% share. It is also worth noting that, for the first time since the inception of the advance car awards program, no traffic was directed to Churchill. [Table 4F-2]

Originating Carrier

Just over two-thirds, 66.8%, of the volume moved under the advance car awards program in the first three quarters originated at points local to CP. Although this was somewhat greater than the 60.0% share the carrier secured in the same period a year earlier, it contrasted sharply with the 45.2% share garnered by CP on the movement of tendered grain. It was also somewhat atypical for a carrier that had secured a 44.0% share on the movement of western Canadian grain as a whole. It is worth noting that much of this result was shaped by the carrier's very strong showings in the first and second quarters, where it posted shares of 75.3% and 70.2% respectively, rather than in the third, where its share fell to a much lesser 50.1%. [Table 4F-3]

Figure 35: Traffic Composition - Q3 2010-11 Crop Year

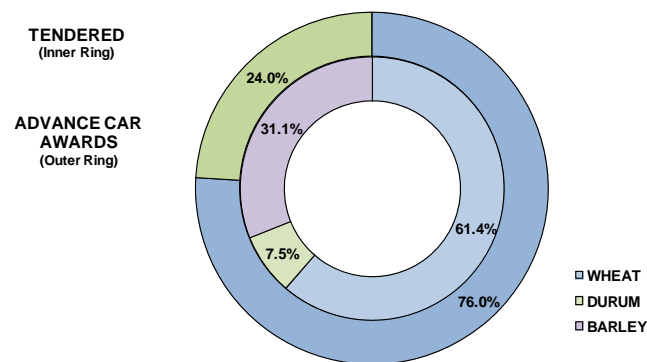
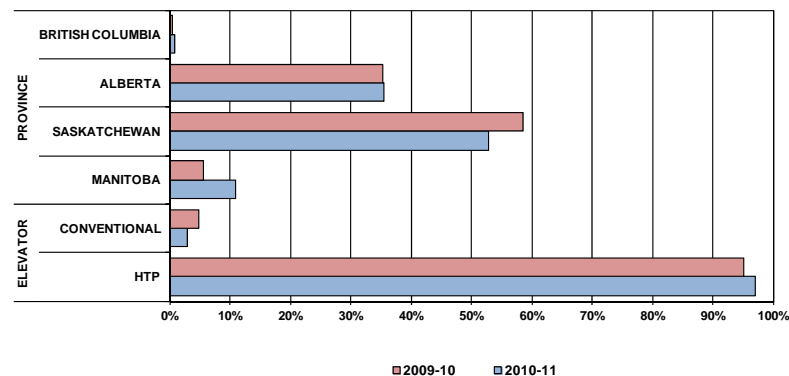


Figure 36: Advance Car Awards - Originations



Traffic Origination

As opposed to tendered grain, the majority of the tonnage moved under the CWB's advance car awards program came from Saskatchewan. Amounting to 399,700 tonnes, these shipments accounted for slightly more than half, 52.8%, of the program's total volume. This share, however, proved markedly greater than the 38.6% share secured by the province on the movement of tendered grain. Alberta and Manitoba followed with corresponding originations of 268,500 tonnes and 82,600 tonnes, and shares of 35.5% and 10.9% respectively. Just 5,900 tonnes of grain was moved from British Columbia. [Table 4F-4]

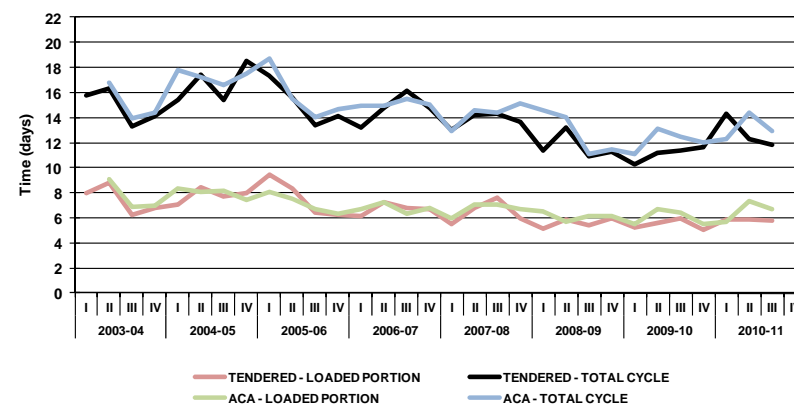
Virtually all of the grain shipped under the advance car awards program in the first nine months of the crop year, 97.0%, came from high-throughput elevators. This proved slightly greater than the 95.1% share secured by these facilities in the same period a year earlier. There was little to differentiate the usage rates for these elevators on a provincial basis save for the fact that shipments from British Columbia only originated at conventional facilities.

Car Cycles

The average car cycle for grain shipped under the CWB's advance car awards program totalled 13.4 days in the first nine months of the 2010-11 crop year. This value proved to be 8.9% greater than the 12.3-day average recorded in the same period a year earlier, as well as 6.3% greater than the 12.6-day average for tendered grain shipments. As with tendered grain, however, the average cycle for advance-car-award movements proved lower than that of non-tendered CWB grain, with the latter averaging a notably longer 14.0 days. [Table 4F-6]

This relationship was also reflected in the loaded portion of the movement, with the advance-car-award program's 6.7-day average proving 13.6% above the 5.9-day average for tendered grain shipments. However, there was no difference between the two groups in terms of the empty movement, where both averaged 6.7 days.

Figure 37: Car Cycle - Advance Car Awards



COMMERCIAL DEVELOPMENTS

Final Report on Railway Service Released

In response to the concerns that had been raised by the majority of rail shippers regarding the state of railway service in Canada, the federal government committed itself in early 2008 to a review of railway service. The general focus of this review was to examine the performance of the freight logistics system in Canada with an eye towards identifying any problems or issues respecting railway service. This was also to include those issues stemming from the operations and activities of stakeholders other than the railways, including shippers, receivers and other logistics partners.

The review was to be conducted in two distinct phases. The first phase centred on gathering and analyzing data relating to the railways' performance during a two-year period between 2006 and 2008. The second would see a panel of eminent persons appointed to review the work completed in the first phase, and to further that investigation by

consulting with various parties from the broader stakeholder community regarding the problems that had been identified.

By early 2010 the work associated with the first phase of the review had essentially been completed, and the three-member panel was moving forward with its planned consultations with the stakeholder community. Representatives from all corners of the grain industry were actively involved in this process, which resulted in submissions from the Western Grain Elevator Association, the Inland Terminal Association of Canada, and numerous commodity and producer groups. For the most part, these submissions not only voiced anew the grain industry's long-standing concerns over the reliability and consistency of existing railway service, but also argued for stronger regulatory measures as a means of tempering what was still widely regarded as the extensive market power of railways.

The panel formally submitted its final report to the Minister of State (Transport) in late December 2010.²³ After due consideration, the Government of Canada formally released the panel's report on 18 March 2011. In broad terms, the panel found that there was an imbalance in the commercial relationship between the railways and other stakeholders, but believed that a commercial - rather than a regulatory - approach provided the best means of rectifying this imbalance. Stemming from this analysis were four key recommendations: that the railways should provide a minimum 10-days advance notice of service changes; that the railways should enter into good-faith negotiations with shippers to establish service agreements; that Transport Canada should assist the railways in developing a fair and balanced dispute-resolution process with its customers; and that the railways should provide for improved supply-chain visibility through enhanced bilateral performance reporting.

On the whole, the federal government accepted these recommendations, promising a four-point course of action encompassing: a six-month

facilitated process to negotiate a template service agreement and commercial dispute resolution mechanism; the introduction of a bill in Parliament that would give shippers the right to a service agreement; and to establish a Commodity Supply Chain Table that would address logistical concerns and develop performance metrics to improve competitiveness. Also, Transport Canada and Agriculture and Agri-Food Canada were to initiate an in-depth analysis of the grain supply chain.

Although the recommendations were initially met with mixed reactions from the stakeholder community, the government's initiative gave shippers new hope. While some within the grain industry still expressed disappointment, claiming that the government's plan did not go far enough in addressing its concerns, the railways argued that it was already going too far down the road towards reregulation of the industry. Notwithstanding any of this, the calling of a federal election just one week later, effectively postponed the implementation of these plans.

Grain Shipments Affected by Deteriorating Railway Service

Notwithstanding the federal government's efforts at addressing the broader issues surrounding railway service, many in the grain industry were growing increasingly frustrated with what appeared to be CP's deteriorating service. At the outset of the 2010-11 crop year much of this appeared to stem from the operational problems that still afflicted the carrier after the washout of its mainline east of Medicine Hat, Alberta, in June 2010.

But there were other issues that compounded these problems, not the least of which related to a heightened demand for services that taxed CP's available supply of locomotives and crews. In addition, CP had moved to follow the lead taken by CN a few years before, instituting new labour management practices in its Vancouver Terminal. It is believed that the work-to-rule response coming from running-trade employees led to a discernable slowdown in the service given to most CP-served facilities in the lower mainland, including the grain terminals situated on the south shore of the Burrard Inlet. This appears to have been a short term situation which, for the most part, was addressed and corrected by late fall.

²³ The panel's final report followed the October 2010 public release of an interim report, which was used to elicit commentary from stakeholders on the panel's principal findings and recommendations.

But to make matters worse, CP had also begun to grapple with the unusually heavy accumulation of snow in the Rockies, which precipitated avalanches and control measures that repeatedly disrupted railway operations between December 2010 and March 2011. This served only to compound the delays and car-supply problems that had already been plaguing shippers since the beginning of the crop year. Moreover, they had already begun to adversely impact other facets of the supply chain.

Grain movements out of the country were reduced as CP's car supply became more constricted, primarily as a result of the elongation in the carrier's car cycle during this period. This occasioned significant delays to ships awaiting the arrival of specific grains at Vancouver. By the close of the third quarter, what had previously been shipper frustration had now given way to anger, particularly when it concerned the mounting financial burden arising from greatly higher vessel demurrage bills.

Customs Duty Relief Holds Promise of Great Lakes Fleet Renewal

The federal minister of finance announced in early October 2010 that the government had decided to waive its long-standing 25% customs duty on all general cargo vessels and tankers, as well as ferries longer than 129 metres, imported into Canada. The measure, which was to be applicable on any ship imported into the country from 1 January 2010 onwards, was aimed chiefly at aiding Canada's marine transportation industry with the renewal of its aging fleet of vessels.

The initiative came following consultations with a broad range of stakeholders, which included not only representatives from all areas of the marine transportation industry, but interested provincial governments as well as companies in the manufacturing, agriculture and energy sectors. Many had argued that the 25% duty imposed on imported vessels, which also constituted the highest rate paid on any industrial product, was unnecessarily punitive given that no such ships had been built in Canada since 1985. Moreover, such costs would ultimately be borne by Canadian shippers in the form of higher freight rates. By moving to ease this financial burden, they maintained that the government could accelerate the needed renewal of the Great Lakes fleet

- which is largely composed of 35 to 40 year old vessels - with cleaner, safer and more economically efficient ships.²⁴

By December 2010 it appeared that the change in governmental policy was beginning to have its desired effect. Algoma Central Corporation, the operator of one of Canada's largest domestic vessel fleets, announced that it had entered into a contract with Nantong Mingde Heavy Industries, a Chinese shipyard, for the construction of four new Equinox Class freighters, along with an option to purchase two more.²⁵ This \$205-million investment was intended to provide for the replacement of vessels already approaching the end of their economic lives beginning in 2013.

The change in policy, which had been welcomed by the Canadian Wheat Board, also spurred it into making an unusual investment decision.²⁶ In early February 2011 the CWB announced that it had placed an order for two Equinox Class freighters of its own. The CWB order, which actually figured into a three-vessel expansion of Algoma Central Corporation's four-freighter purchase, would now result in seven new ships being

²⁴ Complementing this new framework, was the government's decision to also remit the \$15.3 million in customs duties paid on two tankers imported from Turkey by Algoma Central Corporation in 2008 and 2009, as well as the \$119.4 million paid on four large ferries imported from Germany by British Columbia Ferry Services Inc. (BC Ferries) between 2007 and 2009.

²⁵ Although the Equinox Class freighters are to be built in China, the ship's design was spearheaded in Canada by Algoma Central Corporation. Owing to the physical constraints imposed by the St. Lawrence Seaway system, these ships will differ little in terms of their outward dimension and appearance from conventional Great Lakes freighters, but will incorporate a number of technological advancements that will provide for enhanced operational efficiency in carrying more cargo, at a faster speed and in greater safety than its predecessors.

²⁶ The CWB has long used the Great Lakes fleet to move western Canadian grain from Thunder Bay, through the St. Lawrence Seaway, and onto eastern destinations. The typical lake freighter can handle about 26,000 tonnes of wheat, an amount roughly equivalent to 300 railcars. With about 75% of its eastbound grain movements using this system, the CWB expected that the elimination of the customs duty on new vessels would generate longer-term savings for western Canadian farmers, who ultimately bear a significant portion of the higher costs associated with operating the older and less efficient vessels.

earmarked for future service on the Great Lakes. All of these vessels are slated to be operated by a third party, Seaway Marine Transport, acting on the behalf of their owners.²⁷

The CWB estimated the cost of purchasing the two ships at about \$65 million, to be spread over four crop years. It also estimated the financial contribution to be derived from the operation of the vessels, and returned to farmers through the CWB's pool accounts, at approximately \$10 million annually. Despite this, the CWB's investment decision came under fire from a number of farmer groups, with many arguing that it constituted an inappropriate use of the organization's funds.

Montreal Port Authority Leases Grain Terminal to Viterra

Following several years of study, and the placement of new emphasis on reducing costs, the Montreal Port Authority (MPA) decided to seek a private operator for its grain terminal. In order to properly gauge the appeal for this, the MPA issued a formal Call for an Expression of Interest on 1 September 2010. Following an appropriate evaluation process, it was revealed in late January 2011 that the MPA had entered into discussions with Canada's largest grain handler, Viterra, Inc., concerning its possible future operation of the facility.

Built in the early 1960s, the MPA's grain terminal is a licensed transfer elevator with 262,000 tonnes of storage capacity. Although the majority of the grain processed through the facility has traditionally been received from vessels descending the St. Lawrence Seaway, inbound rail and truck shipments have assumed an increasingly larger role. In 2008 the terminal received a total of 1.2 million tonnes of grain, with 38% having been delivered by ship; 33% by truck; and 29% by rail.

Unlike other grain terminals in Canada, all of which are privately operated, the Montreal facility had remained under the management of the MPA since its construction. Increasingly, they came to view this as a commercial disadvantage. With an eye towards improving its competitive position while still providing a high calibre of service to Quebec grain producers, the MPA believed that transferring the management of this facility to a firm specializing in grain handling and merchandising would help consolidate and increase the amount of grain moving through the port. Grain movements through the port of Montreal had been declining in the face of changing market conditions and transportation alternatives since the 1970s.

By the close of April 2011 it was announced that the two parties had in fact signed an agreement that would see Viterra lease the MPA grain terminal, and take over its operation effective 1 July 2011. For Viterra, taking over the MPA grain terminal presented the company with an opportunity to fill a void in its own network, extending its physical reach beyond the terminals it already owned on the west coast and at Thunder Bay, Ontario. In addition to extending its operations to a major eastern Canadian port, it would allow the company to enhance its domestic and foreign merchandising capabilities. The terminal, which operates year-round, and already handles a wide variety of crops – including wheat, corn, barley, soybeans, peas, and lentils – provides it with direct access to the eastern shipping routes serving Europe and other international markets.

²⁷ In addition to the two vessels being purchased by the Canadian Wheat Board, a third was to be purchased by Upper Lakes Group Inc. Seaway Marine Transport (SMT) was a partnership between Algoma Central Corporation and Upper Lakes Group Inc. In late February, Algoma Central Corporation announced that it was acquiring the Upper Lakes Group's interest in SMT, which would continue to operate as a wholly-owned subsidiary. All seven vessels were to be crewed and operated by SMT on behalf of their owners.

Section 5: System Efficiency and Performance

Indicator Description	Table	2010-11								
		1999-00	2008-09	2009-10	Q1	Q2	Q3	Q4	YTD	% VAR
Country Elevator Operations										
Average Elevator Capacity Turnover Ratio	5A-1	4.8	6.6	6.2	1.4	1.4	1.4	-	4.2	-8.7%
Average Weekly Elevator Stock Level (000 tonnes)	5A-2	3,699.3	2,686.7	2,832.6	2,698.3	2,878.9	3,174.2	-	2,918.1	-3.2%
Average Days-in-Store (days)	5A-3	41.7	27.7	30.5	30.1	33.9	36.2	-	33.4	1.2%
Average Weekly Stock-to-Shipment Ratio - Grain	5A-4	6.2	3.9	4.3	4.3	4.7	5.5	-	4.8	5.2%
Railway Operations										
Railway Car Cycle (days) - Empty Movement	5B-1	10.7	6.6	6.7	7.2	7.2	7.0	-	7.1	10.1%
Railway Car Cycle (days) - Loaded Movement	5B-1	9.2	6.8	6.5	6.8	7.5	7.2	-	7.2	7.2%
Railway Car Cycle (days) - Total Movement	5B-1	19.9	13.4	13.2	14.0	14.7	14.1	-	14.3	8.5%
Railway Car Cycle (days) - Non-Special Crops	5B-2	19.3	13.3	13.1	13.9	14.6	14.0	-	14.2	9.4%
Railway Car Cycle (days) - Special Crops	5B-3	25.8	15.6	15.3	14.6	16.1	15.4	-	15.3	-1.5%
Railway Transit Times (days)	5B-4	7.8	5.5	5.5	5.7	6.3	6.1	-	6.0	7.5%
Hopper Car Grain Volumes (000 tonnes) - Non-Incentive	5B-5	12,718.7	5,674.4	5,747.7	2,052.4	1,199.4	1,017.1	-	4,268.9	-1.4%
Hopper Car Grain Volumes (000 tonnes) - Incentive	5B-5	12,945.9	21,118.2	22,030.1	5,251.5	5,200.7	5,199.6	-	15,651.8	-1.2%
Hopper Car Grain Volumes (\$ millions) - Incentive Discount Value	5B-6	\$31.1	\$132.0	\$146.4	\$34.6	\$35.4	\$35.8	-	\$105.7	-0.6%
Traffic Density (tonnes per route mile) - Grain-Dependent Network	5B-7	442.5	527.3	608.5	644.8	532.4	457.3	-	544.9	-8.3%
Traffic Density (tonnes per route mile) - Non-Grain-Dependent Network	5B-7	292.5	335.2	332.5	350.2	315.3	321.3	-	328.9	2.6%
Traffic Density (tonnes per route mile) - Total Network	5B-7	330.4	373.8	387.9	409.5	358.9	348.7	-	372.4	-0.8%
Terminal Elevator Operations										
Average Terminal Elevator Capacity Turnover Ratio	5C-1	9.1	10.0	10.0	n/a	n/a	n/a	-	n/a	n/a
Average Weekly Terminal Elevator Stock Level (000 tonnes)	5C-2	1,216.2	1,346.4	1,274.8	1,265.7	1,179.3	1,213.8	-	1,220.6	-6.8%
Average Days-in-Store - Operating Season (days)	5C-3	18.6	16.7	16.2	18.5	16.1	14.8	-	15.7	-7.1%
Port Operations										
Average Vessel Time in Port (days)	5D-1	4.3	4.6	6.2	7.1	10.2	14.3	-	10.2	59.4%
Annual Demurrage Costs (\$millions)	5D-4	\$7.6	\$11.2	\$11.2	n/a	n/a	n/a	-	n/a	n/a
Annual Dispatch Earnings (\$millions)	5D-4	\$14.5	\$37.6	\$17.2	n/a	n/a	n/a	-	n/a	n/a
Avg. Weekly Stock-to-Vessel Requirements Ratio - VCR - Wheat	5D-5	3.1	3.2	2.3	2.6	2.6	1.9	-	2.3	-3.7%
Avg. Weekly Stock-to-Vessel Requirements Ratio - VCR - Canola	5D-5	2.5	1.5	1.5	0.5	0.3	0.7	-	0.5	-70.3%
Avg. Weekly Stock-to-Vessel Requirements Ratio - TBY - Wheat	5D-5	5.6	4.5	5.3	5.5	4.9	6.3	-	5.5	-9.3%
Avg. Weekly Stock-to-Vessel Requirements Ratio - TBY - Canola	5D-5	2.8	5.5	3.9	6.0	4.6	5.9	-	5.4	31.5%
Avg. Weekly Stock-to-Shipment Ratio - VCR - CWB Grains	5D-7	3.5	3.1	2.8	3.3	3.0	4.5	-	3.6	35.5%
Avg. Weekly Stock-to-Shipment Ratio - VCR - Non-CWB Grains	5D-7	3.6	2.5	1.8	0.7	1.0	1.0	-	0.9	-57.2%
Avg. Weekly Stock-to-Shipment Ratio - TBY - CWB Grains	5D-7	4.6	4.6	4.8	5.5	5.0	5.5	-	5.4	5.3%
Avg. Weekly Stock-to-Shipment Ratio - TBY - Non-CWB Grains	5D-7	3.3	4.2	5.2	5.5	5.4	7.5	-	5.9	3.5%
Terminal Handling Revenue (\$millions)	5D-8	\$274.8	\$369.2	\$389.2	n/a	n/a	n/a	-	n/a	n/a
CWB Carrying Costs (\$millions)	5D-8	\$94.7	\$170.1	\$147.6	n/a	n/a	n/a	-	n/a	n/a
System Performance										
Total Time in Supply Chain (days)	5E-1	68.1	49.9	52.2	54.3	56.3	57.1	-	55.1	-0.6%

COUNTRY ELEVATOR OPERATIONS

The net effect of changes in primary elevator throughput and storage capacity is reflected in the system's capacity-turnover ratio. Owing to both a 4.7% reduction in country elevator shipments as well as a 2.6% increase in capacity, the turnover ratio for the first nine months of the 2010-11 crop year declined by 8.7%, falling to 4.2 turns from 4.6 turns a year earlier. [Table 5A-1]

This decline reflected the reductions that were reported by a majority of the provinces. Manitoba posted the most significant of these, with its ratio falling by 20.0%, to 4.0 turns from 5.0 turns. This was followed by a 17.6% reduction for British Columbia, with its ratio declining to 2.8 turns from 3.4 turns a year earlier. Saskatchewan registered a lesser decline of 13.0%, which resulted in its turnover ratio falling to 4.0 from 4.6. Running counter to these results was Alberta, which reported an 11.4% gain that raised its ratio to 4.9 from 4.4.

Elevator Inventories

In assessing the operational efficiency of the primary elevator system, the GMP also considers the amount of grain maintained in inventory. Beyond measuring stock levels, this examination takes into account the amount of time grain spent in inventory, along with its ability to satisfy immediate market needs.

Reflecting the general reduction in storage capacity witnessed since the beginning of the GMP, grain inventories have largely been declining. With approximately half of the system's storage capacity employed in maintaining inventories, today's primary elevator stocks have largely been trimmed back to about three-quarters of the benchmark 3.7-million-tonne average first witnessed in the GMP's base year. The first nine months of the 2010-11 crop year saw a 3.2% decrease in prairie grain inventories, with the average falling to 2.9 million tonnes from 3.0 million tonnes a year earlier. Even so, the quarterly average moved progressively higher, from 2.7 million tonnes in the first through to 3.2

Figure 38: Primary Elevator Capacity Turnover Ratio

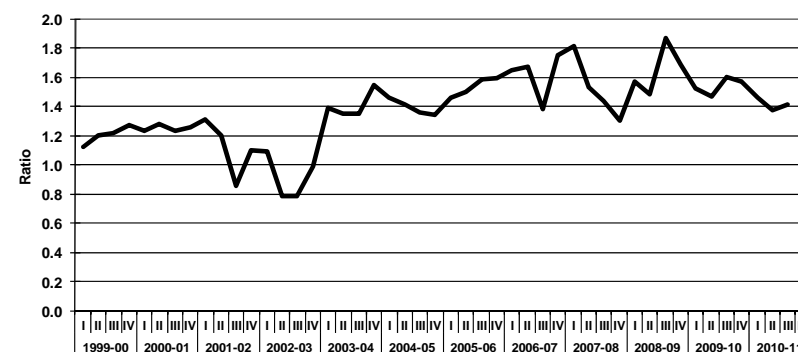
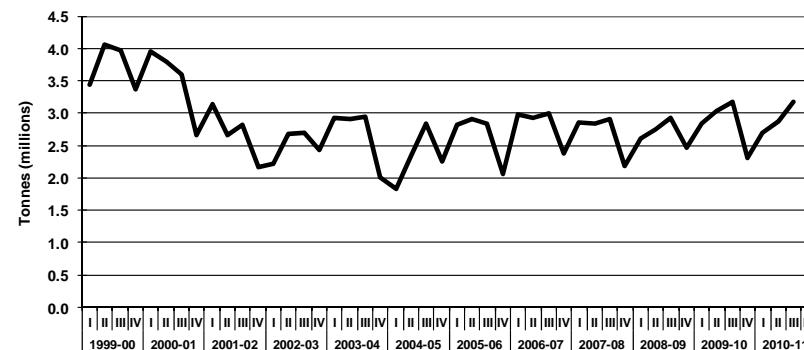


Figure 39: Average Weekly Stocks



million tonnes in the third. Much of this build-up was the by-product of the railway service problems then being experienced, with many shippers unable to secure an adequate number of cars for loading during this period. [Table 5A-2]

Just as the average stock level has moved generally lower, so too has the average amount of time spent by grain in inventory, although the quarterly average has continued to fluctuate around the 30-day mark for several years now. Still, the first nine months of the 2010-11 crop year produced a 1.2% increase in the storage-time average, which rose to 33.4 days from 33.0 days a year earlier. However, as with the build-up in country elevator stocks, this result obscures what was a progressive increase in the quarterly average, which rose from 30.1 days in the first quarter through to 36.2 days in the third. Here again, much of the increase was attributable to the delays brought on by a deterioration in railway service. [Table 5A-3]

Stock-to-Shipment Ratios

The adequacy of country elevator inventories can be gauged by comparing their level at the end of any given shipping week, with the truck and railway shipments actually made in the next seven days. In recent years the quarterly average stock-to-shipment ratio has generally fluctuated around a value of 4.0. As such, the inventory on hand at the close of any given week typically exceeded that required for shipment in the next by a factor of at least four.²⁸ These ratios are, however, heavily influenced by the amount of time that grain spends in inventory, and mimic their movement rather closely. [Table 5A-4]

The overall stock-to-shipment ratio rose by 5.2% in the first nine months of the 2010-11 crop year, to 4.8 from 4.6 a year earlier. Once again, this wider result obscures the progressive increase in the quarterly ratio,

²⁸ In the event that the ratio of these two values amounts to 1.0, it would mean that country elevator stocks exactly equalled shipments made in the following week. A ratio above this value would denote a surplus supply in the face of short-term needs.

Figure 40: Average Days-in-Store

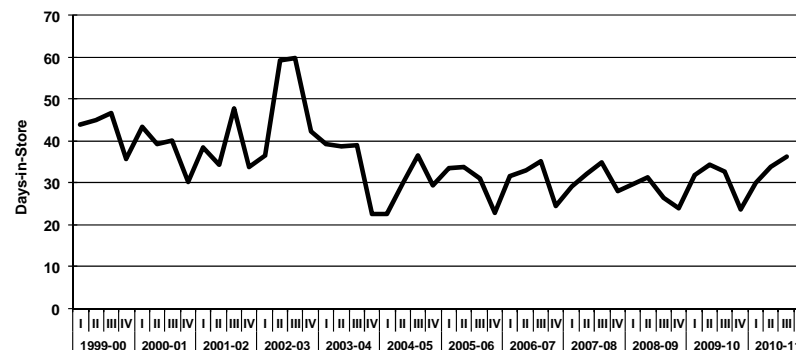
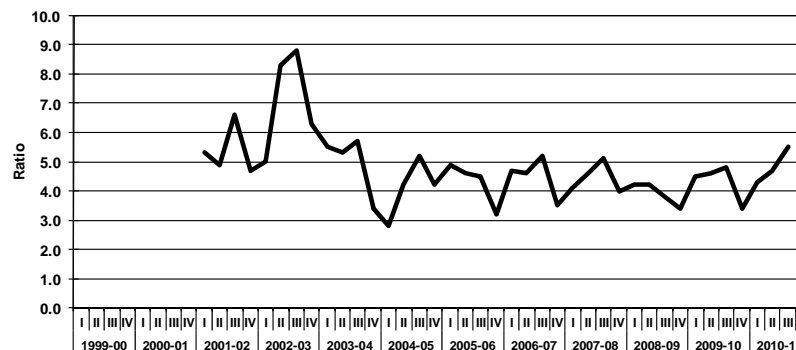


Figure 41: Primary Elevators - Stock-to-Shipment Ratio



which rose from 4.3 in the first quarter to 5.5 in the third.²⁹ This in turn reflected the broader build-up in grain inventories – especially that of canola – that was taking place during this period.

RAILWAY OPERATIONS

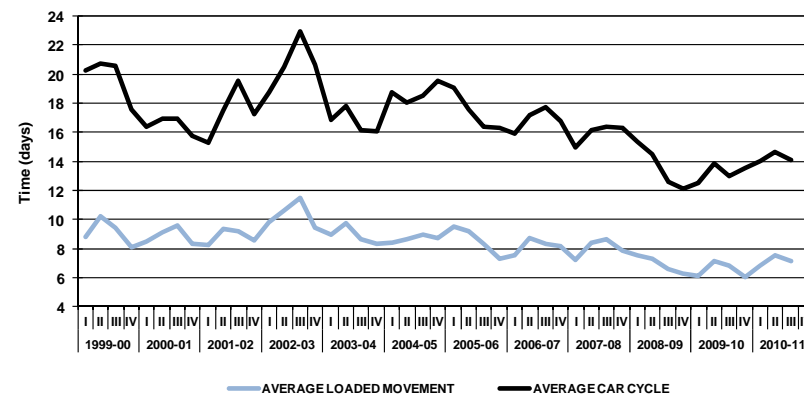
In the context of the GHTS, the car cycle measures the average amount of time taken by the railways in delivering a load of grain to a designated port in western Canada, and then returning the empty railcar back to the prairies for reloading. Despite a record of general improvement, the average car cycle rose sharply in the first nine months of the 2010-11 crop year, with the year-to-date average increasing 8.5%, to 14.3 days from 13.1 days a year earlier. This increase was reflective of a year-over-year rise in the underlying quarterly averages, which progressed from 14.0 days in the first to 14.7 days in the second, before then pulling back to 14.1 days in the third.

Although anomalous against the longer-term record, these increases were symptomatic of the operational problems that had been affecting railway service since the beginning of the year, and were felt in each of the primary corridors. With a 9.5% rise, movements in the Vancouver corridor posted the largest overall increase, with the average cycle climbing to 15.2 days from 13.9 days a year earlier. This was followed by a 9.0% increase in the Prince Rupert corridor, which saw its average rise to 12.7 days from 11.6 days. The increase posted in the Thunder Bay corridor proved a notably lesser 5.4%, with the average rising to 13.5 days from 12.9 days twelve months earlier. [Table 5B-1]

These results extended equally to the loaded and empty portions of the car cycle. In the case of the former, the average time under load rose by 7.0%, to 7.2 days from 6.7 days a year earlier. A 10.2% increase was observed for the empty portion of the movement, with the average rising to 7.1 days from 6.5 days.

²⁹ The 5.5 ratio cited here for the third quarter proved to be the largest recorded for the period since the 2003-04 crop year.

Figure 42: Average Railway Car Cycle



Although CN and CP both posted increases in their average cycles, the CN gain of 4.8% paled against the 13.1% gain registered by CP. The results proved somewhat more mixed when gauging changes to the loaded and empty portions of each carrier's car cycle. In the case of CN, the carrier posted a 7.6% increase in the loaded portion of its average cycle against a 1.4% increase in its empty portion. In comparison, CP posted a marginally lesser 6.0% increase in the loaded portion of its movement versus a much heftier 19.5% increase on its empty component.

Notwithstanding the overarching seasonal influences, these results draw attention to the effects of the operational problems that had been undermining CP's service since the beginning of the crop year. What is more, the situation only worsened in the second and third quarters as an unusually heavy accumulation of snow in the southern Rockies brought still further disruptions to railway service in the Vancouver corridor.

Despite a general elongation in cycle times, there were exceptions. The most visible of these related to the movement of special crops, where the year-to-date average of 15.3 days actually declined by 1.5%. However, this contrasted with non-special-crop movements, where the average car cycle rose by 9.4%, to 14.2 days from 12.9 days a year earlier. Notwithstanding these variances, the results continue to suggest that there is a structural disadvantage inherent in the railway service received by special crops. [Tables 5B-2 and 5B-3]

Loaded Transit Time

More important than the railways' average car cycle, is the average loaded transit time. This measure focuses on the amount of time taken in moving grain from a country elevator to a port terminal for unloading. As with car cycles at large, the railways' loaded transit time rose noticeably in each of the crop year's first three quarters, with the year-to-date average increasing 7.5%, to 6.0 days from 5.6 days a year earlier.

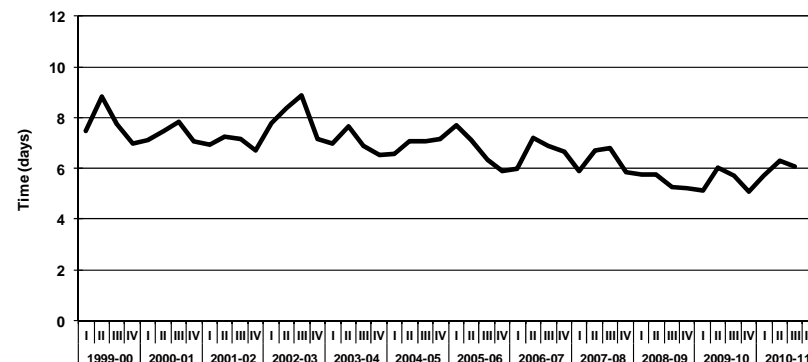
Of more concern to grain shippers, however, is the consistency of the service they receive from the railways. To this end, the GMP looks at the coefficient of variation in an effort to gauge that consistency. With the coefficient having increased to 32.0% from 31.7%, there was little material change in the consistency of the service provided over the course of the first nine months of the crop year.³⁰ [Table 5B-4]

Multiple-Car Blocks

In the first nine months of the 2010-11 crop year, 15.7 million tonnes of grain moved in the multiple-car blocks that offered discounted freight

30 The GMP has revised its loaded transit-time calculations in order to better represent the actual variability in each of the underlying origin-destination pairs, or traffic flows. The coefficient of variation effectively removes the distortions that arise from measuring the transit times tied to individual movements in a diverse population set by focusing on the underlying variability in the data distributions tied to each flow. As a ratio, smaller values depict tighter distributions than larger ones. To this end, a lower ratio can be deemed indicative of better consistency around the average loaded transit time presented.

Figure 43: Average Loaded Transit Time



rates. This represented a 1.2% reduction from the 15.8 million tonnes handled a year earlier.

From the beginning of the GMP, it has been clear that the largest block sizes were the most popular with grain shippers. This stems simply from the fact that they provide the deepest monetary discounts, allowing the grain companies to realize the greatest financial returns. Moreover, both railways promoted these larger block sizes by systematically increasing the discounts on shipments in blocks of 50 or more cars while reducing those on movements in blocks of 25-49 cars.³¹ [Table 5B-5]

As a result, the proportion of railway traffic moving in multiple-car blocks climbed quite rapidly. By the close of the 2009-10 crop year, 79.3% of the regulated grain moving to the four ports in western Canada

31 CN eliminated its \$1.00-per-tonne discount on shipments in blocks of 25-49 railcars at the beginning of the 2003-04 crop year. Although CP reduced its discount to \$0.50 per tonne at that time, the carrier only did away with them at the commencement of the 2006-07 crop year.

was earning a discount, against 50.4% in the GMP's base year. The value of these discounts - estimated as the grain shippers' gross savings in railway freight - more than quadrupled during this period, climbing to an estimated \$146.4 million from \$31.1 million. But this latter expansion was largely the product of a more substantive increase in the per-tonne discounts than it was of the traffic base.

In much the same way, CP's decision to reduce its per-tonne discount on block movements of 56 to 111 cars from \$5.00 to \$4.00 towards the close of the 2009-10 crop year did much to temper the growth in the total value of these discounts during the first nine months of the 2010-11 crop year, which fell by 0.6%, to an estimated \$105.7 million from \$106.3 million. Even so, the average earned discount for the period increased, to an estimated \$6.76 per tonne from \$6.71 per tonne a year earlier. [Table 5B-6]

TERMINAL ELEVATOR OPERATIONS

Over the course of the GMP, the amount of grain held in inventory at terminal elevators has proven to have a fairly consistent relationship with the system's overall handlings, generally amounting to about 25% of quarterly throughput. However, in the span of just two crop years that relationship has moved even lower, to approximately 20%. In the face of this, inventories fell by 6.8% in the first nine months of the 2010-11 crop year, to an average of 1.2 million tonnes from 1.3 million tonnes a year earlier. Much of this result was shaped by reductions in the stocks held at Vancouver and Prince Rupert.

Worthy of particular mention was the decline at Vancouver, where inventories in the second and third quarters fell by 22.9% and 18.4% respectively, with the year-to-date average for the first nine months of the 2010-11 crop year falling by 14.0%.³² Much of this appeared to have

³² Inventories at Vancouver fell to an average of 388,000 tonnes in the second quarter, a value not rivaled since the first quarter of the 2004-05 crop year when an average of 385,300 tonnes was posted.

Figure 44: Railway Traffic Moving Under Incentive

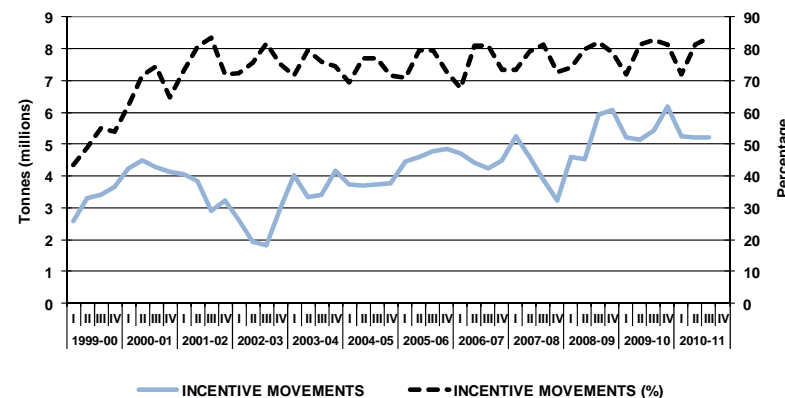
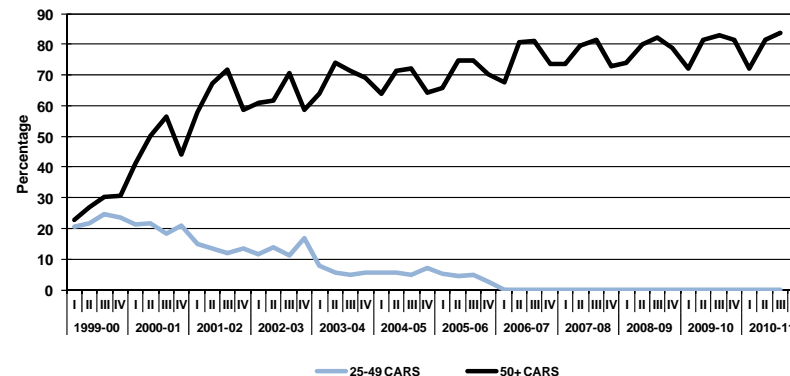


Figure 45: Composition of Multiple-Car-Block Movements



been occasioned by CP's service problems, which constrained grain shipments into Vancouver and prompted a larger movement to Prince Rupert. Although this resulted in a substantial increase to Prince Rupert's stocks in the second and third quarters, its year-to-date average still fell 14.9% below that witnessed a year earlier. The results for Churchill and Thunder Bay were more mixed. Paralleling the decline in west-coast inventories, the stock level at Churchill also fell, albeit by a noticeably lesser 6.4%. Running counter to these results was the average posted by the port of Thunder Bay, which saw a 1.0% increase in its inventories.

As in past years, wheat stocks again constituted the largest single commodity held in inventory, accounting for nearly half of the average tonnage. However, these stocks also moved noticeably lower, falling by 13.9%, to an average of 553,200 tonnes from 642,200 tonnes a year earlier. The same was true of durum, which posted a 10.4% reduction, declining to an average of 145,100 tonnes from 162.0 tonnes. These reductions were broadened by a 10.8% decline in canola stocks as well as a variety of secondary grains. [Table 5C-2]

Days in Store

In a reflection of the reduction in terminal stocks, the overall amount of time spent by grain in inventory decreased by 7.1% in the first nine months of the 2010-11 crop year, to an average of 15.7 days from 16.9 days a year earlier. Much of the impetus for this came from a 14.4% reduction in the average storage time at Vancouver, where stocks were drawn down in the face of protracted railway service problems. Supporting this was a 2.7% decline in the average storage time at Prince Rupert, as well as a 0.6% reduction at Thunder Bay. These reductions were offset to some degree by a 2.7% increase in the storage time at Churchill. [Table 5C-3]

Reflective of the broader reduction was the fact that the majority of grains posted reduced storage times, although these varied widely by port. The most influential reductions came from the declines registered

Figure 46: Terminal Elevators - Average Weekly Stocks

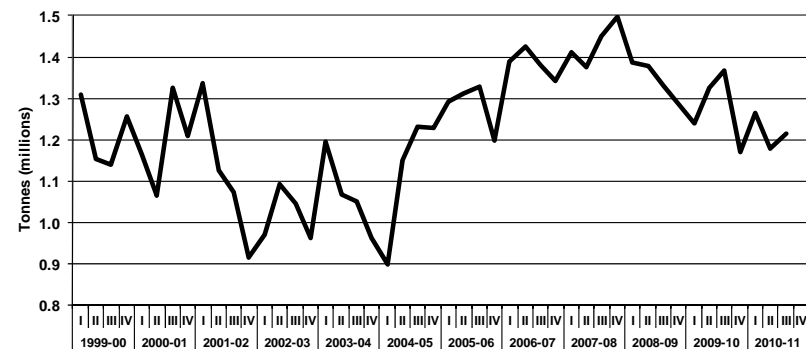
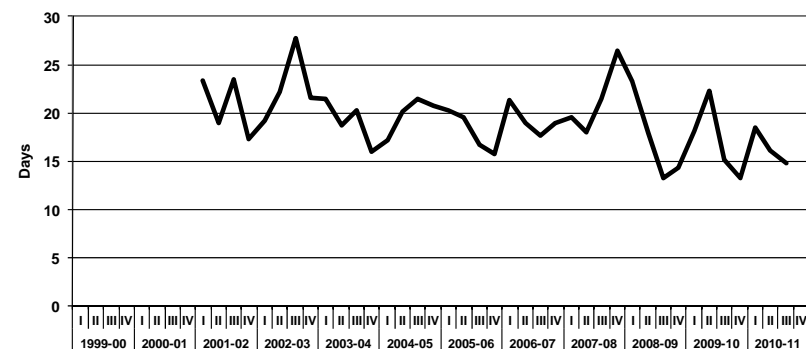


Figure 47: Terminal Elevators - Average Days-in-Store



by durum, barley, canola and peas, which fell by 18.1%, 6.3%, 13.7% and 60.7% respectively.

Stock-to-Shipment Ratios

Whether sufficient stocks were on hand to meet demand can best be gauged by the average weekly stock-to-shipment ratios. This measure provides an indication of how terminal stock levels related to the volume of grain loaded onto ships during the course of any particular week.³³

For Vancouver, the average ratio on most grains stood comfortably above a value of 2.0. The chief exception to this proved to be canola, with an average ratio of 0.5. Many of the port's primary ratios showed significant year-over-year increases, suggesting that inventories were building in the face of a reduction in shipments. These ranged from a 20.5% increase for wheat to a 53.4% increase for durum. However, these values appear to have been heavily influenced by an unusually sharp rise in the lower-graded, rather than the higher-graded, stocks. A comparable gain was reported at Prince Rupert, with the ratio for wheat increasing by 20.4%, to 2.6 from 2.2. [Table 5C-4]

The ratios posted by Thunder Bay all stood well above the 1.0 threshold, with many showing marked increases. The most substantive of these was a 96.1% gain in the ratio for canola. Nevertheless, the most influential appeared to have been wheat, which saw its ratio rise by a much lesser 19.8%, to 7.7 from 6.5 a year earlier. At Churchill, the ratio for wheat declined by 41.9%, to 1.3 from 2.3, largely as a result of a sharp upturn in throughput.

³³ As a multiple of the volume of grain ultimately shipped in a given week, the stock-to-shipment ratio provides an objective measurement of whether or not sufficient terminal stocks were on hand to meet short-term demand. Ratio values of one or more denote a sufficient amount of stock on hand. By way of example, a ratio of 2.5 would indicate that two-and-a-half times the volume of grain ultimately shipped in a given week had been held in inventory at the beginning of that same week.

Nominally, these measures suggest that terminal stocks were sufficient to meet the prevailing demand, although they also continued to point to periodic stock shortages. While grade-based stock-to-shipment ratios show a greater degree of variability, they also point to tighter inventories along with the suggestion of more significant shortages, particularly at the west coast ports. [Table 5C-5]

PORT OPERATIONS

A total of 548 vessels called for grain at western Canadian ports during the first nine months of the 2010-11 crop year. This represented a 6.2% reduction from the 584 ships that arrived for loading in the same period a year earlier.

Average Vessel Time in Port

The average amount of time spent by vessels in port increased by 59.4% in the first nine months of the 2010-11 crop year, rising to an average of 10.2 days from 6.4 days a year earlier. This proved to be the highest year-to-date average of any crop year reported under the GMP, building on the record-setting averages reached in each of the crop year's first three quarters.

This result was shaped by increases in both the amount of time vessels spent waiting to load, as well as in loading. Vessels spent an average of 5.6 days waiting to load, up 86.7% against the 3.0-day average recorded a year earlier. The time spent loading increased 35.3%, rising to an average of 4.6 days from 3.4 days a year earlier.

All ports reported significantly longer stays in the first nine months. Vancouver reported the longest overall stay in port, with its year-to-date average climbing by 69.0%, to 14.2 days from 8.4 days. This was followed by Prince Rupert, which posted a 52.9% increase that raised its average to 13.0 days from 8.5 days the year before.

Equally substantive increases were recorded for the eastern gateways. The largest of these was posted by Churchill, where the average stay rose by 63.8%, to a record-setting 9.5 days from 5.8 days a year earlier. Thunder Bay reported a 41.2% increase in its year-to-date average, which rose to 2.4 days from 1.7 days. Despite this, Thunder Bay continued to post the lowest average times in port.³⁴ [Table 5D-1]

Distribution of Vessel Time in Port

Despite the increased averages noted above, the proportion of ships spending more than five days in port rose only marginally, to 56.9% from 52.9% a year earlier. Even so, there was a significant shift in the number of ships that remained in port for an uncommonly lengthy period of time. Indicative of this was the proportion of vessels that spent 16 or more days in port during the first nine months of the crop year, which ballooned almost fourfold, to 26.1% from 7.7% a year earlier.

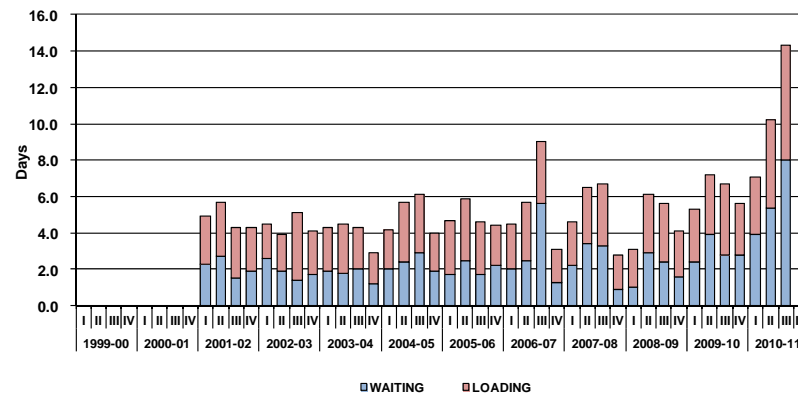
Once again, the preponderance of these stays - some 111 out of 143 - was attributable to vessels loading at Vancouver. The data suggests that these longer stays were the result of the growing delays incurred in getting grain into export position, and that a progressive deterioration in CP's service during this period was the underlying factor. Although these delays became manifest in the latter half of September 2010, they continued through to the close of the third quarter. Moreover, the impact was widespread, and affected vessels taking on a broad range of CWB as well as non-CWB grains. [Table 5D-2]

SYSTEM PERFORMANCE

The supply chain model provides a useful framework by which to examine the speed with which grain moves through the GHTS. For the 2009-10 crop year, it was observed that this process required an average of 52.2 days; one of the lowest values observed under the GMP.

³⁴ Thunder Bay's lower averages stem chiefly from the greater regularity with which vessels move through the St. Lawrence Seaway, the port's ample storage capacity, and the limited delays incurred by vessels waiting to berth.

Figure 48: Average Vessel Time in Port



The overall amount of time involved in moving grain through the supply chain rose steadily in the first three quarters of the 2010-11 crop year, producing a nine-month average of 55.1 days. This represented a 2.9-day increase over the previous crop year's 52.2-day average, and was largely shaped by an additional 2.9 days being spent in country elevator storage. While a 0.5-day increase in the railways' loaded transit time was also noted, this was effectively nullified by a 0.5-day reduction in terminal-elevator storage time. [Table 5E-1]

Despite this overall increase, grain still spent 13.0 fewer days moving through the GHTS than it did in the GMP's base year. As such, this 55.1-day average still remains within the mainstream of earlier observations made under the GMP.

The following outlines some of the forces involved in the shaping of this result:

- Firstly, a decline in grain production reduced the amount of grain available for movement in the 2010-11 crop year by 7.1%, to 61.0 million tonnes from 65.7 million tonnes a year earlier. Moreover, the quality of the harvest was sharply reduced, creating significant marketing challenges for the industry at large. While this suggested a possible easing of the pressures that would be brought to bear on the GHTS, the demands actually placed on the system remained comparable to the heightened levels exhibited a year earlier.
- Secondly, many of the problems that undermined the GHTS's performance in the first quarter only grew in the second and third. Although much of this was rooted in the disruptive effects of harsh winter weather on CP's operations through the Rockies, it served only to compound the delays and car-supply problems that had already been plaguing the carrier's customers since the beginning of the crop year. The most visible consequences of this were the growing delays to ships awaiting the arrival of CP grain trains at Vancouver.
- Finally, although a cascading series of events remained at the heart of the supply-chain problems that presented themselves during this period, the vulnerabilities of the GHTS to sustained railway service failures had again become evident. Although grain companies had begun drawing more grain into CN-served elevators in an effort to bypass the operational problems on CP, the limited surge capacity open to them effectively constrained their ability to redirect this traffic in a substantive way.

Figure 49: Days Spent Moving Through the GHTS Supply Chain



Section 6: Producer Impact

Indicator Description	Table	1999-00	2008-09	2009-10	2010-11				YTD	% VAR
					Q1	Q2	Q3	Q4		
Export Basis										
1CWRS Wheat (\$ per tonne)	6A-10A	\$54.58	\$66.74	\$65.86						
1CWA Durum (\$ per tonne)	6A-10B	\$67.63	\$87.57	\$79.52						
1 Canada Canola (\$ per tonne)	6A-10C	\$52.51	\$48.63	\$49.73						
Canadian Large Yellow Peas - No. 2 or Better (\$ per tonne)	6A-10D	\$54.76	\$101.57	\$78.32						
Producer Cars										
Producer-Car-Loading Sites (number) - Class 1 Carriers		415	333	268	259	259	259	-	259	-3.4%
Producer-Car-Loading Sites (number) - Class 2 and 3 Carriers		122	104	110	115	115	115	-	115	4.5%
Producer-Car-Loading Sites (number) - All Carriers		537	437	378	374	374	374	-	374	-1.1%
Producer-Car Shipments (number) - Covered Hopper Cars	6B-2	3,441	13,243	12,198	2,279	3,075	2,978	-	8,332	-3.5%

PRODUCER NETBACK

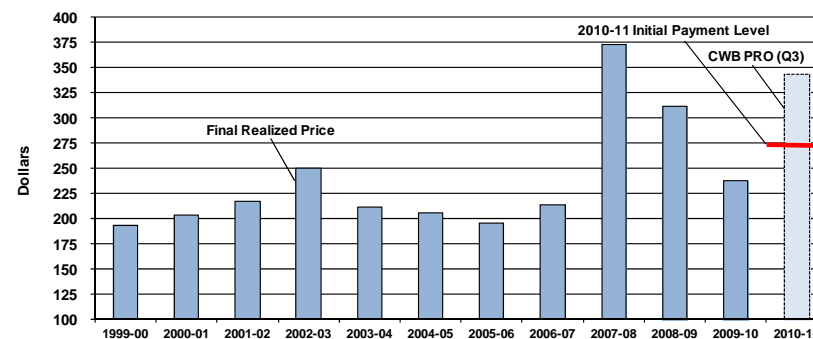
One of the GMP's key objectives is to determine the financial impact on producers arising from changes in the GHTS. The principal measure in this regard is the producer netback, an estimation of the per-tonne financial return to producers after the various logistics costs, collectively known as the export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

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. Even in those years when the export basis fell, the financial gain derived from the reduction proved far less than that gained from better grain prices. But the escalation in grain prices has been highly erratic.

In the first four years of the GMP, grain prices moved steadily higher. This, however, was followed by a three-year decline beginning in the 2003-04 crop year. But prices began to rally yet again in the 2006-07 crop year, with the ensuing appreciation in price lifting producer returns to their highest levels the following year. The price decline that followed, fuelled in part by the financial crisis that gripped the world in the latter part of 2008, resulted in producers surrendering a large portion of these recent gains.

The GMP only includes the producer netback 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 nine months of the 2010-11 crop year are summarized as follows.

Figure 50: Recent Price Changes - 1CWRS Wheat (dollars per tonne)



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 nine months of the 2010-11 crop year, the CWB's PRO for 1 CWRS wheat moved steadily upwards. Gauged against the 2009-10 crop year's final realized price of \$236.80 per tonne, the PRO rose by a factor of 30.1%, closing out the first quarter at \$308.00 per tonne. The second quarter saw another 11.0% gain, which raised the PRO to \$342.00 per tonne. After hitting a high of \$353.00 per tonne in February 2011, the PRO began to fall back, ultimately closing at \$343.00 per tonne by the end of April 2011. Moving in concert with this was the farmer's initial payment, which had opened the year at \$134.20 per tonne, but climbed to \$274.60 per tonne by the close of the third quarter.

Much of the impetus for this improvement in price stemmed from the expectation of tighter global wheat supplies in the face of a severe drought experienced by Russia and other Black-Sea exporters. This

pressure increased substantively when Russia moved to temporarily ban all grain exports in August 2010. Poor growing conditions in other parts of the world also figured into this, with flooding and excessive moisture undermining grain production in China as well as North America. Owing to these forces, the financial returns accruing to producers are expected to improve substantively in the 2010-11 crop year, and place well against some of the better returns witnessed thus far under the GMP.

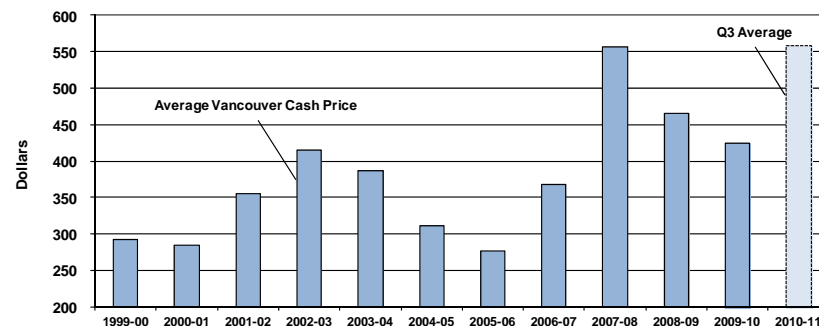
Non-CWB Grains

The Vancouver cash price for 1 Canada Canola also climbed steadily through the first half of the 2010-11 crop year, ultimately attaining a height of \$605.29 per tonne in January 2011, before then beginning to pull back. By the close of the third quarter the average price stood at \$557.62 per tonne, a gain of 31.5% over the previous crop year's final average of \$424.19 per tonne. This denoted a new record, fuelled in large measure by a growing export demand that saw canola reaching into new markets around the globe. Complementing this was the demand derived from the advent of new crushing capacity in western Canada.

The magnitude of the price increase noted thus far into the 2010-11 crop year strongly suggests that this will have a positive impact on the per-tonne financial returns of western Canadian canola producers. As is the case with wheat, these returns are widely anticipated to place among the better values posted under the GMP.

Even so, rising input costs seemed likely to erode some of these gains. The most pronounced of these were the increases tied to short-haul trucking, which rose by 22.5%. This was followed by an increase in railway freight rates, which generally added about 3.0% to the cost of transportation in the primary export corridors. More modest influences came from the handling charges for various elevator activities. In the case of country elevators, these ranged from a 2.5% increase on cleaning, to reductions of 1.0% and 8.5% respectively on elevation and storage. As regards terminal elevator activities, these tariff rates showed increases of 1.5% on elevation and 2.0% on storage.

Figure 51: Recent Price Changes - 1 Canada Canola (dollars per tonne)



PRODUCER CARS

Producer-car loading has increased substantially since the beginning of the GMP. This has come about as a result of many factors, not the least of which has been the formation of producer-car loading groups. These range from small groups loading cars with mobile augers on a designated siding, to more sophisticated organizations with significant investments in fixed trackside storage and carloading facilities.³⁵ Some have gone so far as to purchase the branch lines being abandoned by CN or CP, establishing shortline railways that then became an integral element in their broader grain-handling operations. Although the majority of these producer groups are situated in Saskatchewan, a number can also be found in Manitoba and Alberta.

³⁵ Regardless of the approach employed, the economic rationale for producer-car loading remains rooted in the farmer's ability to avoid the comparatively higher cost of turning his grain over to a commercial grain company for movement.

Loading Sites

The number of producer-car loading sites situated throughout western Canada has been reduced by almost a half since the beginning of the GMP. With the close of the 2009-10 crop year, only 378 out of 709 remained. Much of the overall decline can be traced back to the closures made by the larger Class 1 carriers, which reduced the number of sites serviced by 58.4%, to 268 from 644. Conversely, the number of sites operated by the smaller Class 2 and 3 carriers increased to 110 from 65. [Table 6B-1]

The first nine months of the 2010-11 crop year saw a further shift in this balance, with the Class 1 carriers surrendering another nine sites, while the Class 2 and 3 carriers took on five more. Much of this was tied to the creation of the Stewart Southern Railway, which saw the transfer of several CP sites to the new shortline in the first quarter. By the end of the period, the number of sites operated by the major railways had fallen to 259 while those tied to the shortlines had increased to 115.

Producer Car Shipments

Despite the last eleven years' reduction in producer-car-loading sites, producer-car shipments have risen significantly. By the close of the 2008-09 crop year, total shipments had almost quadrupled, climbing to a height of 13,243 carloads from 3,441 carloads in the base year. However, this growth has proven somewhat sluggish in the face of periodic downturns in volume.

Producer-car shipments fell by 3.5% in the first nine months of the 2010-11 crop year, largely as a result of an 11.1% reduction in the third quarter, to 8,332 carloads from 8,632 carloads in the same period a year earlier. This represented 3.8% of all covered hopper car movements, unchanged from the share garnered in the same period a year earlier. When gauging only CWB grain shipments, the share of producer-car shipments represented a more substantive 7.7%, and a gain over the 6.8% share earned twelve months before. [Table 6B-2]

Appendix 1: Program Background

The Government of Canada selected Quorum Corporation to serve as the Monitor of Canada's Grain Handling and Transportation System (GHTS) in June 2001. Under this mandate, Quorum Corporation provides the government with a series of regular reports relating to the system's overall performance, as well as the effects of the various policy reforms enacted by the government since 2000.

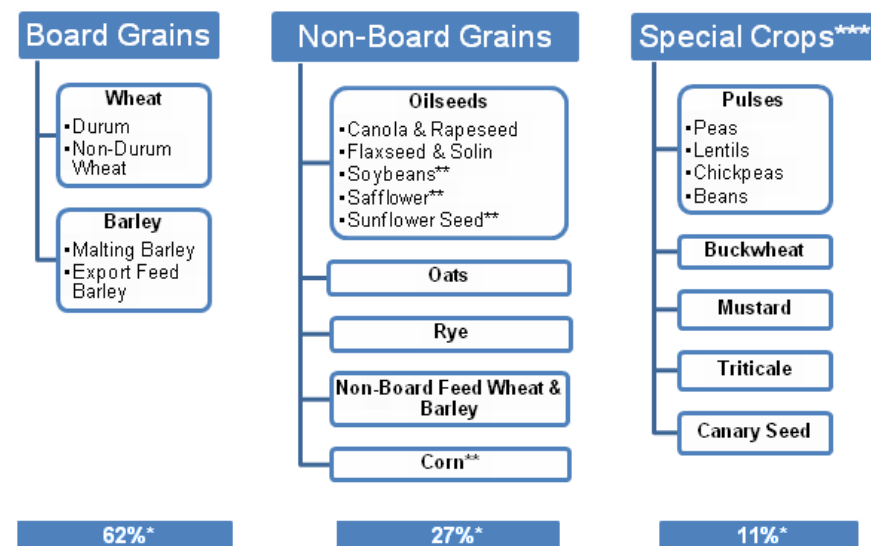
In a larger sense, these reforms were expected to alter the commercial relations that have traditionally existed between the primary participants in the GHTS: producers; the Canadian Wheat Board; grain companies; railway companies; and port terminal operators. Using a broad series of indicators, the government's Grain Monitoring Program (GMP) was designed to measure the performance of the GHTS as this evolution unfolded. Moreover, these indicators are intended to reveal whether grain is moving through the supply chain with greater efficiency and reliability.

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

- Series 1 - Production and Supply: Measurements relating to grain production in western Canada. In addition to the major cereal grains, this also includes oilseeds and special crops.
- Series 2 - Traffic and Movement: Measurements focusing on the amount of grain moved by the western Canadian GHTS. This includes shipments from country elevators; by rail to the four western ports; and by vessel from terminal elevators at the ports.
- Series 3 - Infrastructure: Measurements illustrating the makeup of the GHTS. These statistics include both the number and capacity of the country as well as terminal elevator systems, and the composition of the western Canadian railway network.
- Series 4 - Commercial Relations: Measurements relating to the rates applicable on various grain-handling and transportation services, as well as the activities of the Canadian Wheat Board in the adoption of more commercially oriented policies and practices.
- Series 5 - System Efficiency and Performance: Measurements aimed at gauging the operational efficiency with which grain moves through the logistics chain.
- Series 6 - Producer Impact: Measurements designed to capture the value to producers from changes in the GHTS, and which are focused largely on the calculation of the "producers' netback."

Appendix 2: Commodities Guide

The following provides a high-level overview of the various commodities discussed in this report. The delineations made here are drawn from the Canadian Grain Commission's Official Grain Grading Guide Glossary.



* Percent of railway shipments to the four western ports in the past five years.

** Also may be considered special crops.

*** Not all special crops as defined by the CGC are included under the umbrella of the Canadian Special Crops Association.

Board Grains: Board grains are western grains marketed under the control of the Canadian Wheat Board (CWB). These include western wheat and barley destined for the export market, as well as domestic sales of wheat and barley for human consumption. Domestic feed wheat and domestic feed barley may be sold either on the open market or delivered to the CWB.

Non-Board Grains: Non-Board grain is grain marketed through the open market system. Such grain includes domestic feed wheat and barley, rye, oilseeds and specialty crops.

Oilseeds: Oilseeds include flaxseed and solin, canola and rapeseed, soybeans, safflower and sunflower seed.

Canola: The term “canola” was trademarked in 1978 by the Western Canadian Oilseed Crushers’ Association to differentiate the new superior low-erucic acid and low-glucosinolate varieties and their products from older rapeseed varieties.

Special Crops: Special crops are considered to be beans, buckwheat, chick peas, corn, fababeans, lentils, mustard, peas, safflower, soybeans, sunflower, and triticale.

Pulses: Pulses are crops grown for their edible seeds, such as peas, lentils, chick peas or beans.

Screenings: Screenings is dockage material that has been removed by cleaning from a parcel of grain.

Appendix 3: Producer Netback Calculator

Many stakeholders have expressed concern over the increased trucking distances in moving grain from the farm gate to the elevator as a result of the rationalization of GHTS infrastructure. 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 remains unknown. The GMP assumes an average haul of 40 miles when estimating the producers' netback. Following stakeholder consultations, an internet-based approach was developed. The Producer Netback Calculator (PNC) was designed to provide a cost-effective and non-intrusive means of gathering better data on the producer's actual trucking distances.

To entice producers into providing this data, the PNC would provide farmers with 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 was designed to assist farmers in determining the delivery options that would provide them with the best returns for their wheat, durum and feed barley.

To gain access to the PNC, producers are provided with their own personal log-in identification and password, which is secured through 128-bit encryption technology. This ensures that all information is communicated with the strictest confidentiality. Producers can also be assured that Quorum Corporation will not publish or share any of the information it collects.

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 CWB's Pool Return Outlook. 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.).

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

The screenshot displays the 'net back calculator' interface for Quorum Corporation. It features a navigation bar with 'My Profile', 'New Calculation', 'My History', 'Logout', and 'Help'. The main content is titled 'Export Basis and Producer Netback Estimate' and is divided into 'Input' and 'Results' sections.

	Results	Binned		Paid	
		Tonne	Bushel	Tonne	Bushel
Input					
Origin Point: SW 18X 12 X 20X W1					
Delivery Point: BRANDON					
Grain Company: Pioneer Grain Company, Limited	(Adj.) Freight To Vancouver \$43.87				
Commodity: Wheat	(Adj.) Freight To Thunder Bay \$22.94				
Binned Grade: #2 CWRS 13.5	Freight Adjustment Factor \$9.83				
Paid At Grade: #1 CWRS 13.5	Applicable Freight \$32.77				
Estimated Dockage (%): 1.0	Trucking \$5.05				
Trucking Mode: Commercial	Primary Elevation \$12.12				
Truck Type: Tridom (tri-axle)	Dockage Cleaning \$4.04				
Number of Trips: 2	Sub-Total Other Costs \$21.21				
Gross Tonnes To Deliver: 60	Trucking Premiums \$(3.50)				
Distance To Elevator: 23	Other Premiums \$(0.00)				
(Miles):	Sub-Total Producer Premiums \$(3.50)				
Trucking Premiums: \$3.50	Total Export Basis \$50.48	\$50.48		\$50.48	
Other Premiums: \$0.00	Producer Netback \$141.52	\$3.85	\$145.52	\$3.96	

Buttons at the bottom include 'Print', 'Create Another Estimate', and 'Create Actual Delivery'.

The output screen for Quorum Corporation's Netback Calculator.

producer identifies estimates that subsequently resulted in actual grain movements. As a result, it is hoped that Quorum Corporation will be able to gather meaningful logistics data from these transactions, and more specifically the actual length of haul involved in delivering grain to an elevator. If successful, this information will be incorporated into the calculation of the producer's netback.

Appendix 4: 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 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 Grain Monitoring Program. 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 Monitoring Program.

Agricultural Producers Association of Saskatchewan
 Agriculture and Agri-Food Canada
 Alberta Agriculture, Food and Rural Development
 Alberta Infrastructure and Transportation
 Alliance Grain Terminal Ltd.
 Alliance Pulse Processors Inc.
 Canadian Canola Growers Association
 Canadian Grain Commission
 Canadian Maritime Chamber of Commerce
 Canadian National Railway
 Canadian Pacific Railway
 Canadian Ports Clearance Association
 Canadian Ship Owners Association
 Canadian Special Crops Association
 Canadian Transportation Agency
 Canadian Wheat Board
 Cando Contracting Ltd.
 Cargill Limited
 CMI Terminal
 Fife Lake Railway Ltd.
 Gardiner Dam Terminal

Government of British Columbia
 Grain Growers of Canada
 Great Sandhills Terminal
 Great Western Railway Ltd.
 ICE Futures Canada, Inc.
 Inland Terminal Association of Canada
 Keystone Agricultural Producers
 Kinder Morgan Canada
 Lethbridge Inland Terminal Ltd.
 Louis Dreyfus Canada Ltd.
 Manitoba Agriculture, Food and Rural Initiatives
 Manitoba Infrastructure and Transportation
 Mission Terminal Inc.
 Mobile Grain Ltd.
 National Farmers Union
 North West Terminal Ltd.
 OmniTRAX Canada, Inc.
 Parrish & Heimbecker Ltd.
 Paterson Grain
 Port of Churchill
 Port of Prince Rupert

Port of Thunder Bay
 Port of Vancouver
 Prairie West Terminal
 Prince Rupert Grain Ltd.
 Red Coat Road and Rail Ltd.
 Richardson Pioneer Ltd.
 Saskatchewan Agriculture and Food
 Saskatchewan Highways and Transportation
 Saskatchewan Association of Rural Municipalities
 South West Terminal
 Statistics Canada
 Transport Canada
 Viterra Inc.
 West Central Road and Rail Ltd.
 Western Barley Growers Association
 Western Canadian Wheat Growers Association
 Western Grain By-Products Storage Ltd.
 Western Grain Elevator Association
 Weyburn Inland Terminal Ltd.
 Wild Rose Agricultural Producers

