



Grain Off the Rails Webinar

UNANSWERED QUESTIONS FOR MARK HEMMES

Additional Information Sources

GRAIN MONITOR

Following the introduction of Bill C-34 in 2000 by the Government of Canada, Quorum Corporation was appointed as the monitor for the prairie grain handling and transportation system. Quorum Corporation, under the Grain Monitor's mandate, has provided the Government with a series of weekly, monthly and annual reports that track the changes in the structure of the grain handling and transportation system, commercial relations, the efficiency and reliability of the system, short-term operational performance and producer impacts. In addition, the Monitor is often called upon to perform ad hoc and supplemental studies for the Government as well as providing industry groups with context on the performance of the system.

To ensure that as broad a view as possible is taken in measuring the efficiency of the GHTS, Quorum Corporation consults extensively with the industry's key stakeholders. The Monitoring team meets with over 40 different stakeholder groups at least once a year to receive feedback on industry issues as well as to provide updates of the Monitoring program's findings.

The monthly Grain Monitor reports can be found here ([Quorum Corporation](#)).

ATC

The Ag Transport Coalition (ATC) represents the coalition of agriculture associations that have come together to enhance the transparency and competitiveness of the agriculture supply chain. The ATC provides daily and weekly reports focused on car order fulfilment performance metrics for each of the railways, including in-country and at key corridors throughout the grain supply chain.

ATC members include Sask Wheat, Alberta Grains, the Canadian Canola Growers Association, the Canadian Oilseed Processors Association, the Inland Terminal Association of Canada, the Manitoba Pulse & Soybean Growers, Pulse Canada, and the Western Grain Elevator Association.

ATC reports can be found here ([Home - AG Transport Coalition](#)).



Q & A

- 1. We have a revenue cap which increases with inflation. Our rates have increased while all efficiency gains have been captured by railways. At the time, I was on the Western Shipper's Coalition and our rates were favourable but given the intervening time, how do relative rates now compare with other shippers?*

Grain rates sit in the middle of the scale – higher than coal, sulphur and potash, but below forest products, chemicals, oil, intermodal, and autos. Bulk commodities that move in unit trains get a preferential rate and grain has become one of the easier products for the railways. It is an inert product, unlike oil or chemicals, and 85-90 per cent of movements are in unit trains.

- 2. Are the rail companies shielded from performance penalties? For example, how can they supply contracted cars with late timing (or not send them at all) with minimal/no penalty for lack of performance? Force majeure from their perspective to generous/huge loopholes they can exploit?*

In legislative changes made to the Canada Transportation Act in 2016 and 2018, provisions were added that gave shippers the right to demand contractual conditions including penalties. Included in those provisions is an arbitration process that is managed by the Canadian Transportation Agency (CTA). As noted in my comments on Friday, railways have significant market power and almost immediately proceeded to write the contracts themselves with what would be considered, “light penalties” in them as well as the necessity for the grain company to commit to specific volume levels of traffic and car orders, which, ostensibly the railways would also commit to.

Grain companies will usually enter a contract at the beginning of the crop year. The railways will start that process in June with the intent the contract becomes effective on August 1. If a grain company does not like the terms of the contract, they can elect to take it to the CTA for arbitration. If they do undertake that option, they will be subject to a long process that could take months to resolve. A shipper then needs to be prepared to forgo a contract for the period it takes for the contract to be arbitrated, which will take



months. The grain company would then need to obtain their car supply from the railways through what is referred to as “General Allocation”, a very limited pool of cars, which could be thought of as the “leftovers”. In the meantime, their competitors who signed rail service agreements are getting rail service, and the grain company arbitrating their agreement has no certainty they will be able to execute on their sales contracts. This would severely limit their ability to compete in the market and would be very damaging to their business.

Bottom line is the railways exercise their market power when it comes to the contracts, their provisions and any ostensible penalties.

3. Do you see the research/data solution as a private sector response or creation of a new public institution, perhaps like Canadian Grain Commission, that would be responsible for monitoring and quantifying rail performance on behalf of shippers?

I could see both – private or industry led but with government sponsorship and support. While we in our capacity as Grain Monitor, and the ATC provide good data on system performance, it represents only a portion (20 per cent or so) of the total supply chain movement. The solution needs to be able to view the bigger picture for it to be used as a tool to affect government policy in a more meaningful way in addition to providing real transparency into how well the supply chain and our transportation system is really working.

One of the advantages of an entity that is separate (or arms length) from government is that the collection of confidential information can be segregated and held securely, while a government organization is susceptible to “freedom of information” (FOIP) inquiries. For this to work well, there is a need for trust that commercially sensitive data and information be held securely and aggregated (much in the way as is done with the GMP or ATC).



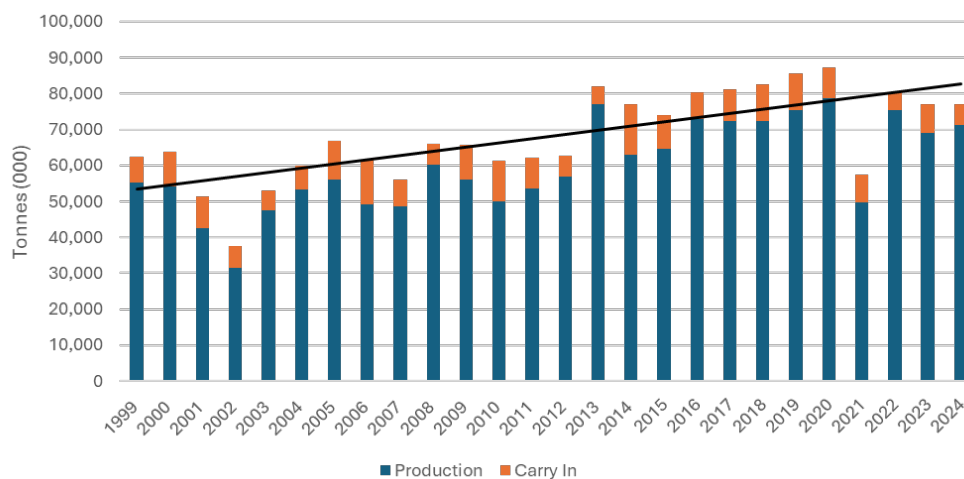
4. Does ownership of cars help the industries like potash give that sector more control of their deliveries?

Car ownership does provide some leverage. Most of the grain companies have some form of private fleet, but it gets supplemented by railway owned cars, which comprise most hopper cars involved in the movement of grain. The two railways also have different approaches to managing their fleet and CN is a bit more amenable to using private fleet whereas CPKC is not. CPKC, I believe, works from the belief that if they own and control the fleet and control the distribution of cars to the customers, they can manage their operational efforts with greater efficiency.

Also, potash is unique in the Canadian transportation marketplace as all but two or three of the mines are served by both railways. This gives them much greater leverage than a grain company has as they can pit one railway against the other in both their demands for service and negotiations on rates. All but a handful of the 400 grain elevators across the prairies are served by one or the other railway.

5. Do you have a volume graph? Would it not be a better way to reflect the importance of bulk grain in the agricultural lobby?

I am not sure of what the question is, but I did have a volume graph in the presentation. This was the graph:





6. *With the focus on diversification of finding new markets, do you expect this may help give greater interest in finding export pathways that work?*

It would depend on where those new markets are and where the grain would be sourced from. Developing a logistical routing for grain movement really is about the economics of the movement and involves combining the cost of rail to port and the ocean vessel cost to destination. For example, if the grain sold is from Manitoba and the buyer is in one of the Scandinavian countries, the routing would likely be Thunder Bay, then through the Seaway on a Laker vessel, and reloaded to an ocean vessel at a lower St. Lawrence River terminal. If the buyer is in Indonesia, it could be either the Thunder Bay routing or it could be West Coast, depending on the length of haul and the combined cost of rail and ocean vessel costs at the time the sale was to be consummated.

The short answer is it depends. Every origin – destination pairing has its own variables. To complicate that even further, capacity opportunities can change by location dependent on global demands and issues at any point in time. The current trade tariff situation is a good example of that.

7. *The 80-million-dollar Churchill study, is there any hope?*

There are a few factors that do not work in Churchills' favour insofar as grain movement is concerned:

- It has a short shipping season – essentially from August to the end of October. Buyers look for consistency in their supply lines throughout the year, which does not favour a short shipping season.
- To market grain, the marketer needs both a buying and collection system in the country and a sustainable terminal at a port to facilitate the movement and sale of grain. The Churchill terminal is owned by an entity that does not trade grain and does not have a country collection system. The terminal is a “for hire” service provider for the transfer of grain. The grain companies operating in the merchandising of grain on the Canadian prairies either own or are contracted with companies that do own port



terminal facilities and would be loath to shift their movement at an ostensibly higher cost for a short portion of the season, all while reducing the use of their own facility.

- It is more costly to move grain through Churchill. The rail costs are higher because of the infrequency of the movement and long car cycles. The ocean freight cost is greater since only double hulled vessels can be used (because of ice conditions) and the marine insurance costs are higher. It also requires that grain inspectors and handlers be flown into the port for each vessel movement from other ports (usually Thunder Bay).
- As the season for Churchill movement is August to October, and new crop is usually not available until early October, the ports movement is dependent on whatever is left from the previous years' crop. As producers would be inclined to sell their products earlier in the year, this means that the catchment area to draw from needs to be considerably larger than what one would see as Churchills' "natural" catchment area. This further increases the cost of rail freight.

Churchills' movement in the pre-2012 timeframe was supported and somewhat subsidized by the Wheat Board through managed logistics and incentives to farmers in the catchment for storing grain until the Churchill season came around. With those options now gone, the incentive to use the Churchill routing for grain is as well. This is not to say that Churchill as a port in general is not viable, as other export commodities that are not as sensitive to the conditions noted above could find great utility there as well as a supply line suited to the seasonal nature of the northern communities.

8. If not shipping through Mississippi is not an option, what about Seattle?

There are only two grain terminals in the Seattle – Tacoma port system, both with very high utilization, but not great rail service. The Columbia River system, which services six grain terminals along the river from Portland, OR to Vancouver, WA is an option, however they are also highly utilized, and owned by U.S. grain companies, none of which operate in Canada. For Canadian grain companies to use the Columbia River system, it would require that trains be interchanged at one of three locations on the border and would



substantially increase the rail freight costs. The river terminals are higher cost as well as they are all inland requiring pilotage assistance through the river transit.

Some Canadian grain companies have opted to use the Columbia River terminals very occasionally, and only when they were in dire need. It should be noted that when Canadian terminals are in their busiest season, so are the Columbia River terminals.

9. Regarding the removal of the carbon tax and if this will impact the MRE calculation, if it's still \$20 million for the last shipping period, does it get offset by a correction in the subsequent costing calculation or is it a windfall?

I do not recognize the \$20 million reference noted in the question. However, in reference to the impact the removal of the carbon tax will have, if one considers that fuel represented approximately 19.1 per cent of the total operating costs for railways (CN 2024 Annual Report), the reduction of carbon tax from their costs would have decreased that proportion to 18.3 per cent.

My point is that while it has a positive impact on the bottom-line cost, the proportional impact will be minor and not a windfall in my opinion as the VRCPI considers a mix of all operating costs.

10. The question is whether the Just in Time (JIT) delivery system creates greater returns than having more storage? There should be an equation that, given the risks inherent in the system and costs of storage and demurrage, can determine the least cost.

There are, again, a few issues here:

- Insofar as incremental storage being added, there is no property available at the port for additional storage. Waterside real estate is at a premium in Vancouver, which is the most logical port for export of Canadian grain.
- JIT as it relates to grain movement is not the same as JIT in other markets logistical planning. In the grain industry, the plan takes place over a 10-12-



week period, whereas in other markets where JIT is used, it relates to days or hours (i.e., automotive parts).

- For the grain industry, it was really a shift from a “push” logistics system, where grain was moved to port and sales contracts arranged when the grain was in position, to a “pull” system that took place in the 1990’s. (It may seem like semantics but really is different from JIT.) It was around that time when the industry recognized that the carrying costs associated with storing and holding the grain was becoming inordinate and costing the entirety of the system a considerable amount of its profits. In moving to a pull system, where the securing of grain in the country and its subsequent movement to port position was based on each grain sale, the “system” could reduce the carrying and inventory cost, reduce the potential for product degradation and increase the overall utilization of the facilities in both the country and at ports. This allows the grain system to tie a purchase of grain delivered by the producer at an elevator driveway to a specific sale, and subsequently, to a vessel that will be loaded at port, all while increasing the capacity of the system. The railways were major proponents of this concept as it was a means by which larger country facilities would be built, allowing for an increase in the number of unit trains.

11. Who captures the benefits of the Just in Time delivery system? Who bears the costs?

The majority of the costs are borne by the grain companies who invested in the changes made within the country elevator network and improved car unloading systems at port terminals, first with the shift to high throughput elevators capable of loading and unloading 100 to 112 car trains and more recently, the advent of loop track facilities capable of loading 134 car trains where the locomotive power remains with the cars. Railways provide incentives to grain companies who make these investments and load the longer unit trains. Because the grain companies compete with one another, the efficiency benefits get shared with producers through the basis (and probably the grain buyer as well).