16TH ANNUAL FIELDS ON WHEELS CONFERENCE

POST-MEETING REPORT

SEPTEMBER 30, 2011

Back to the Drawing Board: Grain Transportation Under a New Wheat Marketing Regime

TRANSPORT INSTITUTE

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Post-meeting Report

16th Annual Fields on Wheels Conference – September 30, 2011

Back to the Drawing Board:
Grain Transportation Under a New Wheat Marketing Regime

Conference Organized by the University of Manitoba Transport Institute & WESTAC

Report Prepared by: Lisa Baratta, WESTAC
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Post-Meeting Report Sponsor

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The federal government announced that it will introduce legislation to end the Canadian Wheat Board's (CWB's) monopoly on the purchase from producers of wheat and barley for export and domestic human consumption, and thereby provide marketing choice for farmers. Although there is a range of options as to how this move may be accomplished, it is apparent that ending the CWB's monopoly will have far reaching effects on the grain handling and transportation system, as well as on regional and provincial economies.

About 150 people met in Winnipeg for the annual Fields on Wheels conference on September 30 to hear the perspectives of a wide range of stakeholders in the grain handling and transportation system and discuss the implications of the new wheat marketing regime. Legislation was introduced subsequently in the House of Commons on October 18, 2011.[1]

At this point, there is only one "known" – the federal government intends to pass legislation ending the Wheat Board's monopoly. The government has stated that trade activities will be able to commence by January 1, 2012 for deliveries on or after August 1, 2012.

The removal of the CWB's monopoly over wheat signals the start of a period of challenges, opportunities and uncertainty. There are many "unknowns". Not only for those directly involved in the industry – the farmers, the processors, the grain companies, the railways and truckers – but others more broadly involved in Canada's transportation system – shippers of other bulk commodities which rely on the same rail networks, port authorities, marine pilots, and provincial governments.

It will be interesting to witness how the industry evolves over the next 5 to 10 years. How will crop production change? How will traffic flows and routes change? Will farmers be better off or worse off as a group? Will additional regulation of the industry be necessary? Will the grain handling and transportation system be more efficient?

This report highlights some of the "unknowns" raised by stakeholders at the Fields on Wheels conference. It contains issues for the federal government to consider as it moves forward its plans to end the CWB monopoly. This report is prepared for those who were at the conference and for those who have an understanding of the CWB and the current grain handling and transportation system in Western Canada.

Accepting that changes are coming, many urged the government to act quickly to provide clarity as soon as possible for all stakeholders. Grain companies need to prepare business plans, hire additional staff or skills and possibly arrange for additional financing. Farmers need to make important decisions as well, including decisions regarding crops for the coming year.

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[1] *This paper was prepared based on information accurate as of September 30, 2011. On October 18, 2011, Bill C-18 "Marketing Freedom for Grain Farmers Act" was introduced in the House of Commons.*

1 Farmers are divided

Farmers are divided on the issue of whether ending the CWB's monopoly is a positive or negative development.

Bill Cooper, a Saskatchewan farmer who supports the change, was optimistic for the future. He spoke about the entrepreneurial attitudes of farmers and how they will be successful under the new rules. Removing the monopoly will bring farmers greater transparency to help manage risks. For example, there will be earlier negotiations with the grain buyers and quality requirements will be more visible to the growers. In addition, shippers will have more latitude in managing their transportation needs. There may be more competition at port positions and in-country, thereby lowering costs to farmers.

> "The end of the CWB is about more than marketing freedom – the ability to sell to the highest bidder – it is about entrepreneurial freedom. It is about being able to do whatever you want with your wheat."
>
> John de Pape, *President, John De Pape Ltd.*

Don Dewar, who farms in Manitoba, did not share Bill Cooper's enthusiasm. Don believes that the farmers will ultimately lose out without the CWB monopoly. He argued that the single-desk monopoly brought price premiums to farmers. Under a new regime, grain companies may sell Canadian wheat at a price premium but the farmers will be insulated from the premiums received.

A basic premise of economics is that monopolies and oligopolies are bad. However, from the standpoint of farmers, a monopoly favours them and the negative impacts are experienced by the buyers of the grains. The CWB insulated farmers from sudden drops in the Minneapolis future price and stood up for farmers before the WTO. In ten years, grain industry stakeholders will be back at the table, wondering what is needed.

Start-up Capital for a New CWB

Questions were raised about what a new CWB will require in terms of start-up capital and whether the government has a legitimate role in providing it. If start-up capital is provided by the government, how much should be provided? Hon. Otto Lang asked, "Enough to go up against the grain companies and win or enough to go up against the grain companies and lose?"

2 What level of competition and cooperation will exist between grain companies?

Questions were raised regarding how much market power grain companies will be able to exert over farmers. Many argued that there will be lots of competition among the grain companies and that competition is likely to increase. There is evidence of high levels of competition in other crops, e.g. pulses. In addition, new companies, including foreign firms, may enter the market. Some expect there will be significant competitive moves by the existing grain companies in the coming year as each firm seeks strategic advantages.

Grain companies have incentive to compete fiercely for farmers' business to generate volumes needed to fund the high costs of their infrastructure. Basically, grain companies are running a pipeline and the more volume that flows through the pipeline the better.

There will also be cooperation among grain companies. Competitors have handled non-Board grain products for one another for decades through commercial negotiations. In some cases, companies may cooperate by arranging for a large vessel call at more than one terminal.

A Cautionary Perspective: Hon. Otto Lang

Hon. Otto Lang, former Minister Responsible for the CWB and former Minister of Transport, worries about the future. He stated the chief value of the CWB has been the ability to have a known supply at hand.

From time to time, there will continue to be a role for the federal government, whatever the marketing system. In the past, it played a role in making canola safe for human consumption and in making Canada the country of choice for wheat for the Soviet Union.

The end of the CWB monopoly will not mean the end of the need for regulations as farmers will be dealing with several large grain companies, arguably oligarchies, and many farmers are only served by one railway. Such situations raise alarm bells for economists. Transportation issues will not disappear.

Hon. Otto Lang expressed disappointment that the federal government is walking away from the CWB rather than bargaining it away. Competitors around the world have called for the CWB's disappearance and are now rejoicing.

"I worry about you and I worry about your positions of power. I wish you well in the future."

"Are we making a bigger deal of the change than will actually be the case? The fact of the matter is the producer of Board and non-Board grains is the same, the end-use customers tend to be the same, grain companies are the same, so maybe not a seismic shift."

Jean-Marc Ruest, *Vice President, Corporate Affairs & General Counsel, Richardson International*

3 What will be the impact on Prince Rupert?

The grain terminal in Prince Rupert, one of the most efficient terminals in North America, is owned by several grain companies plus the Government of Alberta. These companies also own individual terminals in Vancouver. Questions were raised regarding the future use of the terminal in Prince Rupert – will companies funnel wheat through a terminal which is partly owned by others or will they exclusively use their individual facilities in Vancouver?

Some believe volumes to Prince Rupert will decline as it will only be used as a surge terminal to cover annual fixed costs or as a backup facility if Vancouver gets congested. Others believe that Prince Rupert has a positive future as non-owners view it as an efficient option.

Future volumes through Prince Rupert will be impacted by CN's freight rates. Will CN alter rates to maintain volumes? If wheat volumes to Prince Rupert decline, rail rates for other commodities will increase as the total cost base for maintaining the rail line will be shared over a smaller volume.

Churchill: Future Uncertain

There is uncertainty regarding the continued use of Churchill as an export location. Grain companies have not indicated a willingness to use the facility. Some international marketers, however, have shown an inclination to use Churchill as they find the routing to be economical. Churchill would benefit from an EU-Canada free trade deal and from global warming (resulting in a longer shipping season).

"It is time for the grain industry to stand proudly and independently."

Brian Hayward, *President, Aldare Resources*

4 A continental market

With the end of the CWB's control over marketing and logistics, the grain handling and transportation system may become more continental in nature, with the border becoming less relevant. Increased traffic may flow south to the U.S. for processing or export. There are terminals along the Mississippi which are closer to prairie grain than either Vancouver, Prince Rupert or Thunder Bay. California could, once again, become a market for Canadian barley farmers. In addition, there is a new, high-capacity grain terminal in Longview, Washington that may offer attractive rates.

Similarly, grain traffic may flow northbound. Some grain companies own assets in Canada and the U.S. These firms will likely try to optimize the use of all their facilities in both countries. U.S. grain traffic may also travel north to benefit from the stable rail freight rates mandated through the revenue cap.

5 Efficiency will increase

There was discussion around the opportunities to improve the efficiency of the grain transportation system. The current processes in place to move Board-grains (a 'production-push' system) varies significantly from the system for non-Board grains (a 'demand-pull' system). In essence, there are two systems operating within one network. Some characterized the CWB practice of determining which port and terminal will be used to fulfill sales and administering car allocation separately has, in effect, fragmented the 'grain pipeline'.

Comparisons in days in inventory at port terminals demonstrate that days in inventory is significantly lower for non-Board grains versus Board grains. In addition, it is estimated that more than $40 million will be incurred in 2011 for vessel demurrage charges in the Port of Metro Vancouver. This demonstrates that inefficiencies exist within the system.

Grain companies believe that the change of transporting wheat and barley to a system they are able to manage, a demand-pull system, will result in greater efficiencies. There will be increased use of 100-car unit trains. The overall system will be less congested, the turn-ratios for wheat and barley will increase, facilities and staffing requirements will be better managed.

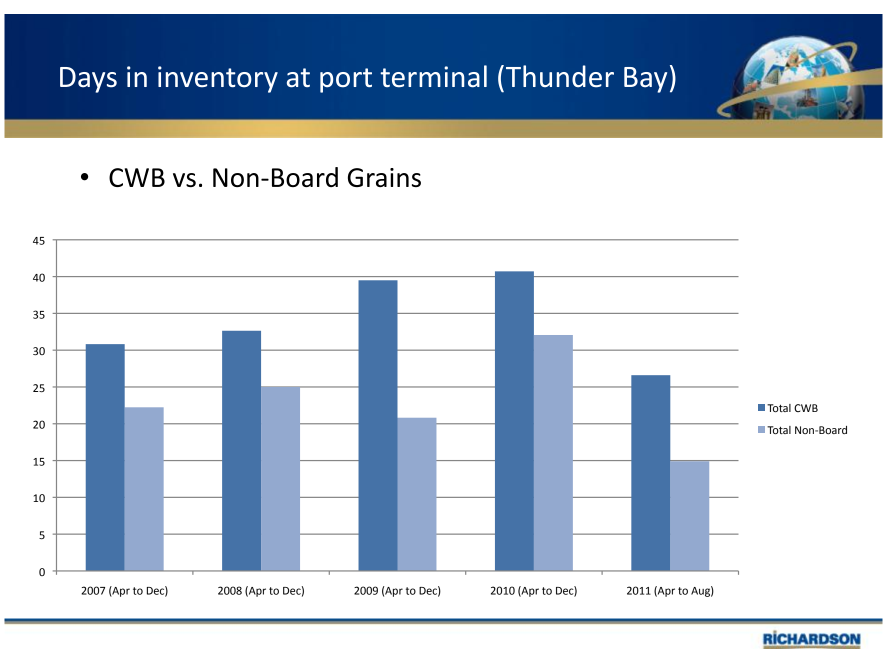
What will the future bring?

Additional questions arose in terms of transportation implications:

- will there be greater use of ocean vessels calling at Thunder Bay?
- how will the size and number of vessels calling Vancouver change?
- what will happen to producer cars?
- will there be further rationalization of country elevators (increasing farmers' length of haul)?
- will regulated freight rates be maintained in a North American market?

Additional questions regarding crops:

- will farmers choose to increase production of wheat or barley?
- will wheat and barley production become more regional?
- will research into new wheat varieties increase?
- how will agricultural research be funded?



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Back to the Drawing Board: Grain Transportation Under a New Wheat Marketing Regime

8:30 am Opening Remarks
Keynote Speaker: ***Greg Meredith***, *Asst. Deputy Minister, Strategic Policy Branch, Agriculture & Agri-food Canada*

Morning Sessions: Where Are We Going? The Future of the Western Canadian Grain Industry Under a Voluntary Wheat Board

8:45 am
A Historical Perspective: ***Dr. Paul Earl***, *I.H. Asper School of Business*
A Producer Perspective: ***Bill Cooper,*** *Saskatchewan Farmer*
A Producer Perspective: ***Don Dewar***, *Manitoba Farmer*

Roundtable discussion

10:00 am Networking Break

10:30 am
A Supply Chain Perspective: ***Mark Hemmes,*** *President, Quorum Corporation*
A former CEO Perspective: ***Brian Hayward,*** *President, Aldare Resources*
An Independent Perspective: ***John DePape***, *President, John de Pape Ltd.*

Roundtable discussion

Noon Luncheon
Keynote Speaker: ***Hon. Otto Lang***, *P.C., O.C., Q.C., former Minister responsible for the CWB and former Minister of Transport*

Afternoon Sessions: Practical Realities - The Implications of Change for Grain System Participants

1:30 pm
A Grain Handler Perspective: ***Jean-Marc Ruest***, *VP, Corporate Affairs & General Counsel, Richardson International*
A Railway Perspective: ***Ray Foot***, Group *VP of Sales, Canadian Pacific*

Roundtable discussion

2:30 pm Networking Break

3:00 pm
A Shortline Perspective: ***Brad Chase,*** *President, OmniTRAX Canada, Inc.*
A Port Perspective: ***Scott Galloway***, *Director of Trade Development, Port Metro Vancouver*
A Port Perspective: ***Tim Heney***, *CEO, Thunder Bay Port Authority*

Roundtable discussion

4:15 pm Rapporteur: ***Owen McAuley***, *Producer & Vice Chair, Canadian Agri-Food Policy Institute*

4:30 pm Closing Remarks

Participants

Michael Adams	Canadian Pacific Railway
Joel Alutalu	Paterson Grain
Laura Anderson	Canadian Grain Commission
Raj Appadoo	Dept. of SCM, Asper School of Business
Larry Appleyard	Canadian Pacific Railway
Greg Arason	Thunder Bay Port Authority
Alejandra Arroyo	Agri-Food Central Ltd.
Pat Atkinson	Transport Canada
Hedley Auld	CN
Bonnie Bain	Farm Credit Canada
Robin Baldwin	Parrish and Heimbecker
Jim Ball	Canadian Grain Commission
Mike Banville	TransX
Lisa Baratta	WESTAC
James Battershill	Keystone Agricultural Producers
Marcel Beaulieu	Quorum Corporation
Theresa Bergsma	Manitoba Corn Growers Association
Brian Bernard	Cargill Limited
Suresh Bhatt	Dept. of SCM, Asper School of Business
Marlene Boersch	Mercantile Consulting Venture Inc.
Patrick Bohan	Port of Halifax
Dave Boldt	Western Economic Diversification
Chris Botta	DeBruce Grain
Lindsay Brumwell	Port Metro Vancouver
Randy Burghall	Canpotex
Grant Carlson	Manitoba Agriculture, Food & Rural Initiatives
Alan Carson	Manitoba Agriculture, Food & Rural Initiatives
Pierre Cécile	St. Lawrence Seaway Management Corporation
Brad Chase	OmniTRAX Canada, Inc.
Greg Cherewyk	Pulse Canada
Kathy Chmelnytzki	Transport Institute
Marty Cielen	Richardson International Limited
Ken Clancy	Clancy Seeds
George Coleman	Norfolk Southern Corporation
Bill Cooper	Saskatchewan Farmer
John Corey	Canadian Transportation Agency
Russ Crawford	Agrinomics I.T. Consulting Ltd.
Jordan Dalzell	Canadian Wheat Board
Richard Danis	Manitoba Infrastructure & Transportation
John De Pape	John De Pape Ltd.
Steve Demmings	Thunder Bay CEDC
Randy Dennis	Canadian Grain Commission
Don Dewar	Manitoba Farmer
John Doran	Transport Canada
Doug Duncan	Transport Institute
Grace Duong	Transport Institute
Bert Dupasquier	Canadian Wheat Board
John Duvenaud	Wild Oats
Dr. Paul Earl	I.H. Asper School of Business
Ted Eastley	Manitoba Rural Adaptation Council
Ron Eastman	S.D.R. International Freight Inc.
Marci Elliott	I.H. Asper School of Business
Hank Enns	Manitoba Corn Growers Association
Jennifer Evancio	STEP
Terry Fehr	Manitoba Rural Adaptation Council
James Fehr	Royal Bank of Canada
Doug Fisher	Algoma Central Corporation

Participants

Ray Foot	Canadian Pacific Railway
Todd Frederickson	Transport Canada
Kevin Fruhstuk	Enterprise Saskatchewan
Scott Galloway	Port Metro Vancouver
Arturo Gardeweg	Manitoba Trade & Investment
Allen Geary	Northern Alberta Development Council
Dori Gingera-Beauchemin	Manitoba Agriculture, Food & Rural Initiatives
Savannah Gleim	University of Saskatchewan
Tess Goovaerts	Parrish & Heimbecker
Rémi Gosselin	Canadian Grain Commission
Nithi Govindasamy	Saskatchewan Ministry of Agriculture
Kathy Gulay	Canada Steamship Lines
Melanie Gustafson	Canadian Grain Commission
Joan Hardy	Richardson International Limited
Brian Hayward	Aldare Resources
James Hayward	Agriculture & Agri-food Canada
Mark Hemmes	Quorum Corporation, Inc.
Tim Heney	Thunder Bay Port Authority
Doug Hilderman	ADM Milling Company
Karen Hodgson	Agriculture & Agri-food Canada
Amanda Houssin	Canadian Grain Commission
Samara Hutton	Transport Institute
Lee Jebb	Cando Contracting Ltd.
Kathy Jordison	Yara Belle Plaine Inc.
Soaleh Khan	Dept. of SCM, Asper School of Business
Alex Kissler	London Agricultural Commodities
Hubert Kleysen	
Jake Kosior	Manitoba Infrastructure & Transportation
Lionel Labelle	STEP
Hon. Otto Lang	Former Minister of Transport & Former Minister Responsible for the CWB
Carla Lavergne	Parrish and Heimbecker
Ron Lemky	Canadian Pacific Railway
Mike Lesiuk	Manitoba Agriculture, Food & Rural Initiatives
Gerard Linden	SRY Rail Link
Lyndon Lisitza	Saskatchewan Ministry of Agriculture
David Mackay	Canadian Association of Agri-Retailers
Jeff Mayo	Parrish & Heimbecker
Owen McAuley	Canadian Agri-Food Policy Institute
Sean McCoshen	USAND Group Inc.
Bruce McFadden	Quorum Corporation
Ron McLachlin	Transport Institute
Greg Meredith	Strategic Policy Branch, Agriculture & Agri-Food Canada
Doug Mills	Port Metro Vancouver
Scott Mills	Lansing Trade Group
Carlos Miranda Heras	Agri-Food Central De Mexico
Robert Moore	QGI Consulting
Kevin Morgan	Canadian Grain Commission
Dr. Charles Mossman	I.H. Asper School of Business
Charles Mossman	I.H. Asper School of Business
Ted Nestor	Manitoba Infrastructure & Transportation
James Nolan	University of Saskatchewan
David Nyznyk	Agri-Food Central Ltd.
Darrell Pack	Agriculture & Agri-Food Canada
Christina Patterson	Canadian Canola Growers Association
Wes Petkau	
Richard Phillips	Grain Growers of Canada
Al Phillips	Transport Institute

Participants

Stephen Pratte	Manitoba Infrastructure & Transportation
Dr. Barry Prentice	I.H. Asper School of Business
Phil Rance	Richardson International Limited
Rick Riess	GHY International Customs Brokers/Trade Consultants
Jean-Marc Ruest	Richardson International Limited
Blair Rutter	Western Canadian Wheat Growers Association
Mark Simmons	Yara Belle Plaine Inc.
Winston Smith	Aikins, MacAulay & Thorvaldson LLP
Wade Sobkowich	Western Grain Elevator Association
Ruth Sol	WESTAC
John Spacek	Manitoba Infrastructure & Transportation
Art Stacey	Thompson, Dorfman, Sweatman LLP
Chuanliang (Johnny) Su	Alberta Agriculture & Rural Development
Dinen Subramaniam	Canadian Grain Commission
Mark Summers	BNSF Railway
Rob Sumner	Transport Canada
Dale Thuliu	Port Metro Vancouver
Brenda Tjaden Lepp	Farmlink Marketing Solutions
Julie Toma	Alberta Agriculture & Rural Development
Dean Torchia	Richardson International Limited
Denis Tully	Agriculture & Agri-Food Canada
Ed Tyrchniewicz	Transport Institute
Siobhan Vandekeere	Dept. of SCM, Asper School of Business
Alberto Velasco	CentrePort Canada
Ken Veldman	Prince Rupert Port Authority
Jairo Viafara	Transport Institute
Erica Vido	Manitoba Infrastructure & Transportation
Harvie Wachter	SRY Rail Link
Richard Wansbutter	Viterra
Krista Warnica	Canadian Transportation Agency
Tony Wattman	AJW Warehousing
Ian White	Canadian Wheat Board
Ken Whitelaw	Lansing Trade Group
Stephen Whitney	Canadian Pacific Railway
Sheldon Wiebe	AGI-Ag Growth Industries
Reg Wightman	Manitoba Infrastructure & Transportation
Michael Wood	Manitoba Infrastructure & Transportation

University of Manitoba Transport Institute
631 - 181 Freedman Crescent
Winnipeg, MB R3T 5V4
Tel: 204 474 9842 Fax: 204 474 7530
http://umanitoba.ca/faculties/management/ti/

Western Transportation Advisory Council
Suite 401, 889 West Pender Street
Vancouver, BC V6C 3B2
Tel: 604 687 8691 Fax: 604 687 8751
www.westac.com