

WGEA

Western Grain Elevator Association

Canada's reputation as a producer of top quality grain, oilseeds and pulses is only as good as our ability to get that product to our customers consistently and on time. The grain transportation system is our industry's lifeblood. Canada requires an accountable and demand-driven rail freight system in order to meet its trade opportunities.

THE BOTTLENECK

Volume throughput is a key measure of performance for grain rail transportation. It speaks to the ability of each segment of the logistics value chain to respond to customer demand. The following graphic shows how farmers, country elevators and port terminals have made investments into infrastructure to handle capacity. It also shows that Canada's railway operators have rationalized operations to haul at 100% for their operations (supply-based system) rather than operations that can respond to customer orders (demand-based system). This chart estimates on farm annual storage and each other segment's weekly volume capacity. In the case of the railways, it represents their average weekly car supply from August 1st 2015 to January 31st 2016.

WEEKLY THROUGHPUT CAPACITY (WEST COAST)



50,000,000
TONNE CAPACITY
ON-FARM STORAGE



2,000,000
TONNE CAPACITY
GRAIN ELEVATORS



530,000
TONNE CAPACITY
RAILWAYS



700,000
TONNE CAPACITY
PORT TERMINALS

PAYING FOR PERFORMANCE

Sound commercial relationships are built on trust. When that trust is broken, companies fall back on contractual arrangements to solve performance problems. In the grain industry (and every other sector of the economy) contracts carry monetary consequences when one business partner fails to meet its obligations. This is true for all segments of the grain logistics supply chain, except for railways. When a railway fails to deliver empty cars to a country elevator or full cars to a port terminal, there is no way for grain companies to apply a monetary penalty. Railways, however, apply penalties to grain companies when they do not load or unload cars on time.

WHO PAYS PENALTIES IF THEY DON'T PERFORM?

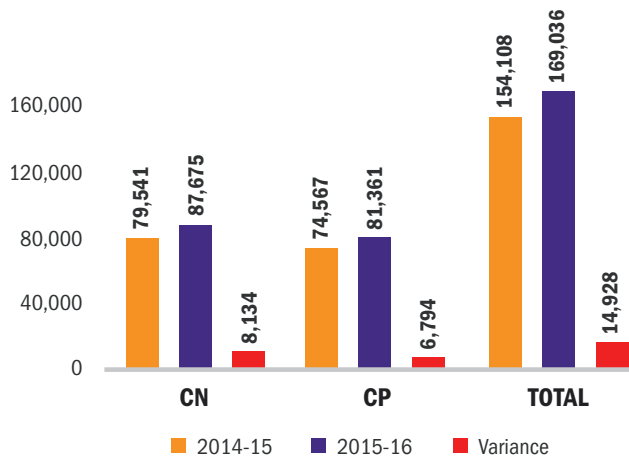


COMMODITY DEMAND FOR RAIL SERVICE

This crop year, the railways are moving more carloads of grain than in the previous year. In the October through February period, 15,000 more carloads of grain have moved this year compared to last.

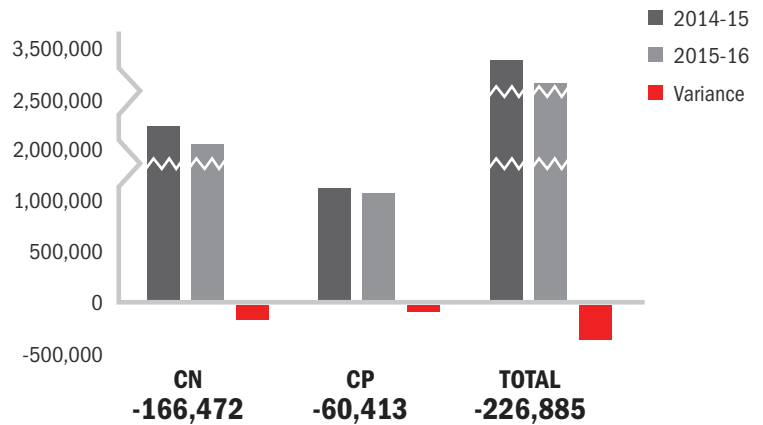
As the chart below shows, a significant factor in the ability of the railway to move more grain is the fact that, as a whole, other commodity groups are seeing far less rail shipping than in the same period last year. Over 225,000 fewer carloads have moved on CN and CP this year over the course of October through February compared to the same period last year.

**GRAIN CAR UNLOADS AT WESTERN CANADIAN PORTS
OCTOBER TO FEBRUARY**



Source: Quorum

**ALL COMMODITY CARLOADS MOVED
OCTOBER TO FEBRUARY**

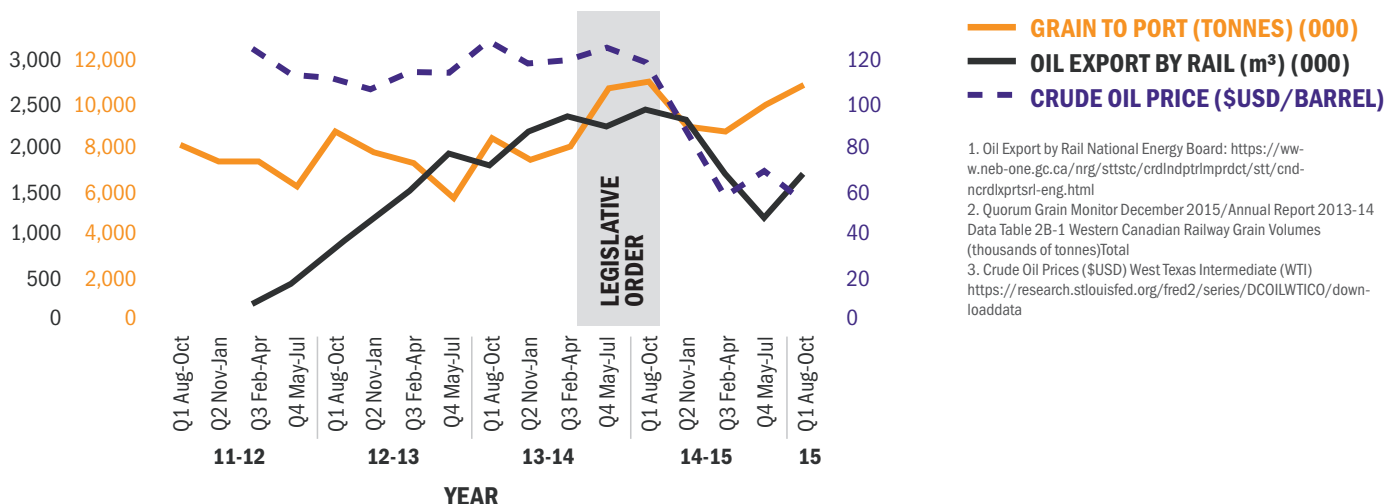


Source: AAR data from CN and CP websites

GROWING FUTURE PRESSURE ON THE RAIL SYSTEM

The demand for rail service from Canadian oil companies has slumped with the drop in oil prices. This is not a trend that will continue. The Canadian Association of Petroleum Producers estimates demand for oil moved by rail could more than triple over the next five years if Keystone XL is not available. If these forecasts are accurate, then the long-standing systemic service failures will certainly re-emerge.

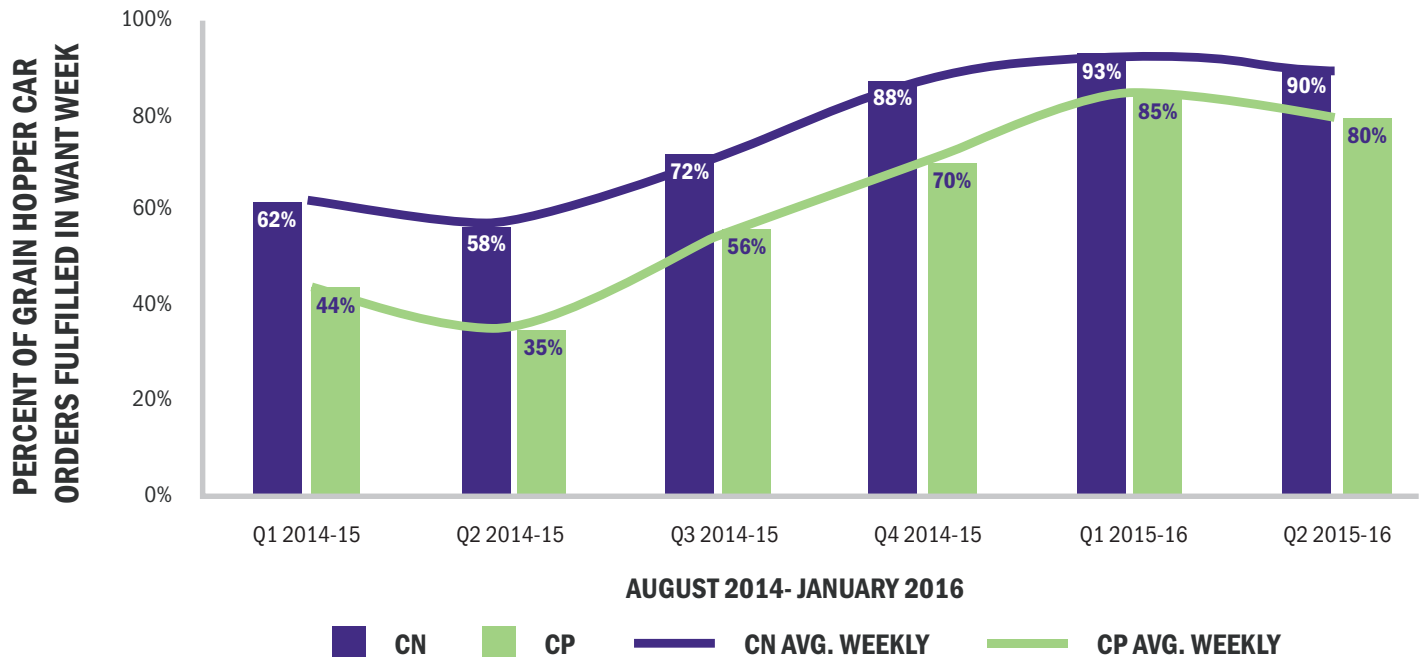
GRAIN VS OIL BY RAIL



- 1. Oil Export by Rail National Energy Board: <https://www.nrb-one.gc.ca/nrg/sttstc/crdlndprtrmrdct/stt/cnd-nrcdlxprtrsl-eng.html>
- 2. Quorum Grain Monitor December 2015/Annual Report 2013-14 Data Table 2B-1 Western Canadian Railway Grain Volumes (thousands of tonnes) Total
- 3. Crude Oil Prices (\$USD) West Texas Intermediate (WTI) <https://research.stlouisfed.org/fred2/series/DCOILWTICO/downloaddata>

RAIL PERFORMANCE – TIMING MATTERS

Significantly less demand from other sectors has improved rail performance for grain. Long-term experience shows it is not sustainable.



Source: Ag Transportation Coalition

WE NEED A PERMANENT SOLUTION

- Financial consequences for poor rail performance: Statutory arbitration must include two-way performance penalties within SLAs.
- Enhance the Level of Service provision to tighten the definition of “adequate and suitable accommodation”. Service must meet the needs of the shipper.
- The government extended the 160 km interswitching limit until August 1, 2017. This provision should be made permanent. Every grain elevator in western Canada should have practical access to an interchange.
- Give the CTA the authority to investigate rail service issues on its own motion, the power to issue corrective orders, and the ability to award damages.
- Retain a Maximum Revenue Entitlement.
- Designate grain transportation as an essential service during labour disputes.

For More information visit: wgea.ca