THE CHANGING WINDS OF COMPETITION

November 22nd, 1999

Presented by:
The University of Manitoba
Transport Institute
Western Transportation Advisory Council

Conference Sponsors:
Canadian National Railways
Canadian Pacific Railway
Canadian Wheat Board
FASTAIR
OmniTRAX
Railway Association of Canada
United Grain Growers
Good morning. I am Barry Prentice, Director of the Transport Institute at the University of Manitoba. The Transport Institute is part of the Faculty of Agricultural and Food Sciences, and I am an Associate Professor in the Department of Agricultural Economics.

First, I would like to introduce Mr. David Gardiner, the President of WESTAC and the co-host of the 4th Fields on Wheels. David began his transportation career in 1965 with Canadian Pacific and by 1993 had served as president of two shipping companies on the Great Lakes. In 1994, David was appointed president of WESTAC, the Western Transportation Advisory Council. David is moderating the opening session and is this morning’s Chairperson as well as having other duties throughout the day.

The theme of the 4th Annual Fields on Wheels Conference is the “Changing Winds of Competition”. The morning session features Mr. Arthur Kroeger, who has recently filed his report on the implementation of the Estey Review. Joining Mr. Kroeger is an industry panel that will present their views on the proposed changes of the grain logistics supply chain. The second panel provides an opportunity to hear from representatives of the primary production sector that forms the base of the supply chain. In the afternoon, our attention will shift to the corridors and gateways that compete to transport grain to distant markets. The conference will conclude with John Murphy, VP Agriculture of the Royal Bank, who will present a synopsis and his observations of the day.

We are very fortunate today to receive greetings from our Provincial Governments. The Honourable Maynard Sonntag, Minister of Saskatchewan Highways and Transportation, will be joining us at lunch, and now I would like to introduce Manitoba’s Minister of Highways and Government Services, the Honourable Steve Ashton.

Mr. Ashton was first elected to the Manitoba Legislature in 1981. He was re-elected in the general elections of 1986, 1990, 1995 and 1999. He was appointed Minister of Highways and Government Services in October 1999. Mr. Ashton is a graduate of R.D. Parker Collegiate at Thompson, the University of Manitoba and Lakehead University. He holds degrees in Political Science and Economics. While at the University of Manitoba, Mr. Ashton was elected president of the student union and served on the University Senate and Board of Governors. Mr. Ashton has lived in Thompson since 1967. During that time, he has worked in the Inco mine, lectured economics at the Inter University North, served as a Government Whip, and from May 1989 to August 1999 he was the House Leader of the New Democratic Party.
Please join me in welcoming Mr. Ashton.

**Honourable Steve Ashton**

*Manitoba Minister of Highways and Government Services*

**Remarks**

If we were to roll back 100 years ago to 1899, you would find the same transportation issues in Canada. In this province, one hundred years ago, there were a number of attempts to get the Hudson Bay Rail line going and now we are looking forward to exciting new developments with the Hudson Bay Rail Company and OmniTRAX. It shows you how transportation has been a constant theme in Canada’s history.

I want to take the opportunity to outline some of our views for Manitoba. We have certainly been active in the discussion and I want to indicate that our position in terms of the new government is very much a continuation of the previous government’s in that, it is a position rooted in our perception of the needs in the grain industry. We believe it is important to allow Western grain producers the maximum opportunity possible to earn a reasonable return on grain export sales. This is particularly critical given the circumstances in agriculture today. We also want to enhance the competitiveness of Western Canada’s grains in world markets. There are five strategies we have outlined from the beginning of the process in order to achieve these two goals.

First, we believe that we must eliminate administrative intervention, entitlements and prescriptive economic regulation. Given the rapid changes that are taking place globally, it is particularly important to have a system that reflects the dynamic changes that are taking place in grain transportation.

Second, we believe that governments must promote competition and innovation in the supply of grain logistics services.

Third, system participants must adopt modern logistics practices that are driven by customer demand.

Fourth, individual system participants must accept clear, commercial responsibility and accountability for the services they provide.

And fifth, government must enhance legislative safeguards where competition and market forces are inadequate.

I want to stress the balance of those five points, because, as is the case in the evolving debates in the airline and telecommunications industries, we are essentially trying to create a balance,
reflective of the needs to have competitiveness and accountability. Even though there are still going to be inadequate market conditions, particularly in transportation, given barriers to entry and many of the traditional factors, a balance is needed to enhance competition in the industry.

We believe that the critical elements that will allow these core strategies to succeed are as follows, and this particularly gets into the Estey and Kroeger Reports. We believe that it is important to have a reduced and declining revenue cap to replace rail rate regulation. We believe that is critical, because the alterations that will be made in the way grain is transported will lead to efficiencies. We believe it is important that those efficiencies are shared, but also passed on to producers. We believe all parties should adopt competitively determined contract-based commercial relationships. We believe that the Canadian Wheat Board should use competitive tendering practices to obtain logistic services, but should have the flexibility to do otherwise where competitive tenders are not possible. We believe using entitlements as a basis for allocation should no longer be the case. The contractual terms should clearly indicate accountability and responsibility. These are terms that were looked at favourably when I met with a number of people in Vancouver from the rail side and with representatives of the Wheat Board. Everybody believes in the terms accountability and responsibility, I think the work ahead is to define it, in terms of all the players.

We believe that access to system capacity should be equally available, while owners of assets, including farmers, should be able to manage them. All participants would then be rewarded for innovation. We also believe that overt actions to reduce competition should result in an investigation reporting to the Minister of Transport and/or the competition bureau. Competitive access to railway service is another critical element. The opportunity for running rights should be generally available as recommended by Justice Estey, with a pro-competitive reverse onus public interest test for running rights applications. Expanded inter-switching rights are also necessary, as is access to producer cars, which would be guaranteed. We believe the implementation of a low cost summary final offer arbitration process should proceed. If a two-tier process is adopted, then Manitoba believes that the cut off for the first tier should be a total freight bill under two million dollars. We believe enhanced opportunities for short line development are another critical element of any movement forward. We endorse the recommendations of the working group on competition and safeguards for an improved discontinuance process.

Another critical element of the reforms for Manitoba is giving an opportunity to farmers and other stakeholders to purchase the federal hopper car fleet. The proceeds from the sale should be used to assist producers in adjusting to the new environment. We believe impediments to competing, i.e. cost-effective routes and imports should be eliminated. All marketers of grain must have the ability to select the port of export based on achieving the highest possible total returns to farmers. We also believe that the Federal Government should accept a degree of responsibility for funding the costs of upgrading grain collection roads to provide an efficient grain collection network. I can indicate that in our own province, we are starting to see the
dramatic impacts of such developments on our road system. This is an issue we have raised directly with the Federal Minister of Transport.

Finally we believe that the Federal Government with system participants should hire an expert in logistics to develop performance benchmarks, measures and targets having a sound empirical basis. These can be used to guide grain logistics improvements by which Western grain producers can assess if the grain logistics reforms are successful and measure the extent they shared in that success. We have to remember when we are dealing with grain transportation, and rail transportation in general, that these were the original ties that bound this country together, they are still absolutely critical. The difference is that debates of the last century could take place over decades. Given the competitive nature we are dealing with, particularly with other countries that are significantly subsidizing grain, we recognize the need for an efficient system. We are also very cognizant of the difficulties that farmers are going through currently and the very dramatic changes that have taken place just in this decade in grain transportation – moving away from the Crow Rate, etc.

I know there are a lot of challenges ahead, but our government believes that there are some very real opportunities to resolve some of the outstanding concerns, and I believe that the Federal Rural Caucus may be coming forward with another contribution in this debate fairly soon. Either way, we have to resolve many of these issues and move forward into the next millennium with a competitive grain transportation system that will benefit all the stakeholders and particularly our producers. Thank you very much.

Mr. David Gardiner, President
WESTAC
Moderator – Session 1

I want to thank the Minister for representing a new government and underpinning all of the same principles in terms of regulation and logistics accountability and so forth. We would like to thank him on behalf of WESTAC and the Transport Institute and all present for making the time, having assumed this new portfolio to come and kick off this conference. I would like to also thank Barry and the Institute for the opportunity to assist in the organization of the conference.

Our panel this morning consists of Mr. Kroeger, Greg Arason, Sandi Mielitz and Gordon Cummings. Each were approached to participate in this conference before Mr. Kroeger’s report was made and his recommendations were submitted, and so they were not given explicit briefing in terms of what they should say. But they were asked to bring their perceptions of the
recommendations and their perspective as to what the proper courses of action should be in the future.

To start the proceedings, we have invited Mr. Kroeger to review the recommendations that he submitted to the government. We have asked him to emphasize and deal with the rationale of those recommendations and not so much the process, which I am sure most of you have been familiar with. Mr. Kroeger is a very distinguished public servant and scholar. So what I would like to do now is just ask Mr. Kroeger to come forward and present his summary. Thank you.

Mr. Arthur Kroeger

Grain Handling and Transportation Facilitator

Government of Canada

Thank you David. I have good memories of an extended association in the early 1980’s when charts and other data prepared by WESTAC figured prominently in cabinet committee discussions that eventually led to the development of the Western Grain Transportation Act.

Before talking about the kinds of recommendations that I made, I want to offer a few observations that occurred to me coming back to grain transportation. When I was growing up, the kind of philosophy that existed was that although the West is kind of put upon, it is solid nonetheless. Those people in the East with their high tariffs, their expensive machinery prices, their mortgage companies and especially those railways, they are the ones we have got to contend with. The division was East/West.

What is striking now is the way the division has moved into the West. The degree of division I found this summer, that Justice Estey found before me, and that others found before him is really quite striking. On the one side you have the view that there is a growing need for change: we have got to modernize the system, we have got to worry about our international competitiveness, the costs to producers are too high – we have got to reform the system. This is a view that has gained some strength with the passage of time, but it is balanced by the opposite view, which is that change is risky, that the traditional enemies – the railways and the rest of them – are still there, that we have got to maintain a defensive stance, and that if that means a strong defense of the status quo, so be it, because change might be worse. The degree of division has had a marked slowing effect on the evolution of the prairie economy.

In 1993/1994, there was a major failure of the logistics system. The SEO Process, which designed a series of reforms, ultimately failed to gain acceptance. In 1996/97 there was a much worse failure of the system, almost a seizing up of the Western logistics system, and a consensus expressed to three Federal Ministers in July of 1997, that change was essential and had to be far
reaching. This gave rise to the appointment of Justice Estey in December of 1997, and he brought down his report a year later.

What struck me this summer was that the consensus about the need for change had evaporated. Once again, there was a view that the system was working pretty well, the only real problem is that the railways are making too much money. If you deal with that, that is all you need to do and everything else is fine. What you have seen this summer and fall is the emergence of very strong defense of the status quo and a resistance to change – based on fear and apprehension that change could produce something worse than what we have now. So those are the kind of atmospherics that impressed me over the course of the months of May through to the end of September, and of course the outcome remains to be seen.

In spite of the division of views that I refer to, a great deal of potentially useful work was done, and is there to be drawn upon, depending on what kinds of decisions the governments want to arrive at. You can call it technical work if you like, but it was important work on a new regime for branch line abandonment or transfer, a new regime for final offer arbitration to make it work more effectively in the interests of shippers, the design of rules for a revenue cap as a successor to the rate cap. The government will have the advice of a lot of knowledgeable people who worked hard over the summer, and whose findings, whose technical conclusions, deserve to be taken seriously.

That being said, I now want to turn to the three big issues on which there was major division – among the participants and in the wider community on the prairies. The first one is the level of railway revenues. If you are going to move from a rate cap to a cap on the average level of railway revenues for moving grain so as to provide the flexibility for the railways to price according to costs and generally to provide more scope for market forces to free people from the rigidities of a prescribed rate system, the first thing you need to do is devise rules. That was done, but the big question then is at what level do you freeze the revenues? What is the average level of revenues that you should establish? And if we had gone strictly by Justice Estey’s report, we would simply have frozen it at the present level and then let competition take it down with a target of a 10% reduction over six years. However, we did get a report from the Canadian Transportation Agency, which indicated that railway revenues from moving grain had increased quite significantly measured by the contribution made by grain to railway constant costs. So the question arose – should not you reduce the level of railway revenues before you freeze them? There were three models, one was Estey’s, which was to freeze revenues at present levels. Option B was reduce it by 8%, then freeze it and rely on competition to bring it down further. And option C was to cut revenues by 20% and then, by regulated means, effect 3% reductions a year in future years, regardless of what might happen to railway productivity.

The prominence that this question has assumed in the subsequent debate illustrates an important point, which is that to a great extent, the income problems of Western Grain Producers have
moved to the forefront, and in effect have pushed the system reform issue off the table. The fixation has been, “how much money can you get out of the railways to reduce producer costs?” and the view that I have read quite frequently since the end of September has been if you cut railway revenues far enough you solve the problem. There was a good case for making a reduction in overall railway revenues because the contribution to constant costs had virtually doubled from WGTA levels of 1994. In the interests of not going too far, the 8% option made sense but I thought it was a little short. My own recommendation was a cut of 12% - equivalent to $3.73 per tonne. A substantial reduction, but if you overdo it, you create disincentives for the railways to invest in grain transportation. You reduce their flexibility to engage in commercial pricing, and in a variety of ways you can buy long term pain for short-term gain.

One of the things that did not figure very prominently, but is relevant to point out, is that the proposal for the 20% cut has got nothing to do with Estey at all. There is no reference to this in the Estey Report. The proposal for 3% a year regulated reductions takes you back into the kind of cost-based regulation that the government ended when it repealed the Western Grain Transportation Act in 1996. The attraction is that it helps producers in the short term. My comment was that the railways can alleviate the producer income problem, but they cannot solve it, and if you overdo it, you will run risks.

One of the things that impressed me was how everybody was fixated on getting savings for producers by dealing with railway revenues. There is much less interest in all the other ways you could reduce producer costs. The McKinsey Report commissioned by the four provincial governments of the West found that inefficiencies in the system were costing producers up to one hundred million dollars a year.

A couple of weeks ago in Moose Jaw, Agricore representatives put on the table a series of measures which could yield savings to producers at up to $200 million. There have been a number of other studies, like the Parsons Study, that have found that if you streamlined the system and let market forces have greater play, you could make very substantial savings. I have been struck by how little interest those other measures have attracted as compared with the traditional line of thought that it is the producers versus the railways and that is the end it.

The other problem, when you are talking about producer costs, is that there is a kind of schizophrenia on the prairies. On the one hand, people say we have got to reduce producer costs to the minimum. The same people, sometimes in the same speech, will say, but we have got to keep all the branch lines and all the wooden elevators. Well, I understand the attachment of communities to their branch lines and their wooden elevators. My hometown has lost its branch line going to Kerrobert. We have got a short line running from Consort to Stettler, and it is at risk when an Agricore high throughput comes to Provost. There is a human side to the rationalization of the Western Grain System, but there is also a cost to slowing down that rationalization. There are legitimate trade-offs to be made and they should at least be recognized.
So the choice remains for the government, which of the three options 8%, 12%, or 20% - do you want to go for?

One of the things that is clear is that if you are going to deregulate, if you are going to go to a more commercial system, a more contract based system, then you will also need to maximize competition between the railways. This is a subject that occupied a lot of time. How do you increase railway competition? It was a very divisive subject, the discussions in Working Group 3 were as fractious and difficult as any that took place. In the end, what you had on the one hand was a view by some of the producer organizations and the Canadian Wheat Board was that you should go for open running rights. This is consistent with what Justice Estey recommended, anybody could apply to run a railway over somebody else’s track. They would not have to demonstrate why they should be able to run it, the railway would have to demonstrate why they should not. The proposal was that we test it for five years. Now, it may be that this is the right way to go, but you have got to think carefully about this, because you are talking about the health of the national railway system. Anything that you do about running rights is going to apply to forest products in British Columbia and automobiles in Ontario and pulp and paper in Quebec. So, it is a very important question and it requires fairly careful examination.

I want to quote to what I actually said about this, because some people who have described what I said have not allowed themselves to be constrained by a passion for accuracy. I said that I would “associate myself with the view that the government should accept at the outset that measures to increase railway competition are required. This is fundamental.” So I accepted the importance of doing things that would increase railway competition. The question is, what? Now the Wheat Board representatives and some of the producer representatives were vehement that running rights were the answer. I have to say I was more impressed with their vehemence than by their experience, because their experience was the same as mine – none. There is no experience with this in Canada. And therefore, what I said was you better take a careful look and see which measures would be most effective in increasing competition between the railways, and then do that.

I will tell you something I did not say. My private view was I was skeptical that the running rights proposal would work. And for that reason, I thought that the railways were overreacting in their very strong opposition to it. I may have been wrong in thinking it would not work, but I thought it was very important to get some expert advice and to look very carefully and then to do whatever measure or set of measures would most increase competition between CN and CP.

This brings me to the third of the three divisive subjects, which was the future role of the Canadian Wheat Board in transportation. Of all the subjects that we dealt with, this was the most important. Justice Estey said that the role of the Wheat Board in transportation was basic, it was the bedrock issue, and I agree with him.
The role of the Wheat Board is so central in every aspect of the grain logistics system, that if you leave the status quo there, then you are, in effect, accepting the status quo for the railway system. Estey’s recommendation was that you move from the present administered system with car allocation, with the Wheat Board managing the various other components of the logistics system. You move from that to a system which is commercial, is contract based, you get clear accountabilities, and you get a normal play of market forces which are to be found everywhere else in the economy.

Estey’s view and mine was that there is substantial scope for innovation if the grain companies, the railways, and the terminals have the freedom to work out arrangements amongst themselves. To do that, you have to make very substantial changes to the existing system. Justice Estey’s view was the Wheat Board should simply operate at port, and should contract with other parties to make sure that the quality of grain it needs is delivered when they need it.

So one of three options that were in play concerning the future role of the Wheat Board was 100% tendering at the port. The Wheat Board needs grain, puts out a tender call, the grain companies respond to it, contract with the railways, and the grain is then moved through the terminals to the ships. The Wheat Board raised a number of objections to this approach, and Working Group 2 spent most of its summer trying to reconcile the Wheat Board’s concerns with the dictates of a commercial system. In the end, though, consensus proved to be possible. There were two models that were developed in detail in Working Group 2’s report. Both of them short of Estey’s 100% tendering at port, but significantly different from each other.

Model One would have had the Wheat Board contracting with producers, with grain companies, with railways, and with terminals. It would allocate the capacity. It would control the grain at the terminals. It would synchronize unloads with ship arrivals. It would still be the dominant presence, but it would be operating on a contractual basis. My description of this was it amounted to about 20% of what Justice Estey had recommended.

Model Two would shift the responsibility for getting the grain to port mostly to the grain companies. The Wheat Board would contract with the grain companies, they in turn would contract with the railways, and each party would be accountable for performing its part of the bargain. There was a question of, if you are going to go the tendering system, how big should the tendering component be? Should it be 100%? Should it be 75%? Should there be a transition? And so on. But the intent was that you would move, over a period of time, to a system that was largely tendering and contract-based, with the Wheat Board having a minimal role in the country.

To meet the Wheat Board’s concerns a number of formulas were tried out, forward tendering, guaranteed allocation and so forth. In the end, their concerns proved impossible to bridge. A judgement is going to have to be made about how the government wants the system configured in the future.
The Wheat Board maintains that it must have control across the full span of the logistics system, otherwise it cannot be sure the grain is going to get to port. What the Wheat Board is saying is as if a house builder said to me, well I cannot promise to build you a house because I do not own the lumber yard and I do not control the cement plant or the glass factory. So I cannot build you a house, because I cannot be sure that those things are going to arrive. This is a key decision. The role of the Wheat Board is so central that there is a direct relationship between how much you change the role of the Wheat Board and how much reform of the logistics system you can expect to get.

The clear lesson of the past twenty or thirty years is that market forces do work. Telephone monopolies have been dismantled and competition has been brought in. Other transportation monopolies have been broken. Electricity is being deregulated. Everywhere you look, steps are being taken to introduce market forces because while markets certainly have their downside, they do produce efficiency and change. So the question is, how much change do you want? How much change do you think you need? There are obvious risks in change, but on the other hand, there are risks in keeping the present system as well.

I would remind you that in the winter of 1996/97, the problems that were encountered were of such a magnitude, that, according to the Wheat Board, as the operator of the system, it cost producers $65 million dollars. So, you can afford to take some risks, and maybe you will get something better than what you have got now. Even if you got something that was not a lot better it would still be an improvement.

The other thing that is important to bear in mind is that the system today has very poor accountabilities. Every time something goes wrong, it is very difficult to figure out whose fault it is and when you cannot figure out whose fault it is you charge it to the pool account, which means that the producers pay the shot. If a railway does not perform under a contract system, it pays the shot. If a grain company fails to deliver, it pays the shot. But in respect to the Board grains, with very blurred accountabilities, over and over again, it is the producer who pays. Again, if you are interested in minimizing costs to producers by some means other than cutting railway revenues, then you have got to be willing to consider a series of other changes that are risky, but that hold out the promise that we will have a better grain transportation handling system than we have got at present. Thank you.
Mr. David Gardiner, President

WESTAC

Moderator – Session 1

Thank you Mr. Kroeger. I think your observation most interesting that the consensus for change has evaporated now, with the focus on farm income, which means reducing producer costs, which is inconsistent with there being no change. And so, the circle keeps going around and around.

The Wheat Board is probably the organization with the most to gain or to lose, depending on your perspective, in the context of the changes that may happen. So we are very pleased to have Greg Arason with us, who, by virtue of his present position as President and CEO of the Board is well positioned to give us their perspective. Also it is important to note that he has a long list of associations with organizations involved in all aspects of the grain industry, so he brings a broader perspective than just his current position as CEO of the Board. So we will ask Greg to come forward now and give us his views and some comments on appropriate next steps.

Mr. Greg Arason, President and Chief Executive Officer

Canadian Wheat Board

Options for Change in Grain Transportation

Introduction

During this summers’ discussions there were differences of opinion on the four main issues: (1) the revenue cap level, (2) railway competition, (3) final offer arbitration and (4) the CWB's role. The people around the table represented very different interests in the industry. There is no package of solutions that could have given everyone what they wanted. In my view, the lack of consensus was not based on fear and apprehension, but rather on the difficulty in achieving a delicate balance on very critical issues.

But even on the points of disagreement we had some very constructive debate. We learned a lot about other transportation systems through valuable research. Also, we had to communicate with each other about what we saw as the real problems with our grain transportation system, what we saw as the benefits of our unique system, and what we saw as the opportunities for improvement. Through significant discussion and compromise, the working groups developed concrete options on each of the main points.
What I would like to do is briefly review the CWB’s position on these four critical issues and outline our vision for an improved transportation system. I will start by saying that the CWB is committed to continuing to work with the industry in finding solutions for a more competitive and accountable transportation system. Our vision is to create a system that is efficient, effective and, above all, meets the needs of farmers. We do not and have not advocated the status quo as the preferred option. As noted by Mr. Kroeger, we did find ourselves aligned with the majority of producers on the major issues. That should be no surprise as we are in fact a producer-controlled organization.

Revenue Cap

The CWB agreed with the rest of the industry that it would be beneficial to pursue a move from a rate cap to a revenue cap. The debate this summer centered around the level at which to set that cap. We have been very vocal in our belief that the freight rates farmers’ pay should be based on the actual cost of moving their grain. This past summer, we commissioned a review to find out what those costs were and our results were verified by the Canadian Transportation Agency’s own review. Based on those results, we supported the cost-based proposal that was put forward. This calculated into a starting revenue cap of $758 million.

Our intention is not to try to solve the transportation problem by taking money away from the railways. Very simply, we support a revenue cap level that best reflects the level that would exist in a competitive railway environment. Similarly, in a competitive railway environment, farmers would benefit by any cost savings achieved through increased productivity. This is why we supported the recommendation for a future annual decrease in the revenue cap. The best case scenario, of course, is one in which competition determines actual freight rates and how productivity is shared, and one in which this revenue cap is not binding.

Railway Competition

The subject of railway competition, in particular Justice Estey's recommendation for open access, made for a very interesting discussion within the working group. We had the opportunity to hear from over 20 experts on railway competition and to examine several working models of open access that are in operation today. The working group was able to develop a creative, although somewhat cautious, move toward open access. That recommendation gave interested parties the ability to apply to the CTA for the right to run on an existing rail line. The onus would then be on the railway that owns the line to prove that granting access to the applicant would be detrimental to the public interest.

Those two aspects, (1) a reverse onus and (2) a public interest test, made this recommendation an achievable and effective change to the current competitive environment. We fully supported this recommendation, recognizing that it was a compromise from Justice Estey's original recommendation for an open access system.
Final Offer Arbitration

Similarly, the working groups were able to put some meat on Justice Estey's recommendation for simple, quick, accessible final offer arbitration. We supported the proposal for the two-tiered, simultaneous-offer process that was developed in the working group. Effective final offer arbitration and improved railway competition are really going to be key in the new transportation environment.

With the repeal of the rate cap, farmers would lose an important safeguard and their risk would multiply. Without effective final offer arbitration and railway competition, removing the rate cap would be a leap of faith that farmers cannot afford to make.

The CWB's Role

Contrary to the views of Mr. Kroeger, the CWB bases all its operations on contractual agreements. Contracts in which it is directly involved with farmers, railways, grain companies, and customers around the world. Make no bones about it, any recommendation to remove the CWB's ability to contract directly with the railways removes a critical component of the CWB's operations and represents a fundamental change to its mandate.

Just eleven months ago, after three and a half years of debate and hard work, the federal government turned over control of wheat and barley marketing to farmers through an elected CWB Board of Directors.

When he introduced the Amendments to the Canadian Wheat Board Act in the House, Minister Goodale stated that the Bill was all about:

“Providing new accountability, new flexibility and responsiveness, and positioning farmers to shape the kind of wheat board they want for the future.”

Producers through hard-fought campaigns in which grain transportation was a central issue elected two-thirds of the new Board last fall. Farmers now have in place 10 elected directors who are eager to implement the new tools possible under the new CWB Act. Removing the CWB from transportation would effectively rob the CWB of the ability to pursue these options.

As I stated in my introduction, the CWB is committed to continuing to work with the industry in finding solutions for a more competitive and accountable transportation system. We want to examine expanded tendering. We think that in many cases, tendering has the potential to increase competition between grain companies, but only if the CWB can use it as one of many sourcing tools and only to the extent that it benefits farmers' returns.
We want to be able to look at the idea of having farmers decide where cars go based on where they sign their CWB delivery contracts. This would give farmers the power to make the grain companies compete at the farm gate. We want to look at performance contracts, financial penalties, terminal agreements, on-farm buying, and advance ordering. We want to continue to look at logistics packages that maximize returns to farmers, but that are not necessarily in the interests of grain companies. I am thinking here of our direct exports through bulk terminals at Thunder Bay, shipments through Churchill, Gulf movements, and direct rail movements. If the CWB were removed from transportation, the opportunity for those kind of innovative, competitive moves would be severely limited.

The bottom line is that the CWB requires the same involvement in grain transportation that is critical to any marketer of any commodity. That is, the ability to make the decisions that ensure that its product gets to its customers and maximizes returns for the people for whom it works.

As we move forward in discussions, I sincerely hope that we can leave behind us the worn-out and false accusations that the CWB's role in the movement of its product somehow represents an "administrative" or "command" system. I also hope that the next time someone stands up and says that the CWB causes inefficiencies in the system they actually have proof to back them up. Frankly these unsubstantiated claims are destructive and hinder the grain industry's efforts to work together for positive change. Above all, it ignores the fact that the CWB is a commercially driven organization with the responsibility to market $4 to $6 billion worth of product on behalf of western Canadian producers.

Concluding Comments

In closing I will say that we had the opportunity this summer, through the process led by Mr. Kroeger, to develop recommendations for real improvement to our system. I think we got a lot of good work done and we have before us some viable alternatives. We must continue to pursue opportunities for change and we look forward to the direction from the federal government for the next step in the process.

Mr. David Gardiner, President

WESTAC

Moderator – Session 1

Our next presenter is Sandi Mieletz, who is the Vice-President, Grains and Fertilizers, Western Canada for the CNR. And having been an officer of the railway for over twenty years now, she is also well equipped to provide the railway perspective on the changes and some of the options that are open to us.
Mrs. Sandi Mielitz

Vice-President Grains and Fertilizers (Canada)

Canadian National Railways

Good morning, ladies and gentlemen. Thank you for the opportunity to present Canadian National’s views on needed reforms to the western grain handling and transportation industry.

I think a good place for me to begin is with a review of Justice Willard Estey’s underlying thesis from his 1998 review of the industry. At the end of his work, he concluded that this industry needed to strengthen its natural incentives if it was to work to its full potential. He rejected the idea that more government controls were needed. Consequently, he called for a more commercial, competitive system; a system that featured more efficiency and accountability; and one which would produce economic benefits that would be shared with all within the system – grain companies, railways and producers.

Structural Change Needed

In that context, the most important of Justice Estey’s recommendations was his call for the reform of the supply chain in this industry. From CN’s point of view, the current grain handling and transportation system is not like any other industry in which we are active. Players cannot compete by differentiating themselves by how efficiently and effectively they move the product to market. Consequently, there is relatively little pressure on railways to compete.

This lack of competition is not because of the nature of the commodity or of the movement itself. Remember that all grain starts life in a truck. It can be delivered to one railhead or another, unlike much of our chemical and dangerous commodity business that is truly captive to a railhead. In some cases, you are not allowed to move some of those commodities by truck at all.

In grain’s case, some 10 million tonnes of western Canada’s export volumes originate within 25 miles of the other railways. Forest products routinely travel much longer distances to reach railheads. It is clear that the problems in this industry lie not in the nature of the commodity, but in the structure of the grain handling and transportation system itself.

So let us look ahead. Imagine a system where competition and contracting were introduced. Grain companies would compete for Canadian Wheat Board contracts, and tighter margins would force better performance. In turn, the grain companies would pressure the railways on measures like car supply, performance to port and efficient shipping to reduce costs. There would be significant structural change, but the system would become far more accountable and far more competitive. This would drive better performance, and productivity savings will be shared, producing lower costs for all.
Would life be tougher, more challenging for the grain companies and the railways? Absolutely. But we would have more opportunities to be innovative and fast moving and to show what we can do. This is very much preferable to participating in endless policy debates.

**Rates**

I would like to look at some of Mr. Kroeger’s specific recommendations now. First, his recommendations on freight rates. You will recall that his rate recommendations dealt with two areas: the revenue cap and freight rate adjustments. As for the revenue cap: CN would prefer normal rate freedom, like we have in every other commodity we carry, but the revenue cap is a big improvement over what we have now. The revenue cap would generate increased commercialization, as rates can be built to differentiate service so that we could offer different transportation service products to our customers.

The revenue cap would also increase competition, as rates will be built to reflect service, efficiency and risk. There would be many options for our customers to choose from, instead of the current one rate from station to port. Finally, the revenue cap would improve efficiency and accountability, meeting the underlying objectives of the Estey process. At the same time, it provides safeguards to producers on rate increases.

Now, let us talk about the rate decrease. This is not a happy topic for CN. It is no surprise that we are not supportive. First, let us remember that the call for a rate decrease was not part of Estey. He looked forward to efficiency improvements the system should produce and suggested that rate decreases would come along with them. The current recommendations spread reform of the grain handling and transportation system over 3 years, but put the rate cuts up front.

This fails the fundamental objectives of the Estey reform process. It does not improve accountability. It may even work against efficiency and competitiveness, as pricing structures are likely to be more conservative. Most importantly, this will affect our capital spending. A recent IBI study looked at 13 major industries that use rail. Their average return on capital in the period 1994-98 was 15.8 per cent. The railways, in the same period, had an average rate of return of 8.5 per cent, which is below the cost of capital. If we had been on that same list, we would have ranked 11 of 13. We can understand why we are seeing pressure from the agricultural industry, though. Agriculture had the lowest return: 3.8 per cent.

**Effects on Capital Investment**

Despite the number of times we say it, people do not realize just how capital intensive we are. Everyone here knows that CN has enjoyed a major turnaround since 1992. And we are proud of it. But you should be aware that every dollar of cash flow that we have produced between 1994 and 1998 has been reinvested in capital expenditures in that same period – mostly to sustain our plant. CP has spent far more than their cash flow in that time in a bold move to catch up.
I can say with reasonable certainty that Kroeger’s recommendation to cut the rates will take one-half billion dollars out of the railways’ investment programs over the next five years. These dollars will not go into improving plant quality, service, capacity or productivity. You have to agree this will not be in Canadian shippers’ interests.

Finally, a 12 per cent reduction in rates would mean that railways would be allowed to retain only 20 per cent of the savings generated by productivity gains from 1992 to 1998. Remember that productivity gains require capital. Grain transportation will continue to benefit from productivity gains made to improve the overall system, but it will be difficult to justify investments in productivity projects directly related to grain where 80 per cent of the gains may be clawed back.

**Access**

Let us turn to another controversial issue – forced access to the major railway networks. I would like to begin by saying that Justice Estey’s recommendations on access came as a complete surprise to the railways. We knew what he was thinking on other elements, but he did not discuss the open access concept with us beforehand. We wish he had. Subsequent dialogue revealed he had not taken into account several key implications of the concept.

Despite our reservations about access, however, we supported Estey because we felt, overall, he had done an insightful job of putting forward bold, balanced recommendations for change to this industry. Our problem with the concept of forced access is based on the fact that it cannot be contained within the grain industry. It has the railways worried on several major fronts. CN’s concerns lay in 3 main areas:

Firstly, it allows the 4 major U.S. rail carriers, each of which is 3 or 4 times bigger than CN, direct access to our markets. Burlington Northern could come into the southern prairies and rail grain to Portland. Norfolk Southern/CSX could take automobiles to Chicago and beyond. But CN would have no similar access to compete in their markets. There could also be similar inequities at the regional level, with British Columbia Rail, for example.

Secondly, the access concept works against efficiencies. It would lead to splintering trains and volumes, working against economies of scale.

Thirdly, it opens mainline carriers to cherry picking. New entrants into the system would target large car blocks, enjoying the financial advantages from no overheads and no unions. The mainline carrier would be left with common carrier obligations to service the higher-cost, lower-volume elevators on the line.

This major risk of higher costs and lower revenues, given the North American competitive arena, would produce a situation where it is questionable whether we could survive. These threats are
well understood by shortline operators. Virtually all have joined in industry efforts to petition the government to reject this concept. We are grateful that Mr. Kroeger understood the risks sufficiently to recommend deferring decisions until more work and study is completed.

Mr. Kroeger, and others, maintain that some form of change is needed to ensure that railways fully compete. We wonder whether that judgement would hold once the full effects of reform of the supply chain is felt.

**FOA**

Finally, there were areas where some consensus was reached. The only one I want to spend some time on is Final Offer Arbitration, or FOA. Some strides were made here: a proposal for a two-tier FOA process featuring more access for small shippers and the possibility of better decisions on larger cases. I would encourage the federal government to proceed with this reform even if it initially only applies to grain.

**Conclusion**

I think that sums up CN’s position on major elements of the Kroeger reforms. The process and the recommendations were both complex and highly controversial. I would, however, like to complement Mr. Kroeger and his three chairpersons. They had a very difficult task, and they carried it off with objectivity, intelligence, perseverance and class. Thank you.

**Mr. David Gardiner, President**

**WESTAC**

**Moderator – Session 1**

Sandi, thank you. To round out the panel, I am going to ask Gordon Cummings, who is the CEO of Agricore Co-op Limited, to come forward. Agricore, of course, as you know, is itself a product of change in the industry. And Gordon has an extensive background, not only in the grain industry, but also in food processing, accounting, finance, and transportation. So he now leads another key organization in this whole industry and is well qualified from his perspective again to present his point of view.

**Mr. Gordon Cummings, Chief Executive Officer**

*Agricore*

Thank you and good morning. Allow me at the outset to say that what I will be talking from is the point of view of Agricore, and not the whole industry. I am not trying to speak for all the
grain companies. We have always said that our goal was to have an efficient, affordable, and accountable grain handling and transportation system. We would agree with some other speakers before, and that today’s system dramatically lacks in accountability.

We set out five guiding principles to try to judge any solution. First, there should be improved system efficiencies and accountability. Second, there should be lower costs to farmers. Third, that whatever solution we have should strengthen the marketing systems of Canada, both for Board and non-Board grains. There should be some method of having equitable access for farmers to the system. And lastly, there should be improved customer service.

Our organization supports the Canadian Wheat Board’s three pillars of strength: single-desk selling, price pooling and government guarantees. It goes without saying that one of the three pillars of the Board is that they must be in transportation.

There is only one block of organizations that you can turn to if you really want an accountable system and it is the grain companies. There are ten of us and I would strongly argue, as we did to the Kroeger group, that it is the only area where there is adequate competition. Two railways is not a formula for adequate competition, and of course, the Wheat Board by its nature is a monopoly. The grain companies made an offer to take on the Wheat Board’s logistics system, and to be contractually accountable for any errors in the system contingent on some safeguards.

Our view as Agricore is that there are significant benefits to all if the grain companies provide the logistics. It is contingent on adequate railway competition and that the revenue cap protects rates for five years. And if we think about going back to Estey, one of the concerns many of us had was “Montana type rates”. The revenue cap guards against that, and by the way, I would want to make sure that when we talk about it, we never talk about a rate reduction, we talk about a revenue cap. We are not suggesting in any way an overall rate reduction. Clearly, the view of many shippers is that we need more than the current CTA for adequate protection on service. Competition with the rail is key, and although I would fully agree that the grain industry uses the competition available under the current act less than any other sector. I would be remiss if I did not note that most other shippers are saying the current CTA is biased towards railways and not to shippers. It is our view that the major unresolved issues are railway competition, the revenue cap and the Wheat Board’s role.

We would note that there was agreement on some issues. The stakeholders did agree on the two-step final offer arbitration (FOA) process, and we think that is a major step forward. We also note that Mr. Kroeger concluded that not enough was known about common running rights. We share the concerns of the railways of allowing all players in. Not only Agricore, but other grain companies, specifically suggested to CN and CP that instead of having common running rights which would give others, like Burlington Northern, access that the railways contract with each other to have common running rights only between CN and CP. There was another solution, which was not in the end accepted.
We think the new process for branch line abandonment is a significant improvement for it insures potential buyers have a reasonable chance to consider it.

Now, in our view, all the benefits of a commercial system rely on a package of safeguards to provide adequate railway competition, because in the end, the grain companies would be foolish to take on responsibility and commercial accountability for CWB logistics. With adequate competition, a commercial system would work more efficiently to benefit farmers. Therefore, competitive safeguards in our view are needed, regardless of any other changes.

Allow me to touch on the revenue cap. Mr. Kroeger recommended an opening average of $27.77, a reduction of $3.73 from 1998. Competition would distribute future gains and we would assess the results in five years. I want to point out that there are two things that go together here: a change in overall revenue, not necessarily any one rate, and the introduction of a revenue cap, which gives the railways substantially greater capacity to manage the system. There is clearly a reason why $27.77 was suggested.

The CTA study demonstrated that between 1992 and 1998, when there was no control on railway revenue, railway returns dramatically increased. And at the same time, it should be noted that farmer income and grain company income dramatically decreased. Clearly, Mr. Kroeger and Justice Estey recommended several safeguards that would create adequate competition. I would suggest that the period between 1992 and 1998 clearly demonstrated that the field is uneven under the current system. Therefore, it is not unreasonable to say that given that safeguards were not in place from 1992 to the year 2000, something should be done to redress the rates. Of course, the $3.73 reduction results in a 27% contribution to the railways, which is exactly the contribution they earned on average under the WGTA. But, the railways then get the advantage of being able to have variable rates, variable service, and to be able to significantly reduce costs on grain, without the involvement of a lot of capital. There is more capital spent by the grain companies than by the railways in grain to create this system today, which could be much more efficient.

Clearly the benefit to farmers is $112 million, but there is also a benefit in the ability to change the system. Sandi implies the system would be static and the railways would lose half a billion dollars. The system would not be static. The railways now would have a chance to drive down costs by having the ability to manipulate the system much more. It allows clear market signals to put in new service offerings, like shuttle trains, something that Agricore would be very interested in operating. We believe shuttle trains could cycle cars in seven days rather than the average of eighteen right now. This would be a significant gain to the railways and other participants, and a significant reduction in the amount of capital required to operate the system.

Considering the revenue cap, we see the logic that Mr. Kroeger had of a 27% contribution, but we think there should be another 4% reduction for a total of $151 million. We also agree that
there should be a freeze for five years, that is, no capture of productivity and no allowance for inflation, and then let competition happen.

I would remind everyone that very few people talk about one of the basic things farmers wanted. Farmers wanted someone to be accountable and the only group that you can hang this on is the area where there is competition – the grain companies. In terms of the Board’s role in transportation, we thought that the suggestion by Milt Fehr for a three-year mandatory transition to a more commercial system made sense. At the end of this period, the Board should not be involved in transportation; it should receive grain at the spout. There should be financial arrangements between the parties to ensure that blending revenues at terminal are shared, and that the grain companies would be logistical suppliers. We also saw merit in Milt’s suggestion that we do this over a period of time, rather than going from black to white. We could start the first year at 25% on the tendering system, and moving up by 25% blocks per year as a way to ensure that we all did a transition in a way that worked.

Clearly the benefits are a clear line of contractual responsibility and a significant increase in competition, with the grain companies being squeezed from two sides – both from trying to get farmer deliveries and trying to win the Canadian Wheat Board business. Allow me to remind everyone that for a number of the grain companies, including the two largest ones that represent over half the handle, our largest handle by far is Wheat Board grain. Within the country system, a terminal system operating as a throughput system, there is excess capacity. And as long as there is excess capacity, competition will occur.

We believe that the Canadian Wheat Board getting contractual guarantees gives them more confidence to market, and should improve customer service. We want much faster turn around of the rail system. If the high through-puts that we are all building to rotate cars in much less time, we can start thinking of grain staying on farm, where it is already in storage until it is required. More market responsiveness capitalizes on opportunities, because there are times when markets improve and it is in the interest of our owners and all farmers to capitalize on those opportunities. We believe competition will encourage equitability of access to farmers and we would point out that on all non-Board grains today there is no method of insuring equality. The method is the market. I do not see anyone going to government saying farmers do not get equal opportunity on Canola, and that we should regulate this market.

What is at stake for farmers? Well first, there is a hundred and twelve million dollars, but there is more than that. Faster rail car times due to efficiencies such as shuttle trains could result in the potential to attract a premium in markets in certain months, because clearly the Wheat Board will benefit from having more capacity. We would suggest that the use of shuttle trains would create more capacity. If you only base it on ten shuttles a month for that period, you could get $23 million more out of the market place.
The current handling tariffs are $25 dollars/tonne. On twenty two million tonnes of grain, that is $550 million paid to grain companies. It is not hard to visualize a 5% squeeze on the grain companies, in terms of a more competitive system, would result in a $27 million gain to farmers in reduced revenue to grain companies. In 1997/98, farmers paid $61 million to store grain at elevators and another $21 million to store grain at terminal. Now you might say, we should be happy as grain companies with this revenue. But farmers have already paid for storage once on the farm, so why are farmers paying a second time? In October 1999, the Wheat Board told us it would be really a good month and we should open Prince Rupert. It was a slow month in October so we opened Rupert to leave grain sitting. In fact, until now, we really have not had much grain at all moving through the system, and the 1.5/1.6 million tonnes we estimated for October/November were not there. Who pays? In October/November 1999 farmers paid for the storage.

We would suggest that a high through-put operating system could cut the storage costs in half by having grain companies pull grain quickly forward from farmers to use. This is worth $41 million for farmers. Reduce the demurrage costs by the average five-year demurrage bill paid by the pool and farmers save another $14.3 million. Accountability in competition, if grain companies would get stuck with most of it, that is another $12.9 million. So add this to the freight savings, and you can come up with $200 million dollars a year. Yes, half of it is from the reduced freight rates, but what we really are looking for is a different freight regime – one that does not have one rate per point. One that has more competition and relies much more on fast through-put, and one that really does get railway costs down.

I have not included the benefits of blending, but clearly, blending is something that as we do more of it, we have a habit of passing at least three of those four dollars along. The risk is passed from farmer and pool accounts to grain companies. Now if farmers say I am not interested in that accountability, I would rather have the safety and security of the Wheat Board running the system, then pass this money up and we will all carry on. You will notice it actually is easier for the grain companies in status quo.

I suggest that accountability reduces risk. Accountability will result in a system that will perform and as a result, it will give more customer service. What are the concerns? Clearly the level of the rate/revenue cap is one and the ability of the Wheat Board to market contractual guarantees is another. There is also a concern that blending grains at port, if delivered to spout, will all stick with the grain companies. I suggest blending becomes a competitive factor back in the country, and therefore farmers should get most of this money.

To me the challenge is that we must deal with the real issues. Do we want a commercial system that has accountability and what do we need to do to have that? We also need to nail down a serious package of competitive proposals. I do not think farmers can pass up the substantial benefit of a more commercial system every year. Thank you very much.
Mr. David Gardiner, *President*

*WESTAC*

**Moderator – Session 1**

There are a number of questions here on the issue of open access. Questions like, what evidence would it take to convince you that open access would actually work? Why companies and individuals across the spectrum, i.e. pulp and paper, have so many complaints about CN’s delivering. In other words, if the system is working, then why are there so many comments against it? There are other examples from Via Rail to CN and Wisconsin Central to Australia. So I guess the fundamental question is why does the conclusion seem to be that open access is not the answer? And what would it take to put that question to rest in the Canadian context?

**Mr. Arthur Kroeger:**

During our discussions all summer, everybody was hypothesizing. There are people who said, well sure it is bound to work. The railways said that it would have very adverse effects. Nobody knew for sure. We have no experience in Canada with what is called forced access. So, you then have to look at the evidence elsewhere. The evidence elsewhere, as far as I can see, is inconclusive.

Working Group 3 had great enthusiasm for the Australian experience. Well, they have railways that are state based and different gauges at state borders. Their freight rates are two or three times what ours are and most of their railways were, until recently, government owned. So, yes, they went to an access system, yes, their rates came down, but there was lots of room for them to come down. Quite inconclusive, as far as I can see in relation to our experience in Canada.

There is nothing in the United States comparable to the recommendation on open access that came out of Working Group 3. There are some examples in Europe, but I have read of an OECD study quite recently that came to the overall conclusion that experience with open access had generally proven to be disappointing. So all of that suggested to me that the Minister of Transport ought to take a careful look. If he concludes that access is okay and the proposal from Working Group 3 is worth trying, that is fine, but this is too important a question just to take action just on the basis of somebody else’s say-so.

Even after you have got the benefit of Canadian expertise, it would still be a judgement call. Maybe you should not do open access; maybe you should instead go for extended inter-switching, maybe the proposal for a competitive access rate from the Fertilizer Institute would make more sense. There are all of these possibilities, but it is far from clear to me that there is an open and shut case in favour of open access, as recommended by Working Group 3.
Sandi Mieletz:
Maybe I will just add a couple of brief comments to what Mr. Kroeger said. In Australia, not only are the freight rates higher for grain, but also the basic national system that has had these reforms still requires government subsidies, which I do not think will be forthcoming here. Something to give shippers pause for thought, Australia has no common carrier provisions, there is no FOA, there is no extended inter-switching, and there is none of the other protections. I question whether anyone in Canada is willing to give up these other protections in favour of access.

The other point that I would really emphasize is that the two Canadian railways are part of a larger North American system. One where the economies are growing closer together and no border exists for competition for products, markets, transportation, whatever you want to talk about. We have got to come to grips with a legislated proposal that does not leave us at a severe competitive disadvantage to the U.S. railroads. There is a fault-line right now at the border. Our legislation in Canada regarding railroads is far more advanced in terms of providing shipper safeguards than the U.S. system. Now we are looking at another major step or two. We have to understand how we are going to manage that border situation. From the research we did this summer, that is not easy to do.

Mr. David Gardiner, President
WESTAC
Moderator – Session 1

Mr. Kroeger, you said no U.S. examples of open access exist, but what about the CP over CSX Lines from Albany to New York City, which is a case that the Surface Transportation Board has just ruled on?

Arthur Kroeger:
Sandi might be better placed to handle this, but whatever running rights CN or CP may have over other people’s track in the United States are voluntarily negotiated. I am fairly certain that there is no legislative base that can force one railway to allow another to run over its tracks. Sandi, is that right?

Sandi Mieletz:
This is fundamentally right. There are a lot of joint-line agreements between railways. Largely they have been focussed on improving transportation efficiency, and most do not allow a railway who may be running over the tracks of another to actually solicit traffic on that railway. This is the major difference. You use it for a more direct routing, or to add volumes to the host carrier’s railway, in a way that will benefit him or her, without losing the actual traffic at play. In the case
of the CP/CSX arrangement, my understanding is it is a joint agreement, it does include some marketing provisions, but I think CSX and CP both felt that it enhanced their market positions in a market area that they were trying to develop. So, they had a common commercial goal, unlike joint line rates.

Part of it was agreed to, and part of it was STB imposed access, but that was a fairly unusual situation, where you had the breakup of ConRail. Half of ConRail was taken by NS and half of it by CSX. The Surface Transportation Board in the U.S. had to resolve the issues of equity and competition over a major structural breakup of the rail system. I would submit that that is not the same as introducing such measures on a wide-spread basis in the status quo rail system.

Mr. David Gardiner, President

WESTAC

Moderator – Session 1

For Greg, a question about looking at new forms of contractual arrangements and logistics packages which would be endorsed. The question is over what time frame do you now envision this new reform taking place? Especially with your newly elected board.

Greg Arason:
Well, first of all, we are interested in new forms of contractual arrangements. We are prepared to enter into those discussions to implement changes for the beginning of the next crop year, if some things make sense. We have already done tendering. Admittedly, not all of the parties liked the process and not everyone liked the result. But we have done tendering and we are prepared to proceed on more tendering. We are prepared to look at contracts with farmers that designate the elevators where the grain goes. We already negotiate with the railways on rates on corridors and we are prepared to continue to do that. If Gordon wants to run shuttle trains I think we are prepared to sit down and talk about how that can happen.

This is a very commercial environment that we operate in and we are prepared to sit down and implement these changes. I expect we are into a period of evolution, not revolution, but the pace of that will depend on the negotiations. If we want to negotiate lower storage rates then let us talk about it. There is lots of room to move here, and if everybody is interested in passing money on to farmers, we are certainly prepared to do that. There are lots of ways to do that, and I know that grain sits in the system at times. We hear from farmers that say, yes, I hauled my grain to the elevator and I have not seen a train for two months. Yes, we pay storage on that. Is that the Wheat Board’s fault? No it is not. Are we prepared to negotiate some different arrangement – yes we are.
Mr. David Gardiner, President

WESTAC

Moderator – Session 1

A question raised here – you mention that to effectively market grain on behalf of farmers, you need to control system capacity with a specific reference to the rail car allocation. What is your position about the same degree of control over milling capacity or trucking capacity, or malting or brewing capacity? In other words, how far does this degree of control have to extend?

Greg Arason:
Well, first of all, let us put the myth aside that the Wheat Board is directly involved in the allocations of cars. We have gone to much broader zones and it is up to the grain companies to designate the points to where those cars go. Hence, we have branch lines where cars are not received. The grain companies are focusing on other lines, high through-put elevators, etc. So the issue that the Canadian Wheat Board somehow puts cars in front of elevators on a point specific basis is not correct.

What we feel we need, in terms of capacity, is the assurance that we will have a car supply available to us, that we can then say to the grain companies, ‘the cars are there’. We can sell with confidence, we can have our sales team out, and when they make a sale, they will know that they have the car supply and that we can turn that over to the railways and the grain companies to get the grain to port. It is fundamental to the pillars of our organization. The pooling, our ability to market, our ability to maintain some form of equity over the year that we have that access, but it is not access that we need to do on a point by point basis.

In terms of others, we work very well with the milling and malting industries to get their capacity to them over the years. We have worked very well with mills in the U.S., Canada, and elsewhere to move product. I think something that gets lost in this is that we are in fact a marketing organization. The system should exist to meet the needs of the farmer at one end, and the customer at the other but not necessarily the needs of the grain handling companies or the railways who are service providers. They are a means to an end. The end is the customer.

Mr. David Gardiner, President

WESTAC

Moderator – Session 1

Gordon, your company made a poor return last year, how will you make more dollars under your proposals? Your proposals appear to reduce your operating revenues.
Gordon Cummings:
Well, the most fundamental idea in our proposal is that grain companies would be responsible for logistics. Our company earned a poor return, but so did anyone else that is published. But there is a break point in all this, and the fundamental break point is that so long as the Wheat Board has capacity allocated by railway by corridor, the grain companies are in a poor position to negotiate anything. We really want to play one railway off against another on each corridor, but currently a grain company cannot do that.

I am not suggesting that our proposals would necessarily increase our return, but it would clearly create more competition. It would force all of us to be innovative in driving our costs down. Clearly, having grain stay in farmers’ bins longer, where farmers have paid for it once to store it and not having it sit in the system, but moving it quickly through the system is in everyone’s interest. It gives a more responsive system to the Wheat Board plus it creates less storage and less revenue. You can say we should just negotiate these rates down but we are not earning very much now. What we have to do is fundamentally change the system so that there is less cost. This is what we are advocating. We really think a more competitive system will ensure that the best survives and the lowest cost is realized.

Mr. David Gardiner, President
WESTAC
Moderator – Session 1

If the Wheat Board is forced to being only a port receiver, do you see the Board acquiring facilities at port through direct purchase or for long term lease agreements?

Greg Arason:
First, concerning the issue of the Wheat Board at port, there are a number of factors other than just the logistics. There is the subject of landing revenues at port, which currently is to the benefit of the Pool accounts, and they are significant. There is also the issue of earning dispatch at the port. Gordon pointed out that on an average of five years, we are at a demurrage position. I will say that in the past two years, we are in a net dispatch position, so some things are changing. If you take out the one bad year that all of this process started from – 96/97 – we may have a different picture. As far as the Wheat Board owning facilities at port, currently our act does not allow us to do that. We would have to receive some amendments to our act. I will say that it is something that our Board of Directors has talked about. We see opportunities at Prince Rupert, but we are not in a position to take advantage of that because the owners of Prince Rupert choose to shut it down at certain periods of the year. They are the owners. We can negotiate with CN on favourable packages into there, but if the owners choose to shut the elevator down, that is their decision. We feel that there are other options through bulk handlers,
through Churchill, through direct movements, etc. that can bring some competition and allow us to do some different things. But, without a change in our act, we would not be directly investing in terminals.

Mr. David Gardiner, President
WESTAC
Moderator – Session 1

Sandi indicated that producers have a choice within a reasonable distance of using CN or CP, and hence that choice suggests that competition exists. Can you explain why CN's and CP's overall market share in grain on the prairies is constant? It does not shift from year to year. True competition would cause market shift.

Sandi Mielitz:
I think there is some degree of competition existing in the system now. Otherwise, I do not think we would have shared 50% of the productivity gains we made between 1992 and 1998 with the industry in various forms. I will be the first one to grant that some of that sharing was indeed mandated by the government, but a good deal of it was not. So there is competition going on today. More than 30% of CN’s rates are below the maximum rate ceiling right now to respond to competition. There is room for a great deal more competition and that is the direction in which we all need to go. Coming back to the specific question of market share shift, I think that is incorrect. In the time that I have been involved in grains since 1990 to the present time, I have seen significant market share fluctuations between the two railways. Do not forget that a 1% market share shift is about $12 million dollars in revenue for us. So small numbers can make very large differences. There have been several share shifts back and forth.

Mr. David Gardiner, President
WESTAC
Moderator – Session 1

If U.S. carriers move goods more cheaply than Canadian carriers, even including a fair or restricted access fee, then why not let them operate as they are able?

Sandi Mielitz:
I have to start by questioning the premise that U.S. railways move things more cheaply. Frankly, if you look at overall average grain rates, particularly grain rates immediately south of the border, freight rates up in Canada are significantly cheaper. Also, if you look right now at which
railway in North America is deemed to be the most efficient in terms of operating ratio, which is the way we measure efficiency, it is CN. So, I start by saying the premise is incorrect. The fundamental question is really the size and scale of those other railroads. They are three to four times our size. They have a terrific market capitalization. Do we, as Canadians, really want to put ourselves in the position where our two railroads have a severe, ongoing competitive disadvantage? I really think that you would see a restructuring of the industry, and I do not think we would exist.

Mr. David Gardiner, President
WESTAC
Moderator – Session 1

Gordon, which of the following would have a greater beneficial impact on rates and services – one, a revenue rate reduction of 12% on the cap, or two, a competitive tendering system?

Gordon Cummings:
In the long term, I do not think there is any doubt that a competitive tendering system would have a greater impact. There is no doubt that a one-time rate reduction of 12%, which is the $3.73, would put $112 million in farmers’ pockets year on year. I think that the impact of market forces over the long haul would have more than a $100 million impact a year. Indeed, what we would also see is a reduction in capital requirements. If we could start to have a significant amount of grain moving on full trains that turn in half the time of current trains, or current cars, that is a tremendous reduction in capital. So let us not only talk about cost, but capital, because if you get the cost of capital down, that is more savings again.

Mr. David Gardiner, President
WESTAC
Moderator – Session 1

The question has to do about efficiency, and specifically, can each member of the panel define exactly what efficiency means to you, and if your definition is consistent with what is efficient to society?

Arthur Kroeger:
I suppose a simple measure of efficiency would be how much it costs you to get a tonne of grain from Melfort, Saskatchewan to the Port of Vancouver, and whoever can do that at the least cost without imposed requirements by government regulation is the most efficient. But perhaps that
is a bit simplistic and others may have more sophisticated definitions. I like that definition because the lower the cost of getting it to Vancouver, the more money it puts in the producers’ pocket.

**Greg Arason:**
While I do not disagree with Mr. Kroeger, I would simply extend that one step back to the farm gate and say that to us, efficiency is the cost of moving a farmer’s grain from his bin to the ultimate destination, and the delivery point is one step in the chain. In our view, efficiency means that we have the minimum cost to the pool accounts and we have the maximum revenue on the other side. Maximizing revenue means being able to assure customers that they are going to get delivery of the product when they want and the quality that they want. So it is not only managing the logistics, it is managing the end of the chain so that the customer gets what they want and overall efficiency is the best return to the farmer when you net all that out.

**Sandi Mielitz:**
We have been talking a lot about efficiency but I would submit that the ultimate measure of the success of the system is not just simply low cost. We have got to be able to be responsive to changing market conditions. We have got to have enough assets in the system to be able to manage fluctuations in the volume or the opportunity of demand for sales. So, a better measure to me would be actual net back to farmers, and you could look at net back to the various players in the system as well. We have to look at whether we could we take advantage of opportunities as well as keep our cost down.

**Gordon Cummings:**
To me, efficiency is changes in the way that you do something resulting in the lowering of the overall cost of the system with the same or better level of service. Competition ensures that the efficiency savings are passed along, so you have to put the two together. Let me then use computers as an example. Every eighteen months, the power of computers double and the cost is driven in half. Clearly, these are tremendous increases in efficiency. The fact that there are many producers results in the savings being passed along to customers. What we are looking for in our system, is that system costs drop but service is either at the same level or improved, and that there is adequate competition so that the savings go back to the end user, who happens to be the farmer.
Mr. David Gardiner, President
WESTAC
Moderator – Session 1

There was a question about the current backlog in Vancouver, which some say is logistics, but why are there not more Wheat Board sales, C&F sales, to ensure that the grain moves through better, because it is an issue today in Vancouver. Under the tender system would the grain companies load and store the same grades in one elevator so the ships do not have to go to three or more? What is the problem right now? And is there a solution to what the uninitiated seems to be an exchange of paper instead of a change of absolute types of grain in elevators?

Gordon Cummings:
I think if we look at October and the first half of November, we were gearing up to move grain into position to be shipped based on the anticipated arrival of ships. If we look at Vancouver and Prince Rupert in October, we opened it and it quickly plugged up because a lot of ships did not arrive. This is not trying to point fingers, but clearly we were a little more successful in October in ships arriving for canola. If we look at the end of October, there had not been a lot of vessels waiting in Vancouver. It is not as if we have had a backup of vessels at all, to any extent. We just have not had movement as fast as we anticipated. If we were in a more contractual system, our desire would be to contract with the Board earlier for capacity, but deliver that capacity by moving grain later and moving it faster. Our desire would be to be more aware of what the lineup was in order to keep more space in Vancouver. We would also want to have railway service such that it would allow us to hit terminals quicker and to use the system much more as a through-put system, rather than as a combined through-put/storage system.

Mr. David Gardiner, President
WESTAC
Moderator – Session 1

Sandi, what is the potential that under the revenue cap concept that rates might be structured to favour movement in non-traditional, non-regulated corridors, for example to Portland or the Gulf to capture revenues outside of the revenue cap?

Sandi Mielitz:
I am not sure that the revenue cap is going to make that big a difference in that context of specific movements on new corridors. We are already moving grain to the Gulf, so I see the revenue cap as having far more effect in terms of improvements in the vast bulk of the system,
which is moving from origin to the traditional ports – Vancouver, Prince Rupert and Thunder Bay.

Mr. David Gardiner, President

WESTAC

Moderator – Session 1

I would like to thank all of our distinguished panelists for starting us off in an interesting way, so would you please join with me in thanking them.

Now we will deal with the farm and producer perspective. I would like to introduce our session moderator, Mr. Les Kletke, who is the Manitoba Department of Agriculture Representative in Altona. He is a farm broadcaster of considerable reputation. He has won awards for freelance writing on this and many subjects on the agriculture industry. He holds a degree in agriculture and in economics and is a graduate of the Continental School of Auctioneering

Mr. Les Kletke, Agricultural Representative

MANITOBA DEPARTMENT OF AGRICULTURE

Moderator – Session 2

Panel Discussion: Implications for the Farm Sector

Ladies and gentlemen, Kevin Archibald, the President of the Western Wheat Growers Association.

Kevin Archibald, President

Western Wheat Growers Association

I would like to thank WESTAC and the Transport Institute for inviting me here today. I was interested to find that the theme is The Changing Winds of Competition, and I hope that my speech today will indicate that they are going to be southerly or, let us say, trade friendly winds. Trade opened this continent up to commerce, and I think changing the winds of competition is a good theme to keep in mind.

I remember coming to a meeting in Winnipeg two years ago where everyone agreed something had to be done about the sorry state of our grain handling and transportation system. The
shipping debacle of the winter of 1996/97 was still fresh in our minds. In fact, it was the latest in a series of breakdowns that had plagued the system every few years and robbed farmers of hundreds of millions of dollars in demurrage and lost sales.

Numerous studies have identified the cost of regulated grain transportation. The Organization for Western Economic Cooperation found that in some years, the system had reduced returns to farmers by as much as one dollar per bushel, or $900 million annually. In the context of the current farm income crisis, that $900 million is roughly equivalent to the entire aid budget. Despite the fears among some farm groups about Montana freight rates, a paper in the American Journal of Agricultural Economics in 1998, by Carter, Loyns and Burwald, revealed farm gate prices for feed barley in Great Falls, Montana were over $30/tonne higher than they were in Lethbridge.

Justice Willard Estey’s landmark report confirmed the need for change, citing over-regulation and the lack of market forces as the root of the problem. He mapped out a bold, new vision for a commercial, competitive and accountable grain logistics system. In May of 1999, the Federal Government took the courageous and far-sighted step of adopting Justice Estey’s report as a future basis for grain handling and transportation policy. Mr. Arthur Kroeger was then given the daunting task of trying to forge an implementation plan.

As you know, consensus could not be reached on the big three issues:
- The role of the Wheat Board
- The revenue cap
- Open access

While it is my view that Mr. Kroeger’s report does not go far enough in meeting Mr. Estey’s vision, it certainly would move us closer to a commercial system that will benefit farmers. So now we find ourselves at a crossroads. The Wheat Board and its allies are doing everything in their power to reverse the government’s policy decision, saying the system is working fine and only a few cosmetic changes are needed. I believe the implications of failing to act on the Estey/Kroeger proposals will be a permanent farm crisis.

With farmers now paying the full cost of transportation, we can no longer afford a ‘squander’ system that buries its mistakes in Wheat Board Pool accounts. The Western Canadian Wheat Growers Association is one of eleven farm groups in the Prairie Farm Commodity Coalition. Collectively, the coalition represents about 90,000 farmers. It is interesting when we think about it in terms of the comment I heard this morning from Greg, that the Wheat Board and the majority of farm groups agreed on a certain position. We have this counter balance of numbers on the other side that takes a different view. It is interesting that Mr. Kroeger talked about the deep divisions. They exist, and they are not going to go away. Let us not create the perception or the impression that there was broad consensus on any issue.
PFCC has recently produced some calculations on the potential benefits to farmers of moving to a commercial system based on the Estey/Kroeger recommendations. We have estimated the benefits at $10.17 per tonne shipped from a prairie farm or $15,250 annually on a typical 1500 acre family farm producing one tonne per acre. This estimate is based on 30 million tonnes of grain moved and the breakdown is as follows:

Lower overall rail rates under the option B revenue cap saves $73 million/year. Option B would set the cap 8%, or $2.44 per tonne below the 1998 level. As you know, Mr. Kroeger has recommended an immediate 12% reduction – he spoke on his reasons for that earlier. We favour Option B, with further reductions resulting from commercial forces.

PFCC believes there are considerable risks associated with taking the cap too low by legislative action. In particular, the risk of losing commercial flexibility and increased pressure on branch line abandonment as railways look for other ways to improve their returns. The revenue cap must serve as a safeguard for farmers, not a mechanism to establish rates. Additional savings in rail rates from competitive train operations will save farmers $60-$70 million/year. A commercial rail system will capture savings from modern logistics, including shuttle trains and other industry accepted tools. With a more competitive system, an increasing percentage of productivity gains will have to be shared with farmers.

Savings of handling charges by commercial pressures on the country and terminal elevator system will total $50-$70 million/year. Current handling tariffs of $25/tonne on 30 million tonnes amounts to $750 million/year, an 8% reduction due to commercial competitive conditions represents a $60 million savings to farmers. Savings in carrying charges and storage costs could be as high as $40-$60 million/year. In the pool accounts alone, country storage and terminal storage account for $82 million annually. Moving to a through-put system rather than a storage-based system could save two thirds of this expense. Returns from premium pricing opportunities can produce revenues of $45 million/year. This is based on a $25/tonne premium for more grain moved during the four month ‘prime’ period. The example is: one shuttle train operating on a seven-day turnaround moves 185% more grain than the average current car cycle of 20 days.

Efficient car use can only be obtained if the recommendations of the Kroeger/Estey reports are implemented, giving the grain companies’ management control of their assets without third party regulatory control, and providing them with an incentive to compete for movement.

Reduced demurrage costs will save $10-$18 million/year. Demurrage costs have averaged $14 million/year over the past five years. In a commercial system, the contractor that supplies the grain is responsible for on-time delivery and pays the bill if ships have to wait. On non-Board grains, farmers do not pay demurrage, and competition assures the grain companies absorb the costs.
In total, PFCC believes prairie farmers stand to gain about $305 million/year in a commercial system, and I believe those estimates are conservative. Now Gordon Cummings mentioned this morning that over $216 million would accrue to its farmer members if the Kroeger proposals were adopted. So we are not alone in projecting substantial benefits. Gordon also talked about accountability. A lot of our discussions were about commercial systems, railway revenues and open access. We have lost sight of that accountability aspect, which is why this discussion was originated in the first place. There is truly a lack of accountability in the current system.

Last Friday, PFCC released a comprehensive document entitled, *A New Blueprint for Grain Transportation Reform*. The document is designed to help the Federal Government fulfill its commitment to move forward on the Estey Report. One of the key areas where we differ with Mr. Kroeger is in the transition to a tendering system. The blueprint calls for 100% tendering within two years, while Mr. Kroeger calls for a phase-in starting at 25%. As long as the Wheat Board has a role in the logistics system, competition will be stifled and farmers will not reap the full benefits.

We have also recommended rail rates be targeted to decline by a minimum of 12-15% over five years, through a combination of legislative action and commercial forces. As I mentioned earlier, we are suggesting the revenue cap be set at 8% below the current level. We have also suggested the cap be extended and lowered if the minimum target range is not reached.

We propose a comprehensive study on open access policy be conducted over the next six months to allow the issue to be solved during the year 2000 review of transportation policy. I want to make this very clear, because our position has been misrepresented on this issue, that PFCC supports the concept of open access. We too share Mr. Kroeger’s concern that not enough is known about its implications to make an informed policy decision.

In summary, ladies and gentlemen, I believe a commercial, contractual grain transportation system is absolutely essential to the health of Western Canadian agriculture. My colleagues and I have urged the Federal Government to stay their course on their May 1999 commitment to adopt the Estey Report, and to pass necessary legislation and provide the leadership to see this implementation process through. The farm income problem that we see in this province and across Western Canada means that we cannot afford to stall any longer. These are real dollars that are sustainable, not taxpayer dollars that are being squandered. I thank you for your time and for the opportunity here.
Mr. Les Kletke, Agricultural Representative

MANITOBA DEPARTMENT OF AGRICULTURE

Moderator – Session 2

Thank you, Kevin. Don Dewar is the President of Keystone Agricultural Producers.

Don Dewar, President

Keystone Agricultural Producers

I want to thank WESTAC and the Transport Institute for the invitation to present our view of the implications of Mr. Kroeger’s recommendations for the producers of Western grain.

One of the key statements everyone has made is that producers should benefit from this change in the system. Justice Estey made fifteen recommendations, twelve of which were dealt with through Mr. Kroeger’s facilitation process last summer, and three were left with the Federal Government. Those three are almost as important as the other twelve, because if I am going to be the benefactor in efficiencies and dollars in a better system, the dollars part of it are very much in the Government of Canada’s hands. If the Government of Canada does not support building up our road infrastructure through dedication of the fuel tax to rebuild the roads, we will continue to have a vast rural road deficit. As taxpayers in the province and vehicle owners that have to repair the trucks, etc., we are going to pay at that end. Similarly, the situation dealing with port issues and the disposition of government-owned hopper cars has to be dealt with.

Everyone agrees that increased competition will benefit the system. We have said that competition is important amongst grain companies and railroads. Gordon said earlier that it is key to any changes in the logistics system, also vital is competition amongst the railroads. If any one of the representatives of the working groups wanted the status quo, it was the railroads when it came to competition. We have heard them say that they do compete, and we do not need to have any other competitive access provisions. Well what do we have? Between the two disasters that Mr. Kroeger referred to, 1993/94 and 1996/97, we were given the CTA. I disagree that the WGTA was scrapped because it was outdated. It was scrapped because of $700 million that was going into the transportation on farmers’ behalf, and it was done for budgetary reasons alone. The CTA gave us interswitching, competitive line rates, and a final offer arbitration process that is not working.

We do have recommendations for increased competition and we have suggested that there should be open access. Our first choice was not reverse onus, but in deference to the railroads’ concerns, this would prevent cherry picking of freight by their American competitors. Our
railroads are Canadian in name, but they are North American railroads given the opportunity to operate in Canada. We do have a duopoly that we need to deregulate as well as somehow allow or force to compete.

We suggest that the open running rates or reverse onus would do that. Mr. Kroeger has suggested that there should be studies of this and other aspects, and refers to two others. One being competitive line rates, which we recognize having not been useful – is that because they are not needed or because of the process? I think we have some instances of expanded interswitching. CP applied to build a piece of rail line by Red Deer to access a Union Carbide plant because interswitching was not adequate competition. I was told an extra line went into the Simplot plant in Brandon because interswitching was not competition. We needed to have two access lines for two railroads. The only other one that is being suggested is open access, and therefore, we are going to stand by our point that access is needed to enhance competition amongst the railroads.

If that competition can be enhanced, all the discussion and debate around where the revenue cap should be set would be redundant. The revenue cap with adequate competition would be a non-issue because the price you pay for the service would be related to the cost of providing it. Competition would ensure that. Given that we do not have an adequately competitive system, we have to look to control of the railways through the revenue cap. We suggest the average contribution rate should be lowered – it was 27% and that is where we propose a start of a revenue cap. If efficiencies can be maintained and gained at anything close to the same level, it should be driven down from there.

The other critical decision was where the Canadian Wheat Board should be in transportation. We do not believe, and our membership has told us that they do not believe, that the Canadian Wheat Board can be as effective a marketer if it is not involved somehow in the logistics of grain transportation.

There was a lot of agreement on final offer arbitration although there were some differences. We proposed a two-tiered process, the first one being thirty days with a limit of $2 million. Mr. Kroeger suggested $750,000. Why do we suggest it should be higher? Because it has been shown the railroads do not like FOA. They do everything in their power including to use the courts to prevent the FOA from happening. So we want this to be at a high enough level that they cannot force it into the higher threshold. For larger disputes, Mr. Kroeger is recommending one or three arbitrators if either party requests it. The argument we have is it is a little more expensive to have three arbitrators and, in fact, if there are three arbitrators, normally it is one representative from each side and one that is picked separately. So you have two people lobbying the one, and the most successful lobby wins. So we do not see anything other than expense for FOA.
We are suggesting that the revenue cap be set back, and we do not differ very much from where Mr. Kroeger started. He started in 1998, and there should be some productivity deemed since 1998, and start in 2000 with a return of 27%. We believe we should share in those deemed productivity gains since we are paying for the system. Until there is a better way to get the cap down, it would have to be regulated.

We want the Canadian Wheat Board to be as effective a marketer as it can be. We know there are gains to be made. Five years down the road, blending may take place more often in the prairies. This is an evolving system and we see some opportunities for change, but the Canadian Wheat Board has to be involved in the logistics process. Using Mr. Kroeger’s analogy again, the Canadian Wheat Board can give you a house on a certain date at a certain time, in spite of the fact that it does not own the lumberyard. It can contract with the lumberyard, with the carpenter, and with the painter, and deliver those keys on a certain date, which would be when the boat arrives. Your analogy works perfectly. It is the system we need.

The revenue cap, starting out with $75 million and up to $166 million. The blending revenue is $30 million. The risk that we would be transferring if we were to give everything to the grain companies and railroads and get them to send it out is estimated to be $144 million dollars. This is not unlike the risk when you insure your house. When you transfer that risk to someone else, they are going to charge you. For a total of $249 million at the start, and $340 million down the road for producers in their pockets. This is not about the current farm income issue. This has been an ongoing issue. We are not suggesting that this is a solution to it. The system can operate better, more efficiently, be accountable and put this much money in producers’ pockets, which will help our bottom lines as we go into a competitive future.

What are we looking for the government to do? From our information, if there are to be changes around a revenue cap, the government has to make a decision and enact some legislative changes. If the government is going to do something with competition, they have to make some legislative changes. If the Canadian Wheat Board is going to move from the way it is operating today, to take position at spout, it does not require legislative changes. We are saying that the Government of Canada has to make some changes and allow the system to evolve. We are also asking the industry, the Canadian Wheat Board, and the grain companies to work out the logistics and the contractual system because we do not have the detailed contractual system that will get that grain to port as it is needed. I thank you for the opportunity of addressing you, and look forward to your questions.
Ron Gleim is a Co-Chair of the Western Rail Coalition, and, has been very involved in a number of organizations and throughout the community.

Ron Gleim

WESTERN RAIL COALITION

THE 21ST CENTURY

Good morning, ladies and gentlemen. What I want to talk to you about today is the 21st century. The 21st century is about technology.

But first, back to the 20th century. The 20th century is about building massive grain-handling infrastructure on main lines. It is also about massive destruction of infrastructure like branch lines, elevators and roads. The only way the terminals will profit and guarantee these investments made by the grain companies and railroads is if they destroy the branch line system on the prairies. The United States went down this road in the 1960’s and 1970’s. Today in the United States, the farmers’ only options are to buy a bigger truck or use custom trucking.

I would like to quote from the November 11th Western Producer, concerning high throughput elevators:

“When it comes to transportation, United Grain Growers has invested in more than its network of high throughput elevators.”

Chief Executive Officer Brian Hayward told delegates at the company’s annual meeting:

“High throughput elevators are simply the table stakes to be in the game. You need a wallet to be in a poker game, but a wallet does not mean you will win at poker.”

Hayward said that the company has made important investments in logistics that will help it outperform other grain companies.

“There will be more commercial risk in a contractual, just-in-time system, but UGG has replaced storage capacity with ‘thinking capacity’. In 1998, UGG moved 30 percent of its grain
in blocks of 25 or more rail cars. In 1999, the company will capture incentive rates on about half its grain, compared to the industry average of less than 30 percent. This logistics acumen will give UGG a competitive edge in the future.”

Are we really spending billions of dollars on high throughput elevators just to get a three or four dollar incentive rate from the railroads? This just simply cannot be true. There has to be more to it than that. This is probably not the first time that industries built unnecessary infrastructure for control. This is a huge gamble on their part.

Do you really believe that the multi-national grain companies came to Western Canada to make the producers more money? No, big grain companies did not come to Canada to give the farmer a better deal. The grain companies are working for a deregulated commercial system that gives them the profits and gives them the control that their shareholders demand. Their proposed role in grain handling and grain transportation will give them total control of grain from the farm, bin to port, including all the revenue generated (blending, protein, dockage, etc.) they can squeeze out of that grain grown by the farmer. This is the way the system works. He who has the gold has the power and makes the rules!

You must understand, there will only be three or four prominent players in the grain handling industry in the very near future if Mr. Kroeger’s recommendations go forward. The large corporations will simply buy out or force out their competition. When the grain companies, railroads, and WCWG sold the terminal trend to our federal politicians, provincial government, the public, and Western Canadian producers, it was stated that this would be for the benefit of producers in Western Canada. This was not true.

All we have seen so far is:

- All the control is put into the hands of the grain companies and the railroads
- No safeguards for the producer
- Mr. Kroeger’s recommendations are protecting the investment of the railroads and the grain companies – not the producer

The only ones that believe that there is competition in the grain-handling and transportation system are the railroads and WCWG. Railroads do not want to sell unwanted branch lines and grain companies do not want to sell unwanted grain elevators because they may become competition. They do not want farmers involved. They portray that the system is too complicated for farmers. The grain companies know that if farmers gain some control, they will create competition and drive costs down, and that is not in their best interest. This is where we are today. Now onto the 21st century:
Producers have to get involved all the way through the food chain, from grain bin to value-added in the importing country. This is the only way producers will be able to reap the benefits of what their product is sold for in the end. Ownership is stability. The future is in software (new technology). The future is inexpensive infrastructure and producer-created competition, the only real competition possible. What is this software I am talking about? How does it work? Pilot projects in Saskatchewan have started already.

It all starts at the farmer’s bin. A CWB employee or an agent probes the bins to identify:
- type of grain
- grade
- dockage
- protein
- other pertinent information

This all goes into a computer with thousands of other producers’ samples. Once the entire inventory is entered into the computer, they know exactly what quality and quantity they have stored in the farmers’ bins. When the CWB makes a sale, the computer informs them where that type of grain is located. They know which grains can be blended to meet that specific sale requirement. This grain is then hauled in and blended as required.

**Benefits to the Producer:**
- the producer gets paid storage on the farm
- the blending of grades, protein, dockage and other benefits are also paid directly to the producer
- the elevator tariff may also be reduced significantly if producers load their own grain, or build their own loading facility, and,
- the producer will have lower trucking and road costs

This technology is already being used to blend in terminals today. This just takes it to the farm. This new technology being developed by producers and the CWB will cost far less than the terminal trend. New technology can be moved from farm to farm, or elevator to elevator. New technology will pay dividends directly to the producer, for example:

- blending premiums paid to producers
- protein premiums paid to producers
- actual dockage benefits the producer
- farm storage paid to producer
- rail efficiency rebates paid to producer
- the handling tariff reduced from $12.77 to $4-$5/tonne
These and other revenue generators could add to the producers’ bottom line. The producer gets paid up front and does not have to filter it through the railroads’ and grain companies’ books first. Producers should own their own loading facilities along branch lines so they can create the needed competition in the system. (Branch lines are not for every producer, just as terminals are not for every producer, but they should be allowed to co-exist so producers can create competition and protect their investments too.) Producers will only see true competition when they own and control part of the system.

Now, I would like to talk about Mr. Kroeger’s recommendations. What did Mr. Kroeger leave out of Mr. Estey’s report? How did we get into this mess? We negotiated in a box. Mr. Estey created this box we have to negotiate in. Mr. Kroeger only used the parts of the box that he wanted to:

- high revenue cap - good for Railroads
- CWB at port - good for Grain Companies
- No open access - good for Railroads

Where are the producer concerns?

The railroads, grain companies, and WCWG have lobbied the Federal Government within this narrow box. This whole process is about protecting investments for grain companies and railroads and increasing their control of the system. It is not totally commercial, not transparent and not really competitive. This box is too small and is outdated. This whole process did not take into account the producers’ innovative ideas and will ultimately fail because of it.

**To the Grain Company:**

- Blending Opportunities $1.00
- Protein $1.00
- Storage Revenue $2.85
- Elevation Tariff $9.00
- Shrinkage/Dockage $3.77
- Sale of Screenings $0.00
- Rail Efficiency Rebates $3.00
- Terminal Premiums $0.00
- Grain Promotions Revenue $0.00
- Condominium Revenue $0.00
- Grain Drying/Blending $0.00
- Custom Trucking $3.00
- Extra Road Use (no cost) $(2.00)

**TOTAL:** $26.00

PLUS
- Gain Control
- Share Productivity Gains (maybe)
New technology with producer-CWB control will be the future that works for Western Canadian farmers. New technology will give the producer, through the CWB, a level of control of his product from grain bin to port (and maybe even to the export country). Compare this to the Kroeger recommendation, where Kroeger keeps the producer at his grain bin and the CWB at the port. Everything in between is in the hands of the railroad and grain companies. Why do you think farmers would be concerned about this process?

New Technology: CWB Buys on the Farm (run a short line):

- Pay the Producer storage on the farm $2.85
- Cut elevation tariff $5.00 - $9.00
- Blend for the producer (grade) $1.00
  (protein) $1.00
- Shrinkage and Dockage
- Clean and sell screenings $3.77
- Road maintenance costs (savings) $2.00 – $5.00
- Less trucking $3.00
- Rail efficiency rebates $3.00
- Locally owned facility $0.58 - $0.78

Grain Companies $2.00 maintenance paid directly to Producer

On 30 million tonnes:

0.58/bushel or $21.00/tonne = $630,000,000 paid to or saved by the Producer
0.78/bushel or $29.64/tonne = $880,000,000 paid to or saved by the Producer

This is just a start, as I see it, for Producer control.

I heard a comment on the radio from Paul Harvey a few weeks ago. It goes like this; “Tiger Woods gets ten cents for every box of Wheaties sold and the farmer gets five cents.” That is a commercial system. No one sees anything wrong with that except the producer at the start of the food chain. The Kroeger process goes like this; “It keeps the producer at the five cent level, and allows the grain companies to become the Tiger Woods of the grain Industry.”
Questions through the Chair: On the dollar figures you presented, Don, the blending revenue of $30 million and the risk of $144 million – were those new or additional monies for farmers? And, you identify risk at $144 million, yet you say risk is transferred from the Wheat Board to grain companies. How can transferred risk be a new cost?

Don Dewar:
The ‘would-be’ transferred costs would be taking money out of our pockets. The risk transfer is built in. This would be a cost that would be going to the grain companies or whoever was accepting the risk in that chain. This was identified through the study to be $8 per tonne and that is where the number came from. The first half of the question, the $30 million is the blending revenue that is an estimate of the revenue that is going into the Pool accounts, and would be given up if we were to go to spout. I recognize that Gordon suggested that competitive factors would force it back, but it would also mean that the companies would have the distribution of that $30 million at their beck and call and the people who contributed may not get it.

Kevin Archibald:
Basis levels and demurrage are always an interesting concept because demurrage happens after a sale fails. The concept that demurrage is built into the basis means the parties entering into a contract with the farmer in establishing a basis contract are doing so because they expect it would fail to begin with. Certainly risk is built into a basis but there are times whenever substantial premiums are in basis levels as well. The important point about basis and visible basis on non-Board grains is that the producer has that expressly laid out. He can decide to take advantage of a good basis or to leave it and wait for a better opportunity. This is really the strength of the non-Board system. I would argue grain companies absorb demurrage on the non-Board sale or other contracted parties in the system have to pay for. Demurrage in basis is not a big deal.
Ron, in your technology box, how would I market my canola, peas, flax, barley, feed wheat, etc.?

Ron Gleim:
With non-Board grains – producers ship producer cars of non-Board grains. They can ship producer cars of Board grains if they build their own elevators and it would basically be the same way. If there is a number of farmers who are growing specialty crops, they may hire somebody to sell them. They may even get the Wheat Board to do it for them. But that is not in the mandate yet. I do not think it would be any different than Board grains.

Mr. Les Kletke, Agricultural Representative
MANITOBA DEPARTMENT OF AGRICULTURE
Moderator – Session 2

Since studies show that Canadian farmers are getting less for their wheat than U.S. farmers are getting in Montana and North Dakota, despite the study showing Canadian grain commands a premium, why do you find the existing system so appealing? How can more regulation get farmers more money, when it is getting them less money now?

Ron Gleim:
I do not think it has anything to do with regulation. The U.S. pumps $20 billion worth of subsidies into their agricultural economy every year. I think if the price of my durum is $7 in the U.S. and the Canadian Wheat Board is paying $5 here, then that is the Pooling account. They are not paying $7 for every bushel of grain or durum that is grown in the U.S. either. It has got to meet the specific quality and different grades. My response is, show me the true numbers that say the U.S. producer is getting a dollar and a half a bushel more for his grain, and I am sure somebody can show you where he is getting a buck and a half less.

They are not necessarily getting those dollars that we say they are getting. I want to make one comment on how we have talked about status quo. It is not on the table. We are not talking status quo. What I was talking about with this new technology is having producers do something for themselves. It is there, the grain companies are doing all this at the terminal. The farmer can do it at the bin with the Wheat Board.
Don Dewar:
We have economists for the same reason that we have lawyers, so they can disagree on the process. Unless we rip up all the acts and have no rules, there is going to be regulation. We are just suggesting that the regulations should be favourable. We do not want captive shippers to be treated like captive shippers and be gouged. We want to pay for a service that is somehow related to the cost of providing that service. If the system cannot give us that then we are going to have to rely on some sort of regulation. If we have the right competitive environment, the revenue cap will be a non-issue. We do not want it to become a revenue target, which is the grave concern we have if there is not adequate competition.

Kevin Archibald:
Ron raised the issue of government support payments as being part of the U.S. producers’ revenue. In the U.S. right now, there are no direct subsidies through the price of grain. They are getting decoupled farm payments, loan deficiency payments, emergency disaster and an enhanced crop insurance program, but the evidence is stacking against his argument. The OWEC Study is just one example, the Carter/Loyns/Burwald Study is another. If I could take my grain to the U.S. tomorrow, I would receive a much higher farm gate price. The only difference between their system and mine is a commercial system over there and a regulated transportation system here. Mounting evidentiary studies are proving our case very strongly.

Don Dewar:
You are right Kevin, I think you can probably gain a dollar or two a bushel on that day at any given time. But when you look at the Pooling account of the Wheat Board, high priced grain is selling in that very same market. But one single producer is not getting the benefit, it is going to all the producers.

Kevin Archibald:
The beauty of the OWEC Study was that it did compare U.S. selling prices to Canadian Wheat Board selling prices. They found that the Wheat Board was capturing a little more money. The price premiums were there in the OWEC Study, but the farm gate returns were not. There is no stronger evidence that in between port and farm we have a severe problem and that is what we are talking about here today.

Mr. Les Kletke, Agricultural Representative

MANITOBA DEPARTMENT OF AGRICULTURE

Moderator – Session 2

Who pays the costs of on-farm stock sampling? Does this suggest more than the CGC from the ports to the country?
Ron Gleim:  
There is a pilot project underway. We are going to have the answers to all those questions as to who pays. Right now, the farmer pays for everything, make no doubt about it. We are not sure what the number is going to be, but within the year, we will have all the numbers as to how this system works and what all the costs and the benefits will be. So a year from now we should be able to put some real numbers on the table.

Mr. Les Kletke, Agricultural Representative  
MANITOBA DEPARTMENT OF AGRICULTURE  
Moderator – Session 2

It seems like a contradiction to suggest greater competitiveness for the railways while supporting the role of the Wheat Board, a monopoly. How effective will the changes be if one part of the system remains in the old framework?

Don Dewar:  
We are not advocating that any parts of the system remain in the old framework. I will just remind you that we are talking about the transportation system and not the marketing system. If there are benefits to the producer with the Wheat Board controlling the logistics and if they can capture benefits from the transportation system that complement their marketing, then that should be where they are. This is what our position paper has always stated.

Mr. Les Kletke, Agricultural Representative  
MANITOBA DEPARTMENT OF AGRICULTURE  
Moderator – Session 2

Ron, you make a very good point about the technology co-existing in different systems to provide competition. However, why not take that sample and shop among the different grain companies’ service and handling costs, rather than automatically through the Canadian Wheat Board?

Ron Gleim:  
Well, that is an option that those producers can use. It may be the best option. As I said before, either the Wheat Board or an agent of the Wheat Board can do this, and it may very well be a grain company. I am not sure that you are going to accrue all the benefits if you deal with an existing grain company, but that is up to producers.
Mr. Les Kletke, Agricultural Representative

MANITOBA DEPARTMENT OF AGRICULTURE

Moderator – Session 2

Kevin, the Western Wheat Growers Association withdrew their support of open access at the last minute, why did you not fight for producers and support Estey in competition?

Kevin Archibald:
I made it clear in my presentation that we have always supported open access. I am not sure if any other farm group actually had meetings with railroad personnel to stress the importance of moving ahead with the open access debate. We were the only ones that met with them one on one and urged them to get to the table and cooperate openly, fairly and discuss this rationally. Try to help us come to a solution on open access. We have always supported it. What we were concerned about as an association, and as leaders in this industry, is that we come up with a better system, not a poorer system.

The danger of moving ahead with open access when we are discussing it in terms of the Australian model or the U.K. model that was presented, were very dangerous because they did not fit the Canadian situation. We have different logistical challenges here. We have a different environment. We have different topography. There were just too many differences. Non-grain shippers should have been at that table, because this does affect fertilizer shippers. As a user of fertilizer, I cannot afford that distortion. So it was absolutely fundamental that we proceed in the proper way. We were very concerned that the short time period involved did not allow a rational, accurate, thorough discussion of the issues that would result in a better system.

The other important point that should be considered regarding open access is that everyone is painting it as the competitive factor. Is it indeed? We are talking about things like having the ability to negotiate rates and service, being able to place cars at the most efficient points, being able to use shuttle trains, and tendering to the Canadian Wheat Board sales – those are truly competitive changes. Is open access maybe just another safeguard? We should think about what would be even a more effective safeguard than open access. Expanded inter-switching limits, enhanced CLR’s, and the final offer arbitration that Mr. Kroeger suggests are other competitive factors. We may actually have more effective safeguards at our disposal that we are not using now. So, let me make it clear, we support the concept; but it needs some thought and some further development, not at the expense of what we have, but for the betterment of it.
Mr. Les Kletke, Agricultural Representative

MANITOBA DEPARTMENT OF AGRICULTURE

Moderator – Session 2

Don, the $85.53/tonne reduction assumes that grain company competition will increase basis or grain company revenue per tonne. Actual grain company revenue per tonne is lower on non-Board grains, including export canola. Do you suggest that more competition will increase grain company revenue?

Don Dewar:
More competition should not increase company revenue. In fact, there is room for it to move downward. If the Canadian Wheat Board is contracting more directly for services then there would be savings passed on. Well that can happen with or without the Canadian Wheat Board’s involvement. So I think we have room for movement there. We are suggesting that the system will evolve, and evolve to the producers’ benefit.

Kevin Archibald:
I view it as changing the revenue stream for grain companies, rather than this storage based system. There has been a lot of talk about what a throughput system would do, and it will probably change where the revenue stream is being generated. From a producer point of view, that is vitally important. I want throughput, I do not want to pay storage. It takes away from the ability to meet sales. So changing the revenue stream within the grain companies is changing my ability to actually flow grain from my farm and access cash.

Mr. Les Kletke, Agricultural Representative

MANITOBA DEPARTMENT OF AGRICULTURE

Moderator – Session 2

Why are Canadian farmers trying to get their grain across the border into the U.S., but U.S. farmers are not lining up to sell their grain into Canada?

Don Dewar:
I do not know where this question came from, but they obviously were not in Fargo last week with us. The Americans were talking in some of the groups about having access, setting up a cartel, and having access to the Canadian Wheat Board. Some suggested we need a North American Wheat Board. I am not sure, because some of the same people saw the advantage that the Wheat Board had and they wanted to be a part of it. But I think since the loan deficiency payments have entered in and the loan rate has not provided a North American floor price, you
have seen very little incentive for grain to move south. In the case of feed barley, it is moving north.

**Ron Gleim:**
I have not got much comment. I do not know a whole lot of farmers who are moving their grain into the U.S., but I go to Montana every year on a trail ride and I talk to a whole pile of farmers there for five days. Those guys have been moving some of the barley to the feed lots in Alberta and they are not happy with their system at all. So, if you are saying we should go to their system and can ours, you go down there and talk to the majority of farmers. I do not see many farmers down there saying their system is so great.

**Kevin Archibald:**
Don was at a different meeting in Fargo than I was at, even though we were in the same room. It is interesting that American farmers do want to move their product into Canada sometimes, but the interesting side is, they are all non-Wheat Board crops. Canola is coming up to Altona, Manitoba. Sunflowers flow north at times. Barley is coming into Alberta, there is no doubt about that, but when you say ‘would you like to bring your wheat and barley north?’ Well, there is no way! They certainly do not want to take less money for it, and the only difference is the Wheat Board, I am not talking about the marketing system here, I am talking about their role in transportation. As we have mentioned, the only difference is regulation on those grains (wheat and barley in Canada) and deregulation in the U.S.

**Don Dewar:**
I would just like to respond to Kevin’s comments about canola coming north. Why is it coming north? If it is just the Wheat Board, their transportation is obviously less efficient than ours is if they want to bring their canola north. So I think we have to be careful what we ask for. We know what we do not want, and it is not the status quo, but it is also not the system that those same people are faced with that they would rather bring their grains into our system.

**Mr. Les Kletke, Agricultural Representative**

**MANITOBA DEPARTMENT OF AGRICULTURE**

**Moderator – Session 2**

Under a contractual commercial system, the grain companies will be taking more risk than they presently are, and they presently are not accountable. They have indicated they will build their risk into their tenders, as will the other players. Presently, the farmer pays demurrage through the Pool account. If the players build their new risk into their tender, does that not mean that farmers would then pay for the potential demurrage, whether it occurs or not?
Kevin Archibald:
An interesting question that again relates to the level of competition that can be built in the system. If we use the revenue cap as a safeguard we have to then move the Canadian Wheat Board to FOB or port position. By doing those two in conjunction and moving to tendering, we create this competitive dynamic: if you have won a tender and have to attract grain to your facility to meet that tender, you have to be very careful on how you manage your risk as a company and on how you manage your logistics to minimize that risk. If the price offering to the farmer is unattractive in any way, he is going to wait for the next deal or he is going to go to your competitors. It is that competitive factor that is going to lessen that risk and the only way to get accountability into the system is a contractual arrangement. I believe in a competitive system because it will actually lessen risk. Those companies will be on the hook, and need my business; they cannot attract it on a wide basis.

Mr. Les Kletke, Agricultural Representative

MANITOBA DEPARTMENT OF AGRICULTURE

Moderator – Session 2

Questions from the floor:

Bill Woods, Secretary of West Central Road and Rail.
We are a group trying to get a short line going and I am here representing the Western Rail Coalition. I did have the opportunity to sit as an observer in one of the meetings in June in the Kroeger Process, and I just could not bring myself to stay in my chair when I heard Kevin say that he had always supported open access. At that meeting, a representative from the Wheat Growers initiated a debate that Kroeger did not really mean open access, and I know what I heard.

Kevin Archibald:
Just clarify for me, you said Kroeger did not mean open access?

Bill Woods:
At that meeting the Wheat Growers initiated a lengthy discussion, and your representative was leading the charge, that Estey did not really mean open access.

Kevin Archibald:
Well, I was not in the discussion. But I can assure you, that the Wheat Growers definitely support open access. I remember hearing about the conversation, and I think that if you remember back, there were probably a few votes around open access, and in the end, did not our producers strongly support working towards open access? The discussion within that group and
some of the proposals put forward was what caused our representative great concern. The discussion was centering totally on issues that were not workable in this environment. As I said earlier, open access has been blown somewhat out of proportion, but we support the concept. In fact, we will be the leaders in working towards it in the end. But, a workable solution, not one based on flimsy models from other jurisdictions that do not work here.

Don Dewar:
Just further to the point about Justice Estey not meaning access when he wrote access. Our facilitator made the statement that it was outside the Estey box, the open access as we had envisioned or even as it ended up being proposed. We can only assume that somebody was deeming it to be outside the box, so I phoned the learned Justice and I asked him what he meant, and he was rather upset that they were challenging his knowledge of the English language, because he did, in fact, mean open access. So I think it is important to let everyone know that he did intend access. If the goal of the process was to implement Estey, then it should be incumbent on finding a way to make it work.

Butch Harder, Canadian Wheat Board Director.
I too, heard that the Western Wheat Growers had supported the railway’s right not to have too much competition, because the railways had a right to make a profit. I too was at the meeting at Fargo last week and I had quite a few American farmers approach us saying that they would like to explore ways of marketing wheat through the Wheat Board and doing joint marketing efforts. We get it all the time. The board of directors, Greg Arason, and I attended a meeting last spring sponsored by the North Dakota Farmers Union and the State of North Dakota. They had done extensive studies at the universities there, wanting to market grain jointly through the Canadian Wheat Board system. The only problem that we have is how you would get that to work, because theirs is a voluntary system and ours is not, but there is a lot of interest in that. As for canola coming into Altona, they can sell it at any price in Canada and make a dollar because they are already guaranteed a base price for their canola. It is not really an open market system they have got there. Basically, my comment is that there are a lot of U.S. farmers that are very interested in our marketing system.

Mr. Les Kletke, Agricultural Representative

MANITOBA DEPARTMENT OF AGRICULTURE

Moderator – Session 2

We thank you for the comment, but we will carry on with the questions (through the Chair). Kevin, the Canadian Wheat Board shows the best car cycles in North America, including better cycles than non-boards. Why is this?
Kevin Archibald:
I think our cycling is very efficient compared to the U.S. system, or anybody else in the world. I think the opportunity there as a farmer is to do better. If we can shorten an 18 or 20 day turnaround back to 7 days and put some efficiency into this system, I as a farmer can garner more money from it. We are getting wrapped up a lot in Wheat Board versus non-Board. But, let us take this discussion to the next level and generate efficiencies, rather than looking to other jurisdictions, let us base those efficiencies on Canada.

Question from the floor:

Ken Ritter, Chairman, Canadian Wheat Board.
My question is directed at you, Kevin. I am glad to hear that you indicated that the OWEC Study indicated that the Wheat Board is getting some premium prices and they are not just blowing it. You also indicated that one of the reasons why the farm gate price is lower is that there is not enough competition in transportation in grain handling, and that has its effect. I have been following a lot of the American grain prices of late, and we are always quoted that number one U.S. northern at 15% protein is worth $3.41 U.S. What do you think number one U.S. northern at 9% protein is worth? Well it is worth $0.68 U.S./bushel. So the prices are not quite as high as we are sometimes led to believe. But my question is this, you have characterized the Canadian Wheat Board as someone who is not looking to change, or get involved in anything that is modern and efficient and competitive and commercial. But the bottom line is, the position we put forward in the Kroeger Process was that we feel that there is competitive forces on one side which are the farmers, and on the other side you have the grain handlers and the railways. They are the ones that are going to achieve competition. Now, our view is that farmers, with their grain pails, under the general contracts that we agree in, would be able to in the fall, go from elevator to elevator and determine where they could get the lowest basis, the grades, the highest protein. In fact, they would be driving the competition, and we as a Board of Directors agree that this is where it should be. We feel that maximizing returns for farmers is what we were elected to do. However, the argument on the other side is that grain companies and railways would be best able to achieve it. So I think my question to you is, is not there a better way for competition to function than to have farmers drive it, rather than grain elevators and railways?

Kevin Archibald:
Thanks Ken, you are absolutely right. The farmers should drive it, but they should drive it in the proper way. The concept you are talking about, with farmers going around with their sample pails from elevator to elevator, before a tender has been won or entered into, is what we do now. I mean, I have a Wheat Board call, I go to Paterson, I go to Agricore, I go to all of them. I even go to other competitors out there that are 40 miles away from my farm, in some case 50 miles. There is some competition out there – some. It is budding, it is evolving, it is embryonic – that is
what we are doing now. You are not talking about anything that is new in any way, shape or form.

But we could generate more savings if that company had won a tender and now had to get my grain in there. How do they do that? Only with a competitive basis, or a package that is going to attract me to that facility, which usually means a better price in the end. You are also raising something here that has not been touched on a great deal, and needs to be discussed, and that is this idea that the Wheat Board in transportation and third party contracts. We have got the Wheat Board building houses these days, thanks to a lot of analogies that are out there. When you think about it in those terms, if I am going to build a house, entering into contracts with the people who are building my house, why do I want somebody between me and them who enters into a contract with the guy that supplies the lumber, with the one with the cement, with the electrical contractor, so on and so on? If anything goes wrong, I have to go to him, he has to go back to them. Finding out who is accountable in a situation like that often becomes the mess that we have in grain transportation. If I am dealing one on one with the electrician and he screws up as far as the wiring, I know where to go. If somebody does not deliver the cement on time, or does not put the forms up straight, I know who to get hold of. But if I have to go to that third party that is in there in that contract, well, then you have got blurred lines of who is accountable when things go wrong.

Ron Gleim:
Seeing as you are talking about the contract system, I guess I have got to ask. Why would CP or CN want to sign a contract with a grain company that is captive to them and the only way to compete would be to put it on a truck and drive fifty miles to another line? Why would they, when they have captive shippers in concrete terminals? You cannot pick that concrete up and move it. Why would they want to sign a contract? Especially when their capacity is basically up to the max on both lines already. I do not really see a whole lot in there for the railways to say, ‘we are going to give you a $5 cut at Chaplin, Saskatchewan’, knowing that you are 80 miles from any competitive line. How is that going to happen?

Kevin Archibald:
Well, I think it happens pretty easily. We have got the new Super B truck. You have got rubber to rail capability now that you never had before. This puts railways in a competitive situation, where, in fact it my even be the same company, but on different rail lines. If indeed rail lines are far apart, you could find a better price through the same company 80 miles north that attracts that grain. You put it in that Super B and it drives it there. The concept of rubber to rail is one that is real, it is creating competition and it is going to create a lot more.

Ron Gleim:
I did mention the use of trucks, and I agree with Kevin that there is competition, but in this transportation system you have got to put all the costs in. If you throw a Super B truck in the
contract for a million bushels and you run them down any highway or grid road in Western Canada, there is going to be a tremendous cost - $5-$6/tonne, trucking and road, maybe even more. So you have to factor that in there as well.

**Don Dewar:**
I just wanted to comment on third party contracts, and using the same analogy again, when you build the house you can be your own general contractor. I would find it very difficult to take my volume of grain and enter into a contract with the terminal operator, the elevator and the rail company. So there is third party contracts involved. If the Canadian Wheat Board is holding those contracts, I am doing it through them and the lines of accountability are just as clear and the money will accrue back to the producers.

**Mr. Les Kletke, Agricultural Representative**

*MANITOBA DEPARTMENT OF AGRICULTURE*

**Moderator – Session 2**

That concludes our panel discussion. I am going to take this opportunity to draw some conclusions without stealing the thunder from John Murphy later on.

The future of our industry may not be shining, and I think these three producers made some valid points, though they vary on opinions. The future is not as dark as some would have us believe either. I would like to thank these three gentlemen for taking the time to be here and the industry for coming together for a day like this. I would like to thank the organizers for allowing me to be a part of today’s proceedings. It is through processes like this that our industry will keep a light on and make it shine. I think as we move into these competitive, changing winds, as today’s conference is called and is about. If we keep a personal role in mind as we look at individuals and see the personal things besides the organizations that we are here to represent, it will go a long way to moving our industry into the future. Thank you.

**Dr. Barry E. Prentice, Director**

*Transport Institute, University of Manitoba*

It is my honour to introduce our luncheon speaker, the Honourable Maynard Sonntag. He is the Chairperson of the Saskatchewan Water Corporation and the MLA from Meadowlake Constituency. Mr. Sonntag was first elected to the legislature in 1991, and was re-elected in 1995 and 1999. On September 30th, 1999, Mr. Sonntag was appointed Minister of Highways and Transportation for the Province of Saskatchewan while continuing to serve as Chairperson of the Saskatchewan Water Corporation. Mr. Sonntag also serves as a member of the Treasury Board,
a member of the Crown Cabinet Committee on the Economy, and is the Minister Responsible for
the Highway Traffic Board. By coincidence this past week (mid-Nov., 1999), I received a
telephone call from a reporter from Meadow Lake regarding rumours that one of their two
elevators was going to close. I want to assure the Minister, that as far as I know, that is just a
rumour, but I think it speaks to some of the anxiety that exists in many communities across the
prairies, regarding the fate of changes in the elevator system and branch lines and how that will
affect their communities. So there really is a human side of this which I believe the Minister is
going to speak to. Ladies and gentlemen, I present to you the Honourable Maynard Sonntag.

Luncheon Speaker

HONOURABLE MAYNARD SONNTAG, MINISTER

SASKATCHEWAN DEPARTMENT OF HIGHWAYS

The Human Side of Grain Industry Changes

Good afternoon. I would like to thank Mr. David Gardiner, President of WESTAC, for inviting
me to this important conference. Today, I am going to discuss the Human Side of Grain Industry
Changes. This is a critical topic and one that deeply touches many residents of Saskatchewan.
This afternoon, I would rather give you a sample of personal stories that have reached me. I
wish I could have brought you more success stories. At the moment, they are not easy to find.

I thought I would like to speak today about challenges facing two individual farmers – one who
owns fourteen hundred acres of land and another with ten thousand acres, both in central
Saskatchewan. The realities these two farmers face are strikingly similar. I am going to walk
you through a community called Alvena, once a bustling town in central Saskatchewan. After
Alvena lost its branch line the 1970’s, the town withered. It is now the home of 79 people. I will
also describe a small village called Kayville, located in south central Saskatchewan. In the past
two years, Kayville has lost their branchline and elevator. Consequently, their local business and
farm community is suffering.

On a more positive note, I want to share with you the successes experienced by the West Central
Road and Rail Committee. This dedicated and determined group has galvanized to raise over
$800,000 with the goal of purchasing their local 300-mile rail line. Their battle is not over yet,
but they are determined to keep moving forward.

Many of you know only too well that grain transportation is the single largest cost facing farmers
today. But the reality is that farmers are paying a much higher price than just financial loss. Of
the fifty-five thousand farms in Saskatchewan, the highest input cost is grain handling and
transportation. This number is higher than fertilizers, chemicals, debt servicing or equipment
costs. Over one third of a farmer’s costs are spent on grain handling and transportation. Several independent studies have identified large potential savings if the grain handling and transportation system is reformed. It is possible to save $20/tonne or $400 million/year for Saskatchewan grain growers. In an average year, these savings would mean a 50 percent increase to their farm incomes.

All of you have certainly heard of the farm crisis occurring at this moment in Saskatchewan. As I speak, someone, somewhere, is panicking about how they are going to provide for their family and pay the bills. Though I promised few statistics in my speech, here is one telling number I will give you. There has been a 40 percent jump in the number of calls placed to the Farm Stress Line since 1997. This is a clear indication of the troubles confronting our farmers and their families. The issues they are calling about range from devastating financial losses to thoughts of suicide. Farmers are telling phone counselors that they are stressed; they are fatigued; and they are burnt out.

By describing for you the story of a farmer in his mid-30’s, who preferred to remain anonymous, I think you will have a clear understanding why grain transportation issues are a big part of his personal stress. This farmer lives in east central Saskatchewan. His family has deep roots in farming. His father, uncles and brothers all owned farms. This farmer now owns fourteen hundred acres. Of these fourteen hundred acres, he grew wheat, canola and flax on twelve hundred acres in 1997. I have learned that, on these twelve hundred acres of canola, flax and wheat, he had to spend 30 percent of his earnings, or $30,000 dollars, strictly on freight costs. This $30,000 dollar charge does not include storage, elevation, handling charges, dockage, shrinkage, truck hauling and the numerous other costs our farmers are expected to absorb.

Hauling and storing options are also limited to him now. The elevators in two neighboring towns have both closed. His only option now is to haul grain 75 kilometers further where grain can be stored and eventually shipped away. The only way this typical Saskatchewan farmer made a profit in 1997 was through a specialty crop on 50 acres of his property. This particular crop required very little shipment.

This farmer paid little attention to the Estey Report and Kroeger Process. His neighbor, Mr. Ted Cawkwell of Kelvington, is the opposite personality type. Ten years ago, he recognized that big changes were coming to the farm industry. He did everything he could to educate himself on the business and marketing of the agriculture business. He paid a lot of attention to the Estey Report and Kroeger Process. In fact, Mr. Cawkwell met personally with Justice Willard Estey and was very involved in the entire transportation process.

He started in 1970 with 320 acres of rented land and worked up to where he is today. Although he may own considerably more land than the previous farmer I described, he too faces the same grain transportation difficulties. Mr. Cawkwell shared some of his expenses with our department staff. To haul a load of grain to the nearest elevator, which is 10 miles away from his farm, the
cost is at least $5/tonne. To haul a shipment 35 miles away, the cost is between $6.50 and $7.00/tonne. The farther away you haul your grain, naturally, the more the cost increases. In freight charges, Mr. Cawkwell dishes out $42/tonne when his grain is shipped to Vancouver. The cost is anywhere between $28 to $32/tonne for his grain to be shipped to Thunder Bay.

When Mr. Cawkwell adds up just the truck hauling charges and freight rates, approximately 50 percent of his income has disappeared. He has purchased his own semi-trailer unit to haul to nearby end-users. He prefers to contract work to truck companies to move large grain shipments across the country. This way, he can bypass the costly rail system as much as possible.

Our government has tried to help the farmers avoid these situations I have described. We have stated that changes are needed in the grain handling and transportation system and they have to benefit farmers first. It is clear this is still not happening. Mr. Cawkwell tells us that he has recently received an alarming number of desperate calls from neighbors requesting he purchase or lease their land – quickly. Many farmers are drowning in debt. The grain handling and transportation system is certainly not making things easier.

Branch line abandonment is another key area that received lots of attention during the Estey Report and Kroeger Process. Branch lines and local elevators went hand-in-hand serving our communities for many years. In a sense, branch lines were the backbone of our Saskatchewan communities. The Reeve for the Rural Municipality of Fish Creek remembers Alvena well in its heyday (the Town of Alvena is within the Fish Creek jurisdiction). There were three elevators with staff that knew everyone by name. Five grocery stores existed in town, a lumberyard, a car dealership, a couple of coffee shops, a shoe repair and a blacksmith shop. You could even play billiards in Alvena.

Once the branch line closed in 1977, the three elevators eventually shut down. Farmers were forced to haul their grain elsewhere and they visited the town less often. This alienated local businesses. Within four to five years, the majority of businesses were forced to leave town. The school was closed and the remaining children were bused to other communities for their education. Today, all that remains of Alvena is a post office and a Co-op store that survives by selling fuel.

Facing a similar future is the Town of Kayville, southwest of Regina. Since they lost their branch line in November 1997, the people of this tiny community have faced many devastating setbacks. As an RM councilor and a farmer, Allan Popescu faces an uncertain future. For people in this area, transportation issues are impossible to control. Instead of hauling to the local elevator just down the road, farmers now haul their grain to Moose Jaw or Weyburn. Both of these cities are at least 60 to 70 miles away from the grain growers in the Kayville region. There has also been a shortage of trucks for these people to contract for their grain hauling. The town simply was not ready for these sweeping changes. Mr. Popescu is now telling his 23-year-old son, who had his heart set on farming, that conditions are not worth it. Find a job in the city.
The West Central Road and Rail Committee is an example of people working hard to create positive change. This Committee is an organized group in west central Saskatchewan, located between the towns of Elrose and Eston. Fearing their branch lines were going to close, the committee formed in early 1997 to try to gain control over the transportation of their grain. This committee now has over 1,700 local members and some members are not even farmers. Together, they raised $800,000 dollars. This group hopes to purchase their 300-mile branch line. The committee hired a prestigious consulting firm, Travacon Research of Seattle to bring forward a business plan to Canadian National Railway executives. The final analysis from the consultant is this – the branch line is viable if CN is willing to cooperate with locals. If not, their battle becomes a lot more difficult.

By running producer cars on this branch line since 1997, the group has saved over $1 million dollars. This money goes back to their communities. The secretary of this committee, Bill Woods, says saving their branch lines does not guarantee the towns along this line will survive. But he is sure of one thing: if the line is abandoned, the towns will die. After 21 months, the West Central Road and Rail Committee is still negotiating with CN. Our government is hopeful a settlement will be reached soon. We want this committee to have an opportunity to operate their own line. It gives the people control of their future.

We have heard the stories I have mentioned today far too often. They are everywhere. What I am concerned about is an increasing lack of compassion the more we hear them. Agriculture Minister Dwain Lingenfelter remembered one individual named Trevor Doty, a young farmer from the Carlyle area, who delivered a speech that moved every single person in that town hall. I want to read a bit of what he said, because I think it captures the sentiments of a lot of farm families.

I quote:

“My wife and I are fourth generation farmers on a family farm that just celebrated its centennial. We are proud to be farmers, but I, like many of you, I have to swallow my pride and ask for help.

Mr. Vanclief (Federal Agriculture Minister), you say, if we cannot make a go of it, we should get out. That is easy to say for many people, but when you are working land that has been in the family for generations, you cannot just walk away.

Even if you could, for many farmers it would take their lifetime to pay all the bills and outstanding debt.

For many farmers, any equity built up in the farm is long gone, or in our case as new farmers, we have been going deeper in debt every year.

Indeed October 28th was a sad day. When I got home from my off farm job that day, the first thing I did was take down the Canadian flag
that has flown at our farm since before I can remember – I will never put it up again.”

I am afraid the well being of people is less of a priority than the bottom line. Farmers face tough decisions – they can continue to lose money hoping things may turn around or give up the farm completely and move elsewhere. The role of governments – local, provincial and federal – is to look beyond the bottom line. Governments have societal obligations. We realize that changes have to be made. We are also promoting change, but they must be based not only on economic principles, we must address quality of life issues and issues that go beyond straight economics. Let us get on with changes, but in a way that will move our country – and Saskatchewan – ahead.

Let us do what we can to breathe life into our rural farm communities again. Thank you.

**Dr. Barry E. Prentice, Director**

*Transport Institute, University of Manitoba*

Honourable Minister Sonntag, we at the Transport Institute and supported by WESTAC are really delighted that we have a Saskatchewan representative at the conference today, and particularly that the Minister of Highways and Transportation has come to our Fields on Wheels Conference as it is a conference that represents prairie issues. You have reminded us in very poignant terms of the facts of life on the farm today. It is something that all the representatives in the audience have to remember as the decisions are made on these economic and policy issues that are transpiring. Thank you very much for your message, and for being here today.

**Panel Discussion: Competition Among Gateways and Corridors**

**Dr. Barry E. Prentice, Director**

*Transport Institute, University of Manitoba*

**Moderator Session 3**

The session this afternoon is in two parts. The first part of the afternoon we will look at three corridors – Thunder Bay, Vancouver and Prince Rupert. Subsequently, we will look at the other corridors. Please allow me to introduce Mrs. Hilary Goldenberg, President of Thunder Bay Terminals Ltd.
Hilary Goldenberg, President
Thunder Bay Terminals Ltd.

It is a pleasure to be here this afternoon to participate with our colleagues in the industry. The question that our panel has been asked to consider is, given that a more commercial and less regulated system for grain transportation will be implemented, how will that new, competitive and more open grain and transportation market place impact Canadian corridors and their related sectors?

We are happy to be here to share our views on how those changes might affect our corridor as product moves onto the Great Lakes System through the Port of Thunder Bay, and how those changes might affect related sectors within our corridor. In the course of our allotted time, we will provide:

1. A brief overview of our corridor - The Port of Thunder Bay
2. The key factors that we think are affecting our corridor, and
3. Factors which are likely to affect us following the implementation of Mr. Estey’s recommendations

Since we are headed toward a more open and competitive world, a world in which we all will have more control, we would like to share with you our thoughts on what it takes to compete.

The Port of Thunder Bay:

Our Port has a natural and historic reason for being. As many of you know, the impetus for the growth of Port Arthur and Fort William was the excellent natural harbour on Lake Superior. Early on the country’s two railroads chose Thunder Bay as their Lakehead terminus. The first grain elevator was built at that time and the first eastern shipments of grain took place around 1884. Over the next 65 years, the number of grain elevators grew to 30 and the grain storage and shipping industries would become key to both communities.

Today, Thunder Bay has a highly developed, bought and paid for infrastructure. Notwithstanding a competitive market place, Canadian grain handling firms still successfully operate nine elevators at the Port with storage capacity of 1.24 million tonnes of grain. Saskatchewan Wheat Pool, Agricore, James Richardson International, Cargill, United Grain Growers, and Parrish and Heimbecker handle a full range of export and domestic use grains. Terminals operated by Canada Malt and Western Grain By-Products are more specialized and complement the activities of the main export terminals. Coal and potash are the second and third largest commodities moving through the Port. We transship western Canadian coal at Thunder
Bay Terminals and both we and Valley Camp handle potash and agri-products on a direct hit basis.

The Port of Thunder Bay has been challenged by changes in its export customer base. A microcosm of our country in general: our historic customers for export product, in some instances have become our competitors. In other instances, socio-political changes have eliminated a number of our eastbound customers. In addition, the vortex of West Coast Port facilities sucks Canadian bulk commodities off of its western shores as growing Pacific rim markets demand more and more of our country’s products.

While the Port of Thunder Bay moved over ten million tonnes of grain in 1997, it handled about 7.5 million in 1996 and 1998 and we expect to close this year only slightly below that figure. Our excellent and existing infrastructure bodes well for the Port of Thunder Bay and its participants in the new millennium, as opportunities for innovation develop.

**Key Changes Impacting our Corridor:**

Even without the implementation of Mr Estey’s recommendations, a number of key industry changes underway already have affected our corridor. We believe that these key changes occurred to meet one common goal - to become the lowest cost product or service provider. In the late ‘80's, there was a superb advertising campaign launched by Zeller’s, the discount department store chain. If you heard it even once you could not forget their final positioning statement:

*Zeller’s – Where the lowest price is the law!*

As I look out over our industry today, it strikes me that the ad agency that developed this prize winning campaign could have cut its teeth in the world grain industry --- because our customers are *still* singing that song! As in all commodity-based businesses, the lowest price IS the law, and the world’s grain shoppers are no exception. While we studied the grain industry in Canada over the last two years, that low price imperative was already at work re-shaping our industry participants and methods. Even as we worked together to determine how best to deal with issues, world forces were changing them. As we studied and debated the best way to meet the demands of the world market place, the world’s grain shoppers were already reshaping our market place. Operating in a world commodity based industry, we knew that if we did not change to meet “the lowest price is the law” mantra, our customers would shop elsewhere.

As we studied rail line abandonment, the effect of closing small elevators in the country, and the related social infrastructure issues impacting towns, education and our youth, rail lines were being abandoned, grain elevators were being closed and the historic social infrastructure fell victim to this inexorable force.
Consolidation was the first key change seen in the industry to meet the lowest price imperative. In this instance, consolidation took place between long-standing and traditional grain organizations. In 1998, the Manitoba and Alberta Wheat Pools merged to form Agricore. The dramatic and landmark combination of these two organizations was a clear illustration of the need to reduce costs, reduce duplication and become a low cost competitive product provider. In effect, a merger of capital resources and brainpower to offer a product at a lower cost than each could offer separately. This merger will ensure that, together, they return higher profits to their stakeholders than each could return separately.

Another example of change resulting from the drive to become the lowest cost producer has been seen in facilities operations:

1. Closing and consolidating of hundreds of grain elevators on the prairies, and
2. The construction of high throughput facilities able to clean and classify grain in the country.

With respect to grain elevator closings: Consider that in 1988, there were 1789 operating grain elevators in Canada, and that in 1998, just 10 years later, only 1115 supported the grain industry - a drop of 38%. Canadian industry executives forecast that the upper limit of elevator facilities serving the country will reduce to not more than 550 by 2005. The drive of this trend to close older, smaller elevators is the drive to become a low cost product producer.

The development of new high throughput facilities is another example of our industry’s focus on meeting the low cost objective through consolidation. These elevators are capable of turning large volumes of product, of cleaning and classifying product before it is loaded and carried to port, and capable of loading cost effective unit trains that can move high volumes of product to their destination. With respect to the grain elevator closings, we do not see a direct impact from this change on our Port and sectors. Obviously, anything that strengthens the industry as a world player is good for us in Thunder Bay.

With respect to the development of high throughput facilities, this move plays directly to Thunder Bay’s strengths. We believe that there are tremendous synergies between unit train loads of product moving to Thunder Bay and our in-place ports and diverse infrastructure that is ready to handle it. Whether the cleaned product is stored and loaded through our grain elevators or is direct hit through facilities like Valley Camp and Thunder Bay Terminals, we are all ready to participate in this cost effective rail to vessel move.

Our Port is also well positioned for specialty product moves. Our diverse handling alternatives can be used successfully to meet the customers’ need for product segregation and protection. We believe that the variety of options available for efficient low cost bulk product movement in Thunder Bay positions us well to serve the world’s grain customers.
Old Players – New Ways:

Perhaps the greatest hallmark of change is seen when long-standing industry participants operate in new and innovative ways. As many of you have heard, Upper Lakes Shipping Co. has purchased a grain terminal in Thunder Bay. Upper Lakes Shipping is one of the main Canadian Great Lakes ship owners and moves large volumes of grain on the Great Lakes. Upper Lakes Shipping has made this acquisition in anticipation of changes to Federal regulations for grain handling in Canada. By this act of vertical integration, Upper Lakes Shipping will be better able to control capacity, control costs and compete more effectively in this low cost world. Good competitors make good market places, and this is a change that will benefit The Port of Thunder Bay as it welcomes additional, strong and innovative players.

To think that these dramatic changes have taken place within our existing regulated grain handling system is an overwhelming indicator of the world forces driving change and driving the objective of low cost product delivery. Imagine what the post-Estey world will bring. Where can we look for indications of what lies ahead?

Could we draw upon what happened in the deregulation of oats, when that product was removed from the classification of Wheat Board grains to project the future? I am sure that many of you are familiar with this event. You may recall that in 1989 private individuals were given full responsibility for the marketing of oats, domestically and internationally. The regulated market place had constrained the sale of oats for several reasons:

1. The regulated world was better suited to handling larger volume product moves than those moves for oats contracts.
2. Regulated classifications were not well suited to maximizing the value of the product, and
3. The regulated classifications did not mesh well with the classification system of the product’s predominately US customers.

The effects of deregulation were quickly seen in real numbers. Before oats were in effect, privatized, the 1992 farm cash receipts from oats were $98 million. By 1996, total farm cash receipts had more than tripled to $315 million. Using this statistic alone, we can see what radical changes deregulation can trigger and what the future could hold. We should mention that this product, while still regulated, moved through Thunder Bay largely due to subsidies under the WGTA. As a result of deregulation and the demand for oats in the United States, the open market found rail a more cost-effective means of transportation. For more details on this interesting development in this segment of the industry, we encourage you to see the paper prepared by Dr. Barry Prentice, Zhaokun Wang and Robert Morrissey of the Transport Institute.
at the University of Manitoba entitled ‘Location and Transportation Impacts of Privatizing the Marketing of Western Canadian Oats’, 1999.¹

The question raised by the oats story is: Beyond Estey, beyond the impact of world forces, and given an open, commercial and more competitive market place -- Do we all know what it takes to compete? We would like to suggest that in this new, open and competitive world, the key to competing is making our customers more profitable. In current biz-parlance this key is called “Profit Primacy”.

Mack Hanan in his book, Tomorrow’s Competition proposes that the way to successfully compete in our competitive world is to pledge allegiance to a new golden rule:

“Make your business competitive by making the business of your customer more competitive.”

Our industry is a testimony to the victory of “Profit Primacy” as the key driver of business growth. Historically, we have been focussed on our need to produce our own profits. The next millennium belongs to our customers. In the next century, competing and winning means having as our own business goal, making our customer more profitable and competitive. It means proposing our own value to our customers in terms of our ability to improve their profits. In our current regulated world, we have been focussed on external factors that have impeded our ability to meet our own business objectives. This world is rapidly disappearing.

If our corridor delivers products and services in a way that maximizes profits for our customers, our customers will grow and we will grow. Consider also that if our corridor represents a more valuable and profit producing supply chain for our customers than other existing corridor alternatives, our customers will grow and we will grow. How do we do that? Hanan proposes that to deliver profits to our customers, we must partner in successful supply chains. He says that we must co-operate with other suppliers to ensure the lowest total delivered price to the customer that we collectively serve. On how many occasions have we each known that our own segment of the customer supply chain has been the lowest cost available in the market? But, we have failed to capture the business because our total supply chain did not meet the competitive market place grade?

Could that have occurred because other supply chain partners focussed more on maximizing their own profitability rather than the profitability of the customer?

So - getting back to the question posed to those of us participating in this panel today: How will an open and competitive grain and transportation market place impact us?

¹ Published in the Annual Proceeding of the Canadian Transportation Research Forum, 1999
We would like to suggest that the most significant factor in the potential for change in all of our corridors lies in our own ability to compete. Our ability to compete depends upon our understanding of the drivers of our customers’ profitability. Ultimately, our ability to compete will depend on reconsidering our old ways of thinking about challenges faced by our own businesses, ceasing our nostalgic protection of our old franchises and beginning to reinvent new ones. We, at Thunder Bay Terminals and the Port of Thunder Bay know that challenge lies ahead.

The issue of rail direct diversion of product to points and customers in the United States presents a competitive wild card to every port and corridor in Canada. We have had in the past the competitive advantage of superior cleaning and classification facilities at Canadian Ports, however, inland terminals will soon diminish that edge.

At Thunder Bay, seasonality is a fact of life and the System closes for three to three and a half months each winter. In place lake storage compensates for this limitation, but at additional cost in a very cost sensitive environment.

Finally, as part of our in place infrastructure, there is rail service direct to Quebec City which offers a competitive alternative to movement through the Port facilities. However, we believe we can contribute to our customers’ profitability:

- Diverse delivery service options
- Opportunities for competitive vessel pricing
- Lake/ocean vessel transhipment available on the Seaway System, and
- In place infrastructure capable of protecting and moving smaller customer-specific grain lots either through elevators or by direct hit transfer.

In summary, we believe that we are entering a new era. A new era where we all will have the opportunity to compete. A new era where the greatest impact on our corridors will result from our own knowledge of how to compete. Thank you.

Dr. Barry E. Prentice, Director

Transport Institute, University of Manitoba

Moderator Session 3

Our next speaker is Mr. Eugene Ludwick, Vice-President of Marketing and Development, Port of Prince Rupert, Prince Rupert, British Columbia.
Most of you do not know that Prince Rupert is situated on an island in the Pacific Ocean, like Hawaii or Fiji, only a little further north. We do not have to go to Mazatlan for our winter holidays, it is summer all the time in Prince Rupert. Ridley Island is the home of Prince Rupert Grain, the Ridley Coal Terminal and the pulp mill at Port Edward. As you go straight north into town, you will see the Fairview Terminal, which is the sight of our general cargo dock. Later I will be making some references to Fairview Terminal and Ridley Island.

I would like to start with a reference to Justice Estey’s report. He said:

“Prince Rupert has harbour, grain handling and railway dockside facilities ranking among the best in the continent. Prince Rupert enjoys some natural advantages over Vancouver, all of which have bearings on the effective cost of shipping grain to export. The impediments to the full utilization of Prince Rupert appear to be completely man-made, and it is a loss to the region and to the nation generally.”

From the perspective of the Prince Rupert Port Authority, Justice Estey’s most important concept was recommendation number one. He said:

“It is readily apparent that an extensive and serious program must be launched someday to find the solution to the problems surrounding the operation of the Port of Prince Rupert.”

Prince Rupert’s grain handling capabilities reside within two separate elevators. The first one is Fairview AgPort. It is in the centre of a three-berth dock. It handles special crops like peas, lentils and canary seeds, and processed agricultural products like canola meal, barley malt, and alfalfa cubes. It has handled between 200-300,000 tonnes/year under its previous owners, but its capacity is really untested. Unfortunately, Fairview AgPort’s progress and growth have been hindered by the $4.50/tonne average rail rate differential resulting from the application of regulated, mileage-based rates in the post-WGTA environment.

The largest, and best known of Prince Rupert’s two grain export terminals is Prince Rupert Grain (PRG). PRG specializes in Board wheat and barley. Originally contemplated to handle three million tonnes/year, this terminal has handled as much as 5.4 million tonnes in a year. Though untested, PRG’s capacity is thought to exceed 7 million tonnes and that capacity could be doubled with a relatively modest capital expenditure. Now while PRG has been impacted by the removal of rail-rate and port parity, and by the regulated mileage structure, its ability to relieve
system congestion has been hindered primarily due to its peculiar ownership structure. A
consortium of Canada’s five largest grain companies owns PRG. On the basis of their patronage
of the elevator, the companies’ proportionately share PRG’s operating profits and losses. Each
of the five owners also own terminals in Vancouver. Now, it is logical that each of the five
owners would seek to maximize throughput at their individual Vancouver elevators, since profits
there accrue directly to individual owners, rather than being shared by five companies.

Realistically, PRG’s potential to alleviate West Coast grain transportation congestion would be
most likely achieved if that facility were owned by a single owner seeking to capitalize upon the
many advantages of shipping through the Prince Rupert ocean gateway. Moreover, the huge
debt load carried by Prince Rupert Grain makes it difficult for any structure of ownership to ever
hope to pay the debt and earn a satisfactory rate of return. As Justice Estey pointed out, the
Province of Alberta underwrote a substantial portion of the $290 million dollar capital cost in the
establishment of the Prince Rupert Grain facilities.

A significant part of this debt is a result of capitalizing operating deficits in the start-up years.
Some of this cost has been converted to equity-ownership, but there remains outstanding about
$200 million dollars in debentures, held by the Province of Alberta at double-digit interest rates.
The parties all acknowledge that these man-made difficulties are destined to remain unresolved
until the outstanding debt matures in 2015.

While having no obvious impact on transportation matters in and of themselves, Prince Rupert
Grain’s huge debt-load and peculiar ownership structure have created a situation that discourages
patronage of PRG. The result is that PRG and the seaport in which it is located are prevented
from contributing to the alleviation of Western grain handling inefficiencies in the way that they
could. Although the resolution of these issues was outside the time frame if not the scope of the
Kroeger grain-handling and transportation facilitation process, the final report noted:

“The industry has indicated its willingness to engage the Federal and Provincial
governments in discussion in enhancing the viability of the Port.”

If this willingness to find the solution to the problems surrounding the operation of the Port of
Prince Rupert is not acted upon now, PRG’s role will remain nothing more than that of a surge or
residual elevator.

Part of the Kroeger Process’s scope included the development of recommendations concerning
measures to encourage the utilization of the Ports of Prince Rupert and Churchill to the
maximum practical extent consistent with commercial objectives within a more commercial
environment. The models proposed by the Kroeger Process, relative to the Canadian Wheat
Board’s involvement in the transportation system, seemed to address the issue by stating that the
ability of the Board to direct grain to the Ports of Prince Rupert or Churchill would be preserved.
Whether the tendered, delivered price of grain thus directed will be competitive or acceptable
remains to be seen. If the Board wants to direct grain through PRG at any point in time when PRG’s owners believe a Vancouver terminal is more appropriate, the tendered price for Rupert-directed shipments will clearly reflect that belief.

The discussion of Prince Rupert Grains’ terminal capability invariably focuses on the facility owned by PRG. However, when Justice Estey visited Prince Rupert, he was given a tour of the grain handling facility at Fairview. This is the former Continental Grain Facility, which has been owned and operated by the Port of Prince Rupert since 1997. A significant attribute of Fairview AgPort relates to Justice Estey’s recommendation number three, that where possible, grain be cleaned on the prairies to avoid the cost of transporting dockage and to relieve congestion at the ports. As Fairview AgPort does not offer cleaning services, it necessarily specializes in direct hits of unit trains of export-ready grains and products. Construction of a new ship-loader has been completed, and this ship-loader is twice as fast as the one it replaces. The ability to soft-load fragile commodities has been maintained. Fairview AgPort offers to agricultural processors and inland terminal elevators that have cleaning capability and an opportunity to efficiently access global markets without entangling or becoming entangled in the traditional terminal elevator system.

It is also noted that the commercial relations group of the Kroeger facilitation process was to develop recommendations concerning the need to ensure there is adequate access to terminal elevators by shippers that do not own facilities. An important feature of Fairview AgPort is that it is owned by an organization that does not compete with its customers for sales. The sole interest of the current owners of this facility is to receive, handle and load out schedule 2 grains and products – exactly what is needed by shippers who do not own their own terminal facilities.

We need to talk about rail rates. Earlier points in my presentation illustrated how important issues, like ownership structure and debt, that have nothing to do with transportation, can inhibit efforts to find solutions to transportation problems. Consider how the current system of rail rates builds in some effective inhibitors to Prince Rupert’s contribution to the quest for transportation improvements. First, though ownership and debt issues impact heavily on the utilization of PRG’s elevator, they do not diminish the detrimental effect of the $4.50/tonne rail rate premium paid by farmers to access the Port of Prince Rupert. In the case of wheat and barley, the rate premium makes it easy for the five Vancouver terminal operators to convince the Canadian Wheat Board that PRG should be shunned in favour of Vancouver elevators.

Second, Fairview AgPort has been severely impacted by the freight rate premium. In particular, smaller shippers who do not own export facilities have effectively been shut out of Prince Rupert by this deleterious barrier. Since margins are so thin, exporters cannot afford to absorb the full rail premium. The terminal operator cannot absorb it either, as it equates roughly to the average variable cost of operating the facility.
Third, the rail rate premium effectively forces smaller shippers of special crops and agricultural products into the congested Vancouver system, and also into the hands of the five big Vancouver terminal owners. An important benefit of being able to use Fairview AgPort is that shippers without their own terminals can export with the assurance that the terminal owner will not be trying to compete with them for the same sale, through the same facility. Forcing these shippers into Vancouver by imposing a premium on accessing the Fairview AgPort alternative discourages crop diversification, discourages value-added processing and discourages agricultural entrepreneurship. This seems quite contrary to the intent of Canada’s 1995 agriculture and transportation policy, as enunciated by the Honourable Ralph Goodale, then Federal Agriculture Minister.

Justice Estey’s recommendation seven sought to treat some of the anomalies in the application of rail rates that were drawn to the attention of his review. The example he gives is the unusually high freight rate for grain transportation to the Port of Prince Rupert. This is largely due to the fact, he says, that the rate cap is mileage-oriented and insensitive to the actual costs of transportation on a particular route as compared to other routes.

Though the work of the Kroeger Process appears methodically comprehensive in relation to a rail revenue cap, the test of success of this cap will be the extent to which the anomalies to which Justice Estey referred are eliminated. If a truly commercial rate system is in place, the rate differential should disappear. If there is no published or advertised barrier against shipping to Prince Rupert, shippers and the railroad will be able to make the most mutually advantageous arrangements they can, rather than being driven by prescribed rate formulas.

In the present system, rates are determined by dividing all the costs of moving all the grain from all prairie origins to all export positions and then dividing that by all the tonne-miles required for the movement. Stated another way, all the costs are averaged out over all aspects of the system. Following is an illustration of a grain handling and transportation system paradigm, in which the prairie origination system costs would be averaged, but the cost of transporting along an export corridor would be specific to each of the four corridors. The first step would be to establish the cost per tonne of handling full trains on four separate corridors, defined by combining each port with its nearest prairie gateway. We are talking about costs actually incurred – capital, labour, fuel, maintenance, etc. – in moving a full train from a gateway to its port, to switch, spot and retrieve full cars to, at and from terminals within the port and to return the empty cars back to the gateway. This analysis would result in a table of four corridor-specific rates. The second step would be to determine all the costs of moving all the grain from all prairie origins to the four export gateways – Edmonton, Calgary, The Pas and Winnipeg. So everything inside the box could be averaged, but once you got into the corridor, that would be a corridor-specific cost.

The resulting dividend would be an origination system average per tonne-mile rate. Application of this origination rate per mile from each prairie gathering or processing point to each of the
four export gateways would result in a table of four origin to gateway rates. Armed with a tariff containing a table of corridor rates and a table of origination rates, a shipper could then determine which route works best for him. This system is ideal for corporate shippers like pea cleaners, dehydration plants, maltsters, canola crushers, etc. For farmer deliveries of wheat and barley, the old system of docking the cost of railing to the nearest of Vancouver or Thunder Bay hopefully can be replaced by a more equitable origin-to-gateway-to-port rate under a new system of commercial relations between farmers, handlers and the CWB.

To conclude, eliminating the regulated rate regime in favour of commercial rates should result in rates which make it easier to see both Prince Rupert Grain and Fairview AgPort as being highly competitive and beneficial to the total farm to customer logistics chain. If the current tariff is merely tweaked to constrain the railways within a revenue cap, and the current rail rate premium to Prince Rupert is preserved, Western Canadian agriculture’s ability to take advantage of the efficiencies inherent in shipping to the Port of Prince Rupert will be foiled again.

Dr. Barry E. Prentice, Director
Transport Institute, University of Manitoba
Moderator Session 3

Our last speaker for this session is Kevin Little. Kevin is the Vice-President Business Development for the Vancouver Port Authority.

Kevin Little
Vice President, Business Development
Vancouver Port Authority

Thank you for inviting me, on behalf of the Vancouver Port Authority, to share our views on the recent Grain Handling and Transportation Studies (Estey Review and Kroeger Report) and the next steps from our perspective.

This process certainly has been Canadian. Our ability to work together – not always agree – but still take a step forward is our strength and our advantage, we all get frustrated, but this is something we can do that our U.S. counterparts cannot.
Views on the Studies’ Results

As stated in our submissions to the Estey Secretariat, Minister Collenette, as well as in our media statements, the VPA firmly supports a commercial contract-based system, which was echoed by Minister Collenette’s statement… that he “agree[s] with [Estey’s] view that we must move toward a more commercial system.” The two decisions made by Minister Collenette were very positive: The aggressive timeline (plans to implement new legislation by the August 2000 crop year), and the concept to work within the principles of the Estey report and to treat the initial report as a package.

We support early implementation of Estey’s recommendations as a package, including the removal of the rail rate cap and changing the Canada Wheat Board’s responsibilities concerning transportation. Minister Collenette’s decisions also meant that the Estey report would not be reopened — and hence, not delayed by another round of investigation into the same issues that have been plaguing Canada’s grain handling and transportation system for years — and Mr. Kroeger steadfastly maintained that position throughout his consultation process.

Both the Estey review and the Kroeger process included consultation with all system participants, including producers, grain companies, railways, ports and industry organizations. In doing so, we believe that both of these processes took account of the many differing goals and objectives and that the recommendations by both Estey and Kroeger provide solutions that will be best for the system as a whole.

The fact that all the key stakeholders cannot agree completely on either Estey’s or Kroeger’s recommendations is not surprising. Historically, stakeholders have had different interests and divergent views and this will continue. Kroeger tackled a very difficult task in trying to achieve consensus and his decision to pick a middle ground was bound to draw criticism from all sides. However, the VPA position agrees with the sentiment that we should finally get on with improving the system. The VPA position supports the consensus that producers must receive the benefits of a more efficient system, and we believe the more commercially oriented changes recommended by Kroeger will benefit the system as a whole, especially producers.

However, since Kroeger was unable to achieve consensus on many major issues, the options will be left to Parliament to decide. This situation lends itself to intense lobbying by various stakeholder groups. Yet, the issue of low cost, high service grain movement has to be separated from public policy and regional development issues. We stress that our competition is U.S. ports and we believe it is strategically important to keep Canadian grain going through Canadian ports.

It is a simple marketing axiom…If you remove a seller from the market place, the price will go up. If there is no Canadian west coast option, and believe me if most or all the volume was diverted to the U.S., the capital keeping the Canadian infrastructure in good working order would
dry up and the facilities would disappear. You can be sure from that point on the price to Canadians would go up.

It is no secret to anyone in this room that the U.S. PNW ports would love to have Canadian grain moving through. Their approach to capital investment in port infrastructure is quite different from Canada’s. It is best to describe the differences in philosophies as follows. “Long distance car race… their gas tank is perpetually full and our gas tank has a leak. Who is going to win the race?”

**VPA’s Views on Kroeger’s Report**

With regard to the Kroeger report, VPA supports the recommendation to remove the CWB from day-to-day transportation planning and coordination, and allow the railways and grain companies to handle the transportation logistics based on commercial contracts. Such a contract-based system, with appropriate rewards and penalties for performance, will improve accountability, competition and efficiency; and therefore ultimately lower costs to the producers.

Kroeger’s recommendation to change the CWB to a buyer at port, with transfer of ownership “at spout” will streamline the process, alleviating some congestion and multiple berthing issues. Vessel moves are primarily a function of the CWB and the terminal market share agreement (due to the port pooling of grain cars), and is not a limitation of the port facility. We continue to see reports that say Vancouver is at capacity as a grain port. Well, it is not, there is plenty of capacity if it was better utilized.

**Berth Efficiency:**

* Based on 1998 data
Vessels Waiting at Anchor:

- Potash: average 40% wait at anchor - 1 berth
- Sulphur: average 15% wait at anchor - 2 berths
- Coal: average 25% wait at anchor - 3 berths
- Grain: average 95% of ships wait at anchor - 8 berths

* Estimate based on 1998 data

Time in Port

<table>
<thead>
<tr>
<th></th>
<th>Metric tonnes loaded per da</th>
<th>Avg no. of days ships are in pc</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sulphur</td>
<td>6,158</td>
<td>5.5</td>
</tr>
<tr>
<td>Potash</td>
<td>10,956</td>
<td>4.1</td>
</tr>
<tr>
<td>Coal</td>
<td>23,278</td>
<td>4.0</td>
</tr>
<tr>
<td>Grain</td>
<td>3,661</td>
<td>7.2</td>
</tr>
</tbody>
</table>

* Based on 1998 data

We believe that with transfer of ownership at spout, grains could be assigned to a specific vessel, with cars arriving to terminals more and more on a direct hit basis. Phasing in the tendering of grain movement over the next three years should provide system participants with ample time to iron out any practical kinks.

With respect to Kroeger’s recommendation that specific measures to increase competition between railways should be decided upon following expert assessments...We urge that these assessments be conducted in a timely manner and any required changes be implemented for the 2000-01 crop year. Kroeger’s recommendation for a two-tier final offer arbitration process with a set of prescribed steps will also streamline the process and facilitate negotiated settlements.

Overall, Kroeger’s recommendations support the general policy trend of the Canadian government...to move progressively away from regulation and central control towards more commercial decision-making. VPA believes that grain should be treated like any other commodity, and that is why we support this move to a more commercial, contract-based system that we believe will increase competition, improve accountabilities and lower costs.
**Next Steps**

From the perspective of the VPA, the next step should be to complete the Canada/U.S. Grain Ports Competitiveness Study...then get the stakeholders together. They should prepare a plan to address the competitiveness issues, along with an implementation strategy. Also, we should create a climate for ports to cooperate. Our Board is very supportive of cooperative planning and development with other ports in our region. Cooperation does not mean a lack of competition. Competition should remain between terminals – not ports.

And as per Kroeger Recommendations, we agree on the following:

- Maintain position that Estey report will not be re-opened – do not allow lobbying efforts to slow down required change.
- Complete expert assessments in a timely manner.
- Implement the Kroeger recommendations for the 2000-01 crop year.

**Key Messages**

All that being said, I would like to leave you with a few concluding messages that we feel should not be forgotten as this whole exercise moves to a conclusion:

- We need to ensure that Canadian producers and grain exporters are able to compete in the global marketplace. Even though this sounds fundamental it sometimes gets lost.
- We need to ensure that the Canadian grain handling and transportation system itself is competitive and not overburdened by regulation.
- We need a federal infrastructure program to improve major Canadian transportation routes.
- We need to ensure that Canadian grain port facilities are not overburdened due to taxation. Some of our terminals are paying municipal taxes at a ratio of 10/1. That is a rate 10 times the residential rate in the same community. In Seattle, this ratio is regulated at a maximum of 1/1.
- Canada must realize that Western Canadian grain ports are competing with heavily subsidized U.S. ports that have the ability to raise taxes to fund their infrastructure.

If we are going to compete we need to make the Canadian system as efficient and cost-effective as possible. The Port of Vancouver is a principle gateway for Canada’s trade, and the impact of inefficiency on our infrastructure and reputation is considerable. We should not lose this opportunity to take a quantum leap forward and create a model Grain Transportation and Handling System.
Implementation of Estey’s recommendations, through the plans set out in the Kroeger report will help Canadian grains be competitive in global markets. Finally, there is an opportunity coming in 2000, the review of the Canada Transportation Act. Leading the act is the National Transportation Policy. We need a new and modernized National Transportation Policy that has teeth – and has international competitiveness as its focus. This will set the stage and help Canadians compete on an unlevel playing field. Realistically, we cannot match billions with the US so we are just going to have to be faster on our feet.

Most companies have vision statements and/or mission statements. Our company also has a set of values that govern how we will go about achieving our vision and mission. These are all important because they are the rules of conduct. Our National Transportation Policy needs some rules of conduct that direct and protect a definition of the system, viability of the system, taxation funding of the system, and operation of the system which should include labour law. The policy is the place for these rules of conduct...it is the place to demonstrate leadership for the future. Just look at the West Coast recently. Shut down because two small groups could not come to an agreement... Canada simply cannot afford it. And Canada should not stand for it.

Thank you.

Dr. Barry E. Prentice, Director

Transport Institute, University of Manitoba

Moderator Session 3

Questions through the Chair:

Eugene, if Prince Rupert is the railway’s low-cost corridor, and they are making excessive contributions as the CWB and the CTA studies showed, why are they not discounting the rate now and further, Mr. Kroeger has not recommended any changes to rail competition – what will drive down the rates?

Eugene Ludwick:
I understand that, from time to time, there are some special arrangements made between the railroad and very, very large shippers. Every now and again, somebody will come to me and say “I hear that the Wheat Board is getting that whole rail rate differential removed, I think I should get that, too”. I say, well you go to the railroad with your five million tonnes of canary seed and you will probably get that discount as well. The thing is, the smaller shipper who has fewer tonnes from more points cannot put together enough volume to be able to negotiate a decent rate from the single railroad that serves Prince Rupert. If you had a corridor rate that was a little more reflective of the true cost of going through the corridor, then you would see that the differential would be narrowed somewhat. I am not saying it would be completely eliminated, but it could
be narrowed. On the other hand, it might end up being that somebody else’s cost might end up rising a bit.

Dr. Barry E. Prentice, Director

Transport Institute, University of Manitoba

Moderator Session 3

How does the increased segregation and smaller shipments of identity-preserved grains, especially the demand to separate GMO consignments from traditional seed crops, impact port congestion? How do you see it playing out in the future?

Kevin Little:
It may not contribute to port congestion, and if GMO moves the way that I have been told that it is going to move, then containerization is going to play a tremendous part in that particular business. As those products become so specialized and must be segregated and kept so sterile, much like malt, for example, it will be put in containers. The good news is that we have been successful, and I do not mean just the Port, but the railways and the terminals and labour and everyone else, in attracting first port-of-call carriers to the Port of Vancouver. And why that is significant is because it now brings a flow of boxes from Vancouver right through this neighborhood into Chicago, where they are made empty, brought back here for loading for export. That single move that has taken about ten years to achieve and has put a whole new supply of empty containers into this neighborhood to deal with products just like that.

Hilary Goldenberg:
Or, it could move through direct-hit facilities, where the product is protected and moved directly onto vessels in an environment where multiple-grain products are not in place at the time the product is moved.

Eugene Ludwick:
I agree with both – we see an increased incidence of containerization, and we see that containerization is a part of the future of the Port of Prince Rupert. A bigger challenge, I think, that causes some congestion in Vancouver, is what we call the semi-bulk. We have somebody who has 50 cars of something and wants a small separation in a hatch in a vessel that somehow trips or gets tangled up in a five-train shipment of wheat to fill up a whole vessel or hatch. So there are different solutions.
Could you please elaborate on the value set and rules of conduct re: the CPA review opportunity?

**Kevin Little:**
Well, to tell you I have a detailed answer would be a falsehood. I can tell you how our value system works. We have five core values in our company: they revolve around our customers, our financial health, our reputation, the environment, and our people. There is a series of statements beneath each of those that guides everyone that works in our company about how we are going to go about achieving our objectives. We may be pursuing a piece of business and pricing it such that it has a detrimental effect to our reputation. Well, we take that into consideration. No project goes forward unless the environment is given its full due, etc., etc.

We really believe that National Transportation Policy should have a similar set of guidelines. For example, taxation is a real challenge. We were discussing at lunch how we are going to address this. Eight municipalities who have revenue needs surround us, and cargo does not vote. Well we believe there should be some teeth in the National Transportation Policy that sets some guidelines for how that gets done. You could set some guidelines with regard to labour, and how that is dealt with, particularly around the waterfront. So that is sort of the flavour of what I am talking about, but I would certainly love to be part of the process that brings that together.

**Dr. Barry E. Prentice, Director**

*Transport Institute, University of Manitoba*

**Moderator Session 3**

We have an overview from the grain handling perspective, as well as two other corridors that are going to be addressed specifically, that being the Port of Churchill through Hudson Bay, and Minneapolis. Our first speaker is Mr. Murdoch Mackay, who is the Managing Director, Terminal Services, United Grain Growers, and the Chairman of the Terminal Elevators Association.
Life After Estey and Kroeger: Commercially Oriented Grain System

I am making my presentation today on behalf of the Terminal Elevator Association, which represents the licensed terminal elevators in Thunder Bay, Prince Rupert and Vancouver. We have capacity at these terminals to do the job. Life after Estey will be a little different and probably a lot better for us as terminal operators.

For some of us in this business it will mean a lot more time to do the job that we are paid to do with a lot less meetings. It also means a system:

- With clear accountabilities and system responsibilities
- A system responsive to market forces
- A system which will be efficient and reliable
- A system in which all stakeholders share in efficiency benefits

So let us talk about some potential changes that we have: The calling of the grain forward. We will move to a much more Demand-Pull System. The grain companies can widen or narrow the basis, depending upon the grain that they require. They will bring grain into the system in order to move it forward. What else will change? Car allocation. There will not be car allocation anymore. There will tendering and performance awards. These will be done between the grain companies and the Canadian Wheat Board. It will also allow the grain companies and the railways to negotiate service contracts and allow things to move much more efficiently.

It will allow the grain companies to become logistics contractors. We will control the flow. We will allow grain to come into the country elevator, move from the country to the terminal or the port that is required. It will result in greater efficiency and reliability.

There will also be contracts between all parties. For those that perform, there will be rewards, for those who do not, penalties. These contracts will be between the Canadian Wheat Board and the grain companies and between the grain companies and the railroad. If that all happens as Mr. Estey and Mr. Kroeger say, what can we really do? What does this allow us to do?

It allows the grain companies, who have spent hundreds of millions of dollars in changing the infrastructure in this country, to utilize those assets much better. If we can utilize our high through-puts we can reduce the turnaround time. We can use 50 or 100 car trains to move to port and terminal. When you reduce the turnaround time, you are really expanding the car fleet for the railroads. That also will result in increased capacity in the terminals.
Increased competition in the new system means tenders and performance awards. The Canadian Wheat Board will tender for grain. They will determine the port that they want, it could be Vancouver, it could be Prince Rupert, it could be New Orleans – it could be wherever the Board would like to tender it. Competition will determine where it goes.

The Board will be awarding cars to grain companies and it will be done based on those that are performing best. What does this mean? This means that you will have improved logistics. The right grain, the right port, at the right time for just-in-time movements of grain. We will not have grain sitting in terminals. I think the gentleman from the Port of Prince Rupert said he does not need to spend money on a lot of storage, that he saves the farmers money. Well, under this system, maybe we will all be able to utilize our storage at terminal a little more effectively.

What does it all mean? It means a lot of efficiency gains throughout the system. Reduce carrying charges for the farmer, incentive rates with the railways, utilization of shuttle trains, etc. All the way through the system, stakeholders will share these savings. It also means that there will be clear accountabilities in a contract system. Non-performers will be penalized, not the producer. We will know who is not performing, rather than following the finger around the circle as we have been doing in the grain industry lately.

What is our next step? The Government needs to make some decisions on the revenue cap, open access, final offer arbitration and the role of the Canadian Wheat Board in transportation - Option One, Option Two – make your choice and let us get on with it. Introduce the legislation that is required and let us go.

The next thing that needs to happen while this is all going on is the Canadian Wheat Board and the grain companies need to determine the process and criteria for performance awards and tendering. Then the grain companies and railways need to talk about service contracts. This deals with capacities and service levels that grain companies are going to require for their facilities and their terminal elevators. It deals with the utilization of incentive rates and shuttle trains as well. The last and most important for this to succeed is to get on with the process. We have studied this enough. It is time to move forward. Thank you.

Dr. Barry E. Prentice, Director
Transport Institute, University of Manitoba
Moderator Session 3

Our next speaker is Mr. Gerald Brown, President of Cargo Carriers Inc., out of Minneapolis, Minnesota.
Mr. Gerald Brown, President
Cargo Carriers, Inc.

The topic today is the competition between gateways and corridors. Several of my Canadian friends have remarked that they hear this big sucking sound coming from the Mississippi River, and to a degree, it is true, but it is also not true. Maybe we can get the myths out of the way if we can discuss it a little. The main stem of the grain flows in the United States is the Mississippi and the Illinois River which goes over to Chicago, that is where the vast majority of the grain flows to the river.

Let me describe my company so that it may help you understand the system. My company is the third largest barge carrier in the United States. We have approximately 1,000 barges, and we operate 27 towboats to move them around the system. Each barge holds about 15-1600 net tons. A barge will hold approximately 16 big grain cars, roughly 50 trucks. It is a highly efficient mode of moving things. This is a very capital intensive business. Each barge costs about $300,000 a copy, and each of the towboats will run $6-$9 million a piece. So the name of the game is getting maximum utilization so that you can keep your capital costs as low as possible.

The system was basically built in the 1930’s. This is wonderful and terrible. The good news is that we have had this for a long time and it is ‘written off’, the bad news is that we have not spent much money on keeping it up or modernizing it over the years. It was an interesting concept, as it was virtually all built with public dollars. Initially the system had no private investment, and if you take the whole works including some of the coast-wise channels and so forth, is a lot bigger than most folks realize. In total it is about 10,000 miles long.

The upper Mississippi has a huge system of locks. There are 27 locks between Minneapolis and St. Louis. These are the restraining factor in the system. There are no locks below St. Louis. It is wide-open river from that point down, and we use much bigger tows and much bigger boats downriver. And I might add it is far, far more efficient. The distance from Minneapolis to the Gulf is about 1700 miles. The system was built and is maintained by the U.S. Army Corps of Engineers, and they have done it very well. The other side of that equation, from a government standpoint, is the U.S. Coast Guard. While the Army built and maintains the system, the U.S. Coast Guard is our police agency, and handles all our channel markings and aids to navigation. For instance this morning, I have been dealing with the Corps of Engineers who say whatever you do, do not churn those big propellers and mess up the channel, and the Coast Guard who says, whatever you do, do not let that tow break up and go down and hit something.

The system within the Mississippi has about 11–12,000 covered hopper barges. We are currently paying a new tax of 22.4¢/gallon of diesel fuel into a trust fund. That tax is kicking in about $100-$120 million a year into the trust fund, and that trust fund is to be used to replace capital dollars on the system – for instance a new lock.
One of the things we do incredibly well is that we keep the rails honest. For example, we are doing BTU’s at about 250 while rail is at about 687, so we are actually quite an efficient system. The rates can vary a great deal. I have seen rates out of Minneapolis in the last 15 years for as little as $3 a ton and for as much as $30 a ton. Those are a few wild fluctuations, but if you want to look at it from an averaging standpoint, we are looking at about $11 a ton to get to the Gulf from Minneapolis. Out of St. Louis, we are looking at $6 a ton on average. In a matter of scale, the system is moving approximately 300 million tons a year on the water. Sixty percent of all U.S. agriculture goes through Louisiana at the Gulf of Mexico. Of that sixty percent, ninety percent of that goes by barge. This is the sucking sound I referred to earlier.

The grain moving on the system, and virtually all of it going to the Gulf, is approximately 70 million tons a year. The vast majority is corn. Our corn is your wheat. There is one bad thing about the barge line business. It is that in the United States, the rails have virtually all of the domestic business, and the barges have the vast majority of the export business. The barge business lives and dies on the export business.

One more comment about that public debate on who should pay for the system. A guiding principle behind that, and this is not debated, it is pretty well accepted. It is considered to have about a six-to-one cost benefit ratio. For every buck we spend on the system, it generates about $6 worth of benefit.

To conclude, I want to discuss what is going on as I see it from what I have heard from you today. The Canadian fears I have heard this morning and this afternoon sound strangely familiar. The same thing is going on in the United States. One of the big battles that we are having in the inland waterway system is that we are having a terrible political problem with the effort to balance the United States’ budget. They have held virtually all water improvements hostage and they are not spending any money on the system. They have not done so for many years. The budget has been extremely modest. All we have gotten is what we call O&M (operations and maintenance). They have even held our trust fund hostage. This trust fund has over $300 million in it right now, and none of it is being spent because they are using it to offset the budget deficits so it looks like we are in balance. There is a lot of that chicanery that goes on.

One of the things I heard repeatedly this morning is this issue about capacity. Here’s one of those myths about the sucking sound again. We have got the capacity at those elevators in the Gulf but they are under-used. Where we are hurting for the capacity is those locks and moving that stuff along the Mississippi. Just like the Great Lakes, we are limited in the number of months of the year we can operate and so forth. A good number of the locks have a constant queue, and so it becomes how much Coke can you jam in the Coke bottle? And unless we get the improvements I talked about earlier, we are really not going to be able to increase productivity until we get that solved. We have a terrible problem with an environmental debate going on in the United States. The problem is that it takes forever. We built one new lock at St.
Louis about seven or eight years ago. The debate whether or not to even build it took twelve years. We cannot afford to do that anymore. The debate is legitimate. It just has to be drawn to a close. We spend a great deal of time in the United States shooting arrows at each other, or blaming somebody, maybe even the Canadians once in a while, but the key to it is that we are in a global economy now. Nobody cares about our internal nonsense. We have got to solve the problems, and we have got to be competitive. I tell my farmer friends in Minnesota that the buyer of corn out there in the world does not care if it came from Minnesota, Australia, or wherever else they grow corn in this world. They do not care, they are just buying a commodity. We have to get it to the rest of the world as cheaply as we possibly can.

The final thing along that line is we are slowly becoming less competitive because we in the United States, and I suspect you in Canada, will let people constantly steal our technology. Our improvements, our better way of building the mousetrap, our better ways of running the system. What I have been watching over the last seven or eight years now is South America. They are building a system down there that is just awesome, and all we are doing is trying to repair ours. The buyer does not care where stuff comes from. We need to figure out how to compete with these world people, because all the internal bait will not make a lick of difference. Finally, as Murdoch said, we have to stop talking about it...both in the United States and, from what I have heard, in Canada too. Thank you very much.

Dr. Barry E. Prentice, Director

Transport Institute, University of Manitoba

Moderator Session 3

Our next speaker is Gary Rennick, the Chief Executive Officer of OmniTRAX, Inc.

Mr. Gary Rennick, CEO

OmniTRAX, Inc.

What I would like to do is give you an introduction to OmniTRAX and why we are here. We are a bit different in that we have a port [the Port of Churchill] and some railways. We have a railway that serves the port, Hudson Bay Railway, we have a grain-originating railway, and we have a couple of other properties. In Canada, we have the Okanagan Valley Railway, which is in British Columbia and runs from Sicamous, moves down through Vernon, into Kelowna and over to Lumby. We have the Churchill Marine Tank Farm, which has about a 40 million-litre storage capacity. We have Trans-Canada Switching, which services Delta Port, and of course we have the Hudson Bay Railway and the Carlton Trail Railway (CTR) that we talk about.
In the U.S. they were trying to save Social Security. It took a while and it came down to the last minute, but they did it. But the interesting part is, everyone claimed credit for it, and they all claimed that they won. I like to think that that is exactly what is going to happen in Canada with the grain transportation handling system. There will be a lot of compromises, there is a lot of vested interests, and certainly, as we go through this presentation, you are going to see that OmniTRAX is in the middle of the road on most issues.

The Carlton Trail Railway is in Central Saskatchewan and runs from Saskatoon up to Whitestar and also handles warehouse traffic north of Prince Albert. A sister line is part of the system that runs from Spirit Junction up through Meadow Lake, which is the home of the Minister. This line is very grain-dependent. About 40 percent of our traffic is grain. The balance is essentially forest products and odds and sods. One of the things that OmniTRAX drives for when it develops a short line property is to try to get a balance of traffic. We do not want to be dependent on one particular commodity, and we certainly want to be able to survive the economic business cycles. Anyone who has a railway in Saskatchewan and Manitoba is going to be very dependent on grain. We are very dependent on CN, and we have to work closely together for this property to work. All the major players are there but our grain business is dying. We are losing traffic because it is going down to the main lines and to the high throughputs.

We intend to stay in business, we are going to fight to keep the business up there, and we are going to continue to work with the Pools and with CN. We are going to try to survive and serve our customers who are the producers in the community. Is it going to be easy? No. But we certainly hope that the process that we are going through right now will allow it to happen.

The other property that we have is the Hudson Bay Railway, which serves the Port of Churchill. Again, it has a mixed balance in that we have the mining industry with INCO and Hudson Bay Mining and Smelting. We go into Flin Flon, Lynn Lake, and Thompson, but we have to handle grain up into the Port of Churchill to be able to keep that company viable. We knew that when we bought the property. CN knew that when they sold us the property. We have every intention of staying in business and driving traffic through that port.

There has been a lot of progress made with the Hudson Bay Railway since we took over. For a number of years, the fate of that line and the port itself was very uncertain. We have had to play some catch up and we have done a significant amount of track work, tampassing, resurfacing, and ballast – it is always going to be a high maintenance line. The traffic is very seasonal and we go through some very difficult territory: permafrost, swamps, and mosquitoes bigger than I have ever seen!

We have rebuilt bridges. We have re-opened the Bells Quarry. We have brought new power and cars, and we have increased service frequency. We are going to do everything we can to ensure that line survives, because we think it benefits the local economy and the producers in Western
Canada. We are hauling hundred tonne steel covered hoppers to Churchill. We have a new system for unloading covered hoppers, and we are every bit as effective as any other port in that context.

The Hudson Bay Port Company has been in operation since the 1930’s. This year it handled 4600 carloads (412,000 tonnes) which is well below its capacity. We believe the port can handle the better part of 2 million tonnes and our target is to handle at least a million tonnes a year. We have a season that has traditionally been much shorter than Thunder Bay’s season. We are open from about the 20th of July through to the end of October. We believe that the season can be extended from the last week of June, right through until the end of November. With new technology, icebreakers and all the rest, we could even have the season longer than that.

We think Churchill has a number of advantages. First, Churchill is the closest port for a good deal of the grain that is grown in Western Canada for countries on the Atlantic side of the world. We want to handle one or two million tonnes a year and do the best job we can. But, we can certainly personalize our service and work extremely hard at it. I think some of the folks who were up there this year, who had not been up there before, can certainly attest to the fact that we have done just that.

We have now proven that we can handle more than just wheat. Until this year, Churchill had not handled any other commodities. This year we handled a couple of loads of peas and some alfalfa pellets. We are ready for oats, canola, barley, and other grains. We expect to handle all of that over the next few years. We are going to be dredging coming next summer – we are going to be able to handle 50,000 tonne vessels and larger. We handled vessels this year in the 40,000 tonne range with a bit of maneuvering but I can certainly tell you that queuing and through-put times that you saw for Vancouver and the other ports were significantly longer than ours. We were turning vessels and loading a 40,000 tonne vessel in two to two and a half days. We have got a new dust control system and we have done a lot of upgrading. We certainly are going to have a longer season through the investments that we now have in place.

A lot of the investments are through the Governments of Canada and Manitoba. They do not cover the $46 million spent by any stretch, but they are there. Some comments have been made by some other ports that Churchill is getting an unfair advantage by these investments. I can tell you that these investments are the result of fifteen or twenty years of neglect. If you would have spread them out over the last fifteen or twenty years, the investments would not have come close to covering basic upgrades and keeping the port to code. Dredging is just a fact, and the other ones are just good solid business decisions that we are going to continue to make.

If you look at annual grain volumes from 1990-1999, we have handled at the very most, 412,000 tonnes, but typically it is in the 200/250,000 tonne range. This is for a port that can handle a million tonnes or more during the three and a half or four months we can be in business. It is disappointing certainly. We think that the low volumes have been at the cost of the Western
Canadian farmer and producer. During the mid-1970’s the port handled 750,000 tonnes in one summer, in boxcars. I cannot imagine how they might have done it, but they did it. But it has been done in the past and it was done with a very archaic system.

Looking at some of our markets from 1995 to 1998, we have served Mexico, Columbia, Venezuela, Brazil, several West African countries, and Europe. This year we have gone to Spain and even over to Ireland. We have handled about 250,000 tonnes of wheat, 100,000 tonnes of durum, which hadn’t been handled at Churchill for quite some time, 50,000 tonnes of peas, 10,000 tonnes of alfalfa pellets and covered all of those locations mentioned.

We have got a tremendous amount of producer support because Churchill is the lowest cost route for locations on the Atlantic side of the world. From Saskatoon into Churchill, you are looking at $51 or $52/tonne. The Thunder Bay alternative through the East Coast ports is about $74, which is a difference of well over $20/tonne. Looking at Winnipeg and making that comparison, you are looking at $55 versus $62. Even if there is a dollar of difference, that is a dollar that is going back to the Western Canadian producer. Some of the customers that we had this year have been taking advantage of a salty move of somewhere over $7 or $8 a tonne U.S. So we are still looking at $10 or $12 a tonne and these are fairly significant numbers. These savings carry right through when you go overseas. There is definitely a Churchill advantage and a cost benefit to the producer or the grain transportation industry in Western Canada.

We have done a number of studies, and certainly everything that we have done indicates that if you look at the volumes that traditionally have moved out of Western Canada through the East Coast, there is probably around one and a half to two million tonnes that could legitimately go through Churchill. With a million tonnes, if you accept my $20, you are looking at a return to the Canadian grain industry of about $20 million a year. Those are dollars that should end up back in the producer’s pockets.

We are at loggerheads when it comes to Class One rail lines at times, and certainly when it comes to the elevator companies, we are just trying to protect the interests of the short line operation. OmniTRAX supports the establishment of the revenue cap although a rail revenue base must be protected to ensure the long term viability of the transportation system. Having a bankrupt railway system will not do any of us any good, especially not the producer. I cannot tell you whether 12%, 18% or 24% is the right number but I am certain the Transport Canada folks can, and they can work with the railways to arrive at the number that will be to everybody’s satisfaction.

One concern we do have is a branch line price differential. Any rate proposal that has a branch line differential will drive traffic off the branch lines. If there is a branch line surcharge it is going to cost us business, and it is something that we are certainly going to vigorously oppose. We also believe that if you look at the operation of our Carlton Trail Railway we can be truck-competitive. We have quoted rates to at least one Pool, where we have been able to compete
with trucks moving from the old wooden grain elevators into a high through-put, and being more than truck competitive. We also believe that we can play the same role as a high throughput by delivering hundred car trains, blocked appropriately, to the Class One railways and do exactly the same service.

OmniTRAX does not believe in open access. We really do not think that it will accomplish what people are hoping that it will but our reasons are a little bit different. I spent more years working for railways than most people would care to think. To say that anybody could start to run on anybody’s railway from one location to another, I do not think it is very workable.

OmniTRAX believes that the CWB should be allowed to fulfill their new mandate. I think they have made incredible progress over the last eight months. We certainly have found them very good to work with in terms of Churchill, and very receptive to trying new ideas. They have supported us on the non-Board grains and they have supported us on some of the logistics. I think some of the answers that people are looking for in terms of reduced demurrage, new unit-train operations, or shuttle trains are already available.

OmniTRAX supports the recommended changes in regard to the branch line abandonment process. We think they are all positive and certainly moving in the right direction. OmniTRAX certainly supports continuing to use the producer cars, because the way our properties are going, it might be all we have in the longer term.

We find Deputy Minister Bloodworth’s report a very positive and refreshing approach and support its recommendations. We are going to work with the Canadian Wheat Board and other non-Board shippers to utilize the port. Mr. Justice Estey talked about Churchill having a reasonable chance of success but we believe that it is much more than reasonable. We have every intention of making Churchill successful. We are committed to developing other markets including inbound traffic and northern resupply. We are committed to extending the shipping season by working with insurance restrictions, working with the Coast Guard and working with new technology. The season is sure to become four or five weeks longer than what it has been and perhaps even longer.

We are going to continue to strengthen our commercial relationships with various groups in the industry. We certainly support the implementation of a gateway council. Thank you.

Dr. Barry E. Prentice, Director

Transport Institute, University of Manitoba

Moderator Session 3

Questions through the Chair:
Non-administered grain is directly negotiated between shipper, grain company, and carrier and it has the poorest car-cycle performance of all grain. Often more than two times that of Board grain. Why should farmers rely on grain companies to negotiate their transportation? You may want to speak to the accuracy of those statistics as well.

**Murdoch MacKay:**
I said that the grain companies would negotiate service contracts with the railways. We want to deal with incentive rates, service requirements that we require at our high through-put facilities, and the type of movements that we plan on doing from each one of our facilities. I guess it is more the incentives, etc., the types of things that we as a grain company can do that you will see passed back to the producer in the basis or in reduced freight. This is what we are looking at doing.

**Dr. Barry E. Prentice.** *Director*

*Transport Institute, University of Manitoba*

Moderator Session 3

Under open access, firms like OmniTRAX stand to benefit with more business, why would you oppose this? And: Has TBTL actively pursued open access in order to increase rail competition?

**Gary Rennick:**
If you were to come to me and say ‘I want you to run a hundred car train from Prince Albert to Vancouver, and I am going to give you $250,000’. I would love to be able to try and do that, but to do that I would have to acquire some diesel units to move that train from Prince Albert because we are not geared up for that sort of operation. We are a short line operation so we would have to get some main line power – at probably $2.5 to $3 million a crack now, or rent it from CN or CP. We would then have to have crews to move that train into Vancouver once it leaves our territory. This is over a large distance of probably 8 or 10 crew change points, which we do not have of course. For us to have crews over that territory we would have to get them trained to be able to operate according to CN rules and regulations, which are only slightly different from ours. The logistics just are not very practical. We would also expect to have certain service levels that would interfere with the flow of traffic over the Canadian National or Canadian Pacific lines, depending on which one we happen to make the deal with. Once we got to Vancouver, we would have to have someplace to go. We really do not have a home at Vancouver at this point. We could try direct hits, I know there has been direct hits in Vancouver and Thunder Bay from time to time, but they are the exception. So when all is said and done what we would have to do is simply turn around and contract the move out to CN or CP. Once we have done that I am not so sure you have really accomplished a lot.
Hilary Goldenberg:
Our original reason for being was to serve the Western Canadian coal market, particularly on behalf of our largest customer, Ontario Power Generation. From that point of view, Thunder Bay Terminals does have access for both Canadian National Railway and Canadian Pacific Railway for coal. It is really the recent changes with the development of inland high through-put terminals that has piqued our interest in an attempt to build business in the direct hit movement of agri-products. So we have really only started to focus on the issue of open access in that segment of our market. For that reason, we really have not been aggressive in terms of trying to develop it. We will be looking at it in a more aggressive way in the next while though.

Dr. Barry E. Prentice. Director
Transport Institute, University of Manitoba
Moderator Session 3

The people own Mississippi’s waterway infrastructure and the U.S. Government allows open running rights on it, and then charges access fees to invest in infrastructure. Do you think that competition in rail would increase if the rail arrangement in North America copied the waterway arrangement?

Gerald Brown:
There is a great debate that has gone on over that and a lot of it is similar to within Canada. There was a tremendous subsidization of the U.S. rail system, mostly prior to the turn of the century, just as in the Canadian rail system. It was the only way that the system was going to get done. But I honestly do not think it will work for the rails to follow the water model and vice versa. For instance, rails are very provincial and parochial. They do rails and rails only, they move goods and people on their tracks and that is about it. With the waterways, on the other hand, there is a lot more reasons for public investment. Every city on the Mississippi River owes its sewer and water system to the Mississippi River and the investment that has been made there. Flood control is a tremendous part of the system as well as recreational boating. Those are good public investments, but I am not so sure that the rail model should be the barge model or vice versa. I think it is actually pretty good the way it is.
Kevin Little, are you aware of the B.C. terminal operators’ canola unloading formula? And why do you allow it to slow down unloads?

Kevin Little:
No, I am not familiar with the formula, and it is not a case of our allowing or not allowing. The facilities are private, on leased land, with private berths. We are merely the landlord, and that is why we take an arms length position on it.

Who pays the ice breaking fees at Churchill?

Gary Rennick:
Right now, that is a subject of negotiation that we are having with the Canadian Coast Guard and the Department of Fisheries. So far, there have been no ice breaking fees – we have not had to break any ice. Quite frankly, we would not have had to break any ice from the 15th of June right through to sometime this week, so ice breaking for Churchill is not a major issue. Ice breaking could be a major issue if we extended the season beyond this time of year and into December, or tried to open up the port a bit earlier.

Eugene, what is your annual capacity for a specialty grain facility, and how are you going to market this against the new facilities of Vancouver Wharves and Neptune Bulk Terminals?

Eugene Ludwick:
The capacity of the system is really not yet known, but I would guess that it would be in the order of a half a million tonnes per year. I know we can compete with other facilities because we
have been in business now for about twenty years. So some people say, ‘my goodness, Vancouver Wharves is going to spend a gazillion dollars on their new facility’. Well, it just goes to show you how much more catching up they have to do that we have done already.

**Dr. Barry E. Prentice, Director**  
*Transport Institute, University of Manitoba*  
**Moderator Session 3**

Let us now go forward to Mr. John Murphy, our closing speaker.

**Mr. John Murphy, Vice-President, Agricultural & AgriBusiness Banking**  
*The Royal Bank of Canada*

Good afternoon ladies and gentlemen. I appreciate very much the opportunity to be here today. It has been a most enjoyable day for me. I have certainly been in touch with this debate for at least twenty-five years and to hear the participants debate it first hand has been enlightening.

You have a barrier in your path that you have been struggling to get around for many years. The speakers this morning competed with each other to describe how wide that gap in the line is and how much it is costing Western Canadian producers through the lack of decision. There is very, very broad consensus today that change must occur. Now it may be one barrier, it may be two barriers or it may be three barriers. There is certainly a common theme, the issue is not competition with each other, it is that we are in a globally competitive environment. We must address our own issues. As Mr. Brown said, the rest of the world does not care what your internal conflicts are.

Mr. Kroeger suggested that the resistance to change is to a large extent based on fear. There is great concern that if there is a fix, maybe the railways will get too much of the money if we do it this way. Or maybe the grain companies will be the big benefactors, rather than getting on with it. Hiram Drackie used to describe management as using what you got to get what you want. Now the Wheat Board expressed its concerns about perhaps losing some of its marketing capability if it lost its control that they now have on the transportation system.

Sandi and the railways are advocates of a more commercial and more competitive system, and said most buy into that which seemed to be the consensus here today. She is accepting to some extent the revenue cap, but many red flags flew up over open access. Now, I am in the transportation business, too. We transport information around the world and we could not survive without open access to private and public lines, but the secret is we have done it on a
shared, negotiated position with each of our partners. I think Sandi is open to those kinds of negotiations. In fact, she said that they were already doing some of those sorts of things.

Gordon Cummings says ‘let us get on with it’. He suggests perhaps it does not have to be all at once, nor is it irreversible. You could probably go all the way around the barrier if you had to. At least get started. Maybe do some of these things on a phased in basis and see how they work. The Minister from Saskatchewan said that it should be Federal money and I think that is where the jurisdiction lies. We should have experts to monitor performance logistics standards and measure the ongoing progress of the changes. This is a very good idea combined with Gordon Cumming’s idea of phasing in. Gordon also said the status quo is easier for the grain companies.

As a capitalist, my eyes twist a little bit when I heard Ron Gleim talk about his mistrust for free enterprise capitalism. I know from my relationship with many producers across Western Canada, they share his view. I suggest you talk to Hilary, who brought forth some very interesting concepts on profit primacy. Make your business competitive by making your customers more competitive. I think that was the general theme of the people from the ports who said ‘we are open for business, we are making changes, and we want to do things to serve the industry better’.

I think our good friend from Minnesota summed it up very well, ‘let us just go do it’. I think the gap in the line is well identified. It is expensive to let that gap get wider. We have identified a strategy and a process and we have started a tactical approach with the Estey/Kroeger Reports. I want to know why we do not get on with it and manage it as we go. We may have to change our strategy a little bit, but at least you have identified the problem, you have more consensuses than you have conflict. ‘Get on with it!’ This is what I saw today, Mr. Chairman.

Dr. Barry E. Prentice. Director

Transport Institute, University of Manitoba

Moderator Session 3

In listening to the many views of the representatives of the grain supply chain, I am reminded of a seminar that was given by Dr. Bill Wilson of North Dakota State University last week, at a function that was organized by the agribusiness students club at the University of Manitoba. What Dr. Wilson asserted was that commodity industries are far more competitive than most of us imagine. The tender option systems of international grain markets frequently pit eight or more supply chains in competition for each export sale. In this brutally competitive environment, winning or losing comes down to splitting pennies. Or perhaps in Hilary’s words, so aptly observed in these markets, the lowest price is the law.
What Dr. Wilson went on to say is that the efficiency of the supply chain is absolutely critical if the participants are to avoid making competitive bids that are subject to the winner’s curse. That is – winning the business at a price where you lose money. Where the low price bidder gets the business, the relative efficiency of an industry’s logistics system has a disproportionate effect on their probability of a profitable transaction.

The Canadian grain supply chain has experienced its share of winner’s curse. Low farm prices and inadequate returns to capital employed in grain handling are evidence of this. The debate on how to make the grain handling system more efficient has extended over three decades and the time has come to act on these measures proposed to increase logistical efficiencies. I am hopeful the discourse at this forum will lead to more pressure to make those changes.

At this point, I would like you please to join me and thank all of our speakers and moderators for their wonderful presentations. Finally, I would like to recognize and thank the members of the team who brought you the Fields on Wheels Conference this year, our co-hosts David Gardiner and David Colledge of WESTAC, and Jill Dutka, Mike Crockatt, Scott Shurvell, Jake Kosior and many other members of the Transport Institute who pitched in to make this day a success. Please join me in thanking them.

Good evening everyone and have a safe trip home.