5TH ANNUAL
FIELDS ON WHEELS CONFERENCE

FOCUSING ON THE FUTURE

NOVEMBER 20TH, 2000

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Transport Institute
Western Transportation
Advisory Council

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“FIELDS ON WHEELS”

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Preface

The mood of the agricultural sector in the fall of 2000 was decidedly less upbeat than in previous years. Farmers continued to be disappointed with low commodity prices and high input costs. Rural communities worried about further road deterioration and the exodus of young people to the cities. Grain handlers were dissatisfied with the meager reforms yielded by the Estey-Kroeger process. The railways were smarting from a regulated cut of $178 million in grain transportation revenues. Everyone seemed fatigued and frustrated by what seemed like years of re-threshing chaff. In the light of such malaise and frustration, the 5th Annual Fields on Wheels chose *Focussing on the Future*, as a theme for the conference.

The future of the Western Canada’s agriculture is affected by the sea change in government policy that ended the WGTA subsidies for grain transportation in 1995. The impact of removing these subsidies is now fully reflected in grain prices and has re-stored the competitive balance between continental and offshore markets. Farmers are shifting production in response to the changing economics of the grain industry and new opportunities are arising in value added food processing. Economic transitions are never painless or uninterrupted. While some aspects of the future seem certain, like a larger livestock sector, the features of the emerging transportation and logistics system are less concrete.

The program began with a new perspective on the future of Western Canada as seen from the 30,000-foot level. Historically, the fortunes of the regional economy have been synonymous with the experience of the Prairie grain economy. Today, this is no longer the case. A separation is evident across Western Canada, as the regional economy flourishes while farming communities face worsening economic conditions. The New West that is described by our keynote speaker is increasingly urban and knowledge-based. As the cities become the engines of economic growth, the rural countryside is losing the priority it once commanded.

The transportation system that served the bulk export of grain so well is not necessarily suitable for the agriculture of the New West. As farmers shift to special crops and production for value added processing, new transportation services are required. Two panels address the emerging agricultural economy. The first panel, which consists of shippers, considers how well the transportation and logistics system is serving value added agriculture. The second panel addresses changes in the marine, trucking and third party logistics that are emerging to serve the value added sector.

The Hon. Steve Ashton, Minister of Transportation and Government Services, delivered the luncheon address to conference delegates. The Minister presented a frank assessment of the political imperatives and opportunities facing the future of agricultural transportation.

The bulk handling of grain may have lost some of its luster, but will remain the largest sector of agribusiness logistics for many decades to come. The last panel of speakers was asked to gaze into the crystal ball and provide attendees with their thoughts on the future.
of Western Canadian agriculture twenty years from now. As evidence of its predominant role, this panel generated the most audience participation and questions.

Dr. Bjarnason, Dean of the Faculty of Agricultural and Food Sciences at the University of Manitoba, provided a synopsis of the day and his perspective on the future from the vantage point of the premier agricultural education and research facility of the Province. Amongst other things he highlighted the opportunity for nutraceuticals and functional foods. Value added products are the way to greater economic growth, but we must adapt our transportation system to accommodate these new market opportunities.
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Dr. Barry Prentice, Director

Transport Institute

Welcome

Good morning, and welcome to the 5th Annual Fields on Wheels Conference. I am Barry Prentice, the Director of the Transport Institute at the University of Manitoba, and again this year, we are joined by WESTAC, who are co-hosting the program.

The theme for the 5th Annual Fields on Wheels is Focussing on the Future. We have asked each of our speakers to gaze into the crystal ball and give us their thoughts on the future. The program begins with Dr. Roger Gibbins, the President and CEO of the Canada West Foundation, who brings us a broad perspective on where the policy agenda for agriculture fits into Western Canada’s economic and social challenges. Subsequently, the transportation needs of value-added agricultural products are considered by a panel of shippers, at lunch, the Honorable Steve Ashton, Minister of Transportation and Government Services for the Province of Manitoba, brings us a policy perspective on agricultural transportation and Western Canada for the 21st century. The changing nature of the agricultural supply chain is addressed with regard to marine trucking and third party logistics, and an industry panel considers the future of bulk agricultural product transportation. Dr. Harold Bjarnason, Dean of the Faculty of Agricultural and Food Sciences to summarizes the day, and give us his prognostications.

It is now my pleasure to welcome John Morriss, Editor of the Manitoba Co-operator, and Chair of our first session, to introduce our keynote speaker.

John Morriss, Editor

The Manitoba Co-operator

Chairperson, Session I

Good morning. For any of you in the audience who are farmers, I have got some good news and some bad news. The good news, of course, is that the economy of Western Canada just seems to be pumping along quite nicely, even though agriculture is not, and of course, the bad news is that the economy of Western Canada is pumping along quite nicely, even though agriculture is not. That is, I guess, good for farmers who are looking for an off-farm job, but I guess it does create a certain insecurity. There is the perception, or the reality, that in the past when we had problems in agriculture that those were seen very clearly in the rest of the economy, and the old statements that, as agriculture, the rest of the economy goes. This does not seem to be as true anymore.

So this morning, Dr. Roger Gibbins, who is President and CEO of the Canada West Foundation is going to look at the whole question of agriculture in the context of Western Canada, and the Western Canadian economy. Dr. Gibbins was born in Prince George B.C. He received his university training at UBC and at Stanford University. He joined the University of Calgary in
1973, and served as department head from 1987 to 1996, and he is currently a professor of political science. He was the English language co-editor of the Canadian Journal of Political Science from 1990 to 1993, and published 19 books and over a thousand articles and book chapters, most dealing with Western Canadian themes and issues. His research interests span comparative federalism, aboriginal politics, ideological belief systems and research methods. In 1998, he began a five-year term as President and CEO of the Canada West Foundation, which is a non-partisan public body and public policy research group based in Calgary. He was elected as a Fellow of the Royal Society of Canada in 1998, and served as President of the Canadian Political Science Association from 1999 to 2000.

Dr. Roger Gibbins, President and CEO

The Canada West Foundation

Keynote Speaker, Session I

I would like to thank Barry for the opportunity to be here. What I hope to do, is to fill you in on a project the Canada West Foundation is doing and, by talking about the project, try to address the position of the grain economy within the larger strategic positioning of Western Canada within the new economy.

As your first speaker, I will try to be as upbeat as I can. However, as you will note, it is not always possible to be upbeat when talking about Western Canadian agriculture, or Western Canadian transportation. Some of my comments will therefore address what I think are some serious problems confronting the place of the grain economy in the Western Canadian economy as we move into the 21st century.

In the past, the fate of the grain economy was synonymous with the fate of the regional economy. For all practical purposes, they were one and the same thing. The grain economy touched the lives and touched the economic prosperity of everyone living within Western Canada. Today however, it is possible to separate the fate of the grain economy from the more general regional economy. This is a huge change in Western Canada, and it is a change that is likely to intensify over the years to come.

So, my remarks this morning will focus on the disengagement of the grain economy from the regional economy more broadly defined. I will speak about the implications of this disengagement and about the place of agriculture within the Western Canadian economy in the 21st century.

In pondering this question, it is important to bring some historical perspective to bear. If we flip back to the first three decades of the 20th century, from 1900 to 1930, we see that Western Canada was really the motor of the national economy. There was very rapid population growth in Western Canada, and the grain economy was not only the regional economy, it was a huge part of the national economy. We then had the devastating impact of the Depression, an impact that was far greater on the Prairies than it was elsewhere in Canada. The Prairies were marked
for generations by the images that came out of the Depression: dust clouds, Bennett buggies and rural poverty.

After the war, the Prairies moved from being at the center of the Canadian economy to the margins of that economy. Look what happened in terms of population. The populations of Manitoba and Saskatchewan today are pretty much identical to their populations at the time of the 1931 census. There has been a net increase of only a few thousand people over seventy years. Post-war immigration all but ignored the Prairies, and did so for a variety of good reasons. Post-war immigrants from urban areas of Europe did not have skills that were that useful in the Western Canadian economy, and it was hard to break into the Western Canadian economy if you were an immigrant because agriculture was so capital intensive. More importantly, the images of the West that came out of the Depression were not images that would have attracted post-war immigration.

So the Prairies were very much at the margins of the new Canada that emerged in the post-war years. The skylines of Toronto and Montreal replaced the skyline of grain elevators and combines as the defining element of Canada. The new Canada was emphatically urban, and the Prairies were not seen as part of that urban community. We were at the margins, economically, socially and politically. Of course, it is that sense of marginality that lies behind the sense of Western frustration, or Western alienation.

Now there is a bit of an irony here because the grain economy of the post-war years was larger, more productive than ever before, and yet it had a diminishing impact on employment, on the national economy and the way in which Canadians define themselves as a people.

This leads me to a particular project that we are doing at the Canada West Foundation, one which looms large in my thinking about the grain economy. Again, there is bit of an irony here. We are doing a project looking at the role of the Western Canadian cities in terms of regional economic and social development. We launched this project because of the perception that there is an urban Canada that is somehow different from the nature of life in Western Canada. And so we have launched a three-year project to dramatize or illustrate the role of Western Canadian cities. The project is sponsored by the cities of Calgary, Edmonton, Regina, Saskatoon and Winnipeg; Mayor Glen Murray has been a very enthusiastic supporter of the project. What it tries to do is to underscore the fact that Western Canada is now the most urbanized region in the country. Rates of urbanization are greater in Western Canada than they are in other regions of the country. The cities are growing; they are the focal point of immigration into the region, and the focal point of migration from the rural countryside.

If you look, then, at the face of the New West, it is an urban face. The cities dominate the landscape in Western Canada to a greater extent than they do elsewhere in the country. Think, for example, of Winnipeg in Manitoba. In no other province does a single city dominate provincial life to the extent that Winnipeg does in Manitoba. If you look at Saskatchewan, even though the provincial population is still sitting about where it was in 1930, Regina and Saskatoon are among the most rapidly growing urban areas in Canada. Thus the cities are not only dominant in the West, but they are increasing their dominance. They are also starting to detach themselves from the surrounding countryside.
This last point is of considerable significance in thinking about the future of the grain economy and the rural West. There is a fair bit of work in political science and among geographers and sociologists suggesting that in this era of globalization, people are attaching greater and greater importance to the cities, to the urban environments in which they live. We are simultaneously engaged in the global community and in the local community, but we are probably less interested in the communities that lie between the local and the global. In other words, as I sit in Calgary, I am increasingly plugged into an international global community through modern technologies, but as I sit in that community, I increasingly tend to see anything outside of Calgary as part of that global community.

What the literature suggests is that people are seeing everything beyond the local as part of the global environment. This means that city dwellers are going to be less and less concerned about the state of the regional transportation system, or about the health and prosperity of the rural economy. Urban dwellers will pay attention to broadband linkages with the rest of the world, but the relevance of roads and railways will become less and less important to people within those communities. There will also be declining political support for income support programs or for rural infrastructure programs, because cities are detaching themselves from the larger, regional environment in which they live. This, I would argue, has significant implications for how we consider the future of the grain economy and the rural environment within what is an emergent urban heartland in Western Canada.

This leads me to the major project that we are working on, entitled Building the New West. The intent of the project is to develop a blueprint for the strategic positioning of Western Canada within the new global economy. We will be producing in about three months a major publication looking at the evolution of the western Canadian economy over the last thirty years, and we will be going into the field in late January with a major survey on western Canadian aspirations and public policy preferences. We will also be doing extensive provincial consultations.

Building the New West looks at a whole series of issues, including how well positioned western Canadian cities are in what has become an increasingly competitive environment. How do they stand, for example, compared to Minneapolis, Boise, Idaho, Spokane, and so on. Also, we will be looking at how the West fares with respect to the attraction and retention of footloose individuals and businesses, and how to lure these individuals and businesses, to Western Canada. Western Canadians may be a little too complacent in terms of the attractiveness of Western Canada and their local environment within this global context.

The project will examine the impact of new technologies on the geographic position of the West on the edge of the continental and global economies. Historically, of course, Western Canada was shaped tremendously by its geographic position within North America and within the world. We were located a long way from markets. There was a huge role for transportation infrastructure in terms of moving goods out to those world markets. If you look at the business environment today, however, the assumption is that distance does not matter. New firms can supposedly locate anywhere within the world.
This suggests that Western Canada may be freed from the chains of geography. The fact that we are located in this particular physical space may not be the handicap that it has been over the last hundred years. However, I would argue that geography is not irrelevant to Western Canada and, despite the impact of the new technologies, geography will remain an important part of our lives. E-commerce is fine, but at some point goods still have to be moved to market and the transportation systems still come into play.

Geography still counts in terms of where individuals locate, particularly in the case of the new technologies and the new economy. It is not coincidental that computer companies and software companies tend to aggregate in the Silicon Valley, in Ottawa or in Yaletown, Vancouver. We know that although technology allows people to disperse themselves widely, the reality is that they do not. They clump together in communities of like-minded individuals. The question, then, is will those like-minded communities settle in Western Canada?

The overall intent of the Building the New West project is to create a strategic blueprint for the position of the West within the new economy. The question for this group is how agriculture fits within that blueprint. How does it fit into the new economy? The new economy is a phrase whose meaning bounces around an awful lot, but at the very least the new economy is clearly global. There is a technological emphasis in any discussion of the new economy, focusing particularly on information and communication technologies. It is assumed that in the new economy, manufacturing will play less and less of a role, that smokestack industries will decline in importance, but it is also assumed that natural resource exploitation and agriculture will play less of a role in the new economy. This last assumption fits, and not incidentally, with the century long slide in the price for agricultural commodities.

The face of the new economy is emphatically urban, despite the possibility of people working in rustic cabins. The images of the new economy are urban, not rural, not small town. How do such images differ from the images of the old economy? How does the West and the rural West fit into this image of the new economy? Here it is interesting to think about western Canadian agriculture. It is hard to imagine a part of the economy that is more globalized, or changing more rapidly. The rate of change and the degree of external challenge to agriculture have been tremendous. This is a part of the economy that is more open to globalization than other parts of the economy. There is nobody who is more exposed to the new economy than the agricultural West, and yet, the agricultural community is not seen as part of that new economy.

It is interesting to contrast the images of the new economy with the traditional images of western Canada. The best description of the prairies that I have ever read described the prairies as miles and miles of miles and miles. It is spatial. It is vast. It was noted in the media the other day that Saskatchewan over the last twenty years has moved from two thousand grain elevators to two hundred and fifty grain elevators. What does this mean in terms of our symbolic understanding of the West? You can see the disappearance of the grain elevators as representing the disappearance of the grain economy from the perceptions that people have of the western Canadian economy and western Canadian landscape.

In thinking about the place of agriculture in this new economy, how do we ensure that the old economy is built in as an important part of the new economy? How do we ensure that when we
talk about the new economy in Western Canada, we include in that discourse the grain and
resource economies that have been so important to Western Canada? One of the problems we
have is the very polarity between the new and the old economies. Within the North American
setting, we are sure of one thing: new is good. And if new is good, old is bad. If the new
economy is defined in one way, then the old economy of oil, natural gas and agriculture does not
look as attractive as we might want it to be.

How, then, do we ensure the infrastructure investment that will be required for “fields on
wheels”? How do we ensure that we will have the infrastructure to connect the West to world
markets? When you look at discourse on transportation, the dominant image that pops out these
days is that of the information highway. How do you get onto the information highway, how do
you move ideas; how do you move commercial exchanges on the information highway? This is
the dominant image. But who talks about real highways? Who talks about roads? Who talks
about rail systems? In the current election campaign, for example, there is no discussion of
infrastructure, no discussion of transportation. Meanwhile there is a real fear that U.S.
investments in transportation infrastructure will mean that in the future, Canadian East/West
trade, to the extent that there still is East/West trade in Canada, will be moving more and more
on American routes.

One of the topics that we are looking at in the Building the New West project is the tensions that
exist within the region. We are particularly concerned about intra-regional problems, or intra-
regional disparities, and how to handle them. How will we, as a regional community, handle
differences in wealth among the provinces? How will we handle differences in tax policy? We
have just released a report that recommends Alberta eliminate its provincial personal income tax
and replace it with a 5% provincial sales tax. Can the region accommodate that range of disparity
in tax policies, where you have one province without a provincial personal income tax and still
the lowest sales tax in Canada?

Disparities in wealth provide only one of many concerns. We are also very concerned about
population mobility within the region, particularly east/west population mobility in Western
Canada. We have a major focus on disparities between the Aboriginal and non-aboriginal
population and, we are concerned with urban/rural disparities in Western Canada. Any project,
including ours, that fails to address the urban/rural divide will be woefully inadequate. So we are
looking at how much variation a regional community can tolerate, and what are the public policy
tools needed to address inter-regional disparities.

Let me conclude this presentation with a brief note on next Monday’s Federal election. The
election campaign has played to negative stereotypes of the West, particularly the negative
stereotypes of Alberta, which has been described as the back door to Americanization. This is a
dark side of Canadian politics. But, even more, I think, the campaign has played to negative
stereotypes of the rural West and negative stereotypes of the West as a whole. When people
snicker about man walking with dinosaurs, they are not just laughing at Stockwell Day. They are
laughing in a sense at the western Canadian culture and making the assumption that this culture
is still rural based.
As we try to construct a profile of the new West, it is important that we tackle the strategic positioning of the West within the global economy, but at the same time not lose sight of the agricultural west within the new West. We have to be sure not to lose sight of the transportation infrastructure that has been so important in the past in linking western Canada to global markets. The challenge is to convince other Canadians, including those living in Calgary, Edmonton, Winnipeg and Vancouver, that the grain economy is part of the future and not simply part of the past. When western Canadians try to construct a regional vision for Western Canada for 2010 or 2020, how do we ensure that they bring into play the importance of the rural west and the agricultural economy? In flying over the prairies, you might assume that it would be impossible to ignore the place of western Canadian agriculture in any consideration of western Canada. It should be impossible to fly over the West and fail to see how the West has been physically shaped by agriculture. How can the agricultural community be ignored? Well, the simple answer is that for individuals imbedded within the urban landscapes of Calgary, Edmonton, Vancouver and Winnipeg, it may be far easier than you might think to ignore the agricultural west in thinking about the future of this region within the new economy.

John Morriss, Editor
The Manitoba Co-operator
Chairperson, Session 1

There are certainly some challenges there. Before we begin our questions, can I ask you to extend your comment a bit that farmers are in danger of having urban residents in Winnipeg, Saskatoon, Regina and Calgary actually turning against them because they are perceived as reinforcing a negative stereotype of Westerners? Is that a danger?

Dr. Gibbins:
I would argue that urbanites in the West, and remember here that we are talking about the great majority of the Western Canadian population, are defining themselves in ways that increasingly ignore the rural countryside that surrounds them. Cities are detaching themselves from the countryside and, therefore, they will see the images that come out of the rural west as working against the way in which they try to define themselves as urban communities on the global stage. The citizens of Edmonton want to define themselves as a global community, a global city. The way to do that is to disengage Edmonton from not only the countryside, but also to some degree from Alberta. Edmonton markets itself as Edmonton, Canada, not as Edmonton, Alberta, in part because they have decided that the Alberta images may be working against their global positioning. There is a fear that Alberta brings into play negative stereotypes, and if they can cut themselves loose from Alberta and be this global city floating in global space, they will be better positioned than if they lodge themselves within Alberta. And that strategy is going to be increasingly characteristic of cities in Western Canada. Vancouver does not need Prince George, for example, to define itself as a global city. In fact, Prince George is probably a liability to Vancouver as it tries to position itself globally.
John Morriss, Editor
The Manitoba Co-operator
Chairperson, Session I

The grain sector of agriculture has been quite globalized for some time, but the ability of farmers to participate in this global market seems to have been working against them. Would farmers be able to present their case to the rest of the economy as an example of the dangers, or what can be done right and what can be done wrong, and maybe as a sign of what might happen to other sectors in the future if they are subject to similar pressures from globalization?

Dr. Gibbins:
The image that comes to mind, and maybe this is a bad image, is from the early coal mining days, when canaries were taken down into the coal mines. You could watch the birds in their cages and when the birds flipped over and their feet went up in the air, you realized there was a gas problem and you got the miners out of there. In some ways, I think the agricultural community is an appropriate early warning system for the larger problems that Canada may face within the global environment. We can see how global forces will come into play. We are seeing already, for example, how global consumerism and particularly concerns with genetically modified foods and food products can bite western Canadian agriculture in unexpected ways. So, I think you can make the argument that western Canadian agriculture does serve as a good sign of the challenges we face within this global environment. Whether you can make Canadians accept this analogy is something I really do not know.

John Morriss, Editor
The Manitoba Co-operator
Chairperson, Session I

I now turn the session over to Barry Prentice.

Dr. Barry Prentice, Director
Transport Institute

I would like to address a question as well, because you did mention that infrastructure was not receiving much attention in the election, and you also made the comment that I noted down as being perimeter view, something that is very common in the parlance of people living in this province, but I was unaware that it was a characteristic of the whole region. We have a fairly major infrastructure issue in Western Canada in regard to the road network that is going to serve agriculture, and yet, what I hear you saying is that most of the people who are going to have to pay for this are not living out there. So are we going to have support within the urban centers to
actually do that development? Or to perhaps turn it around another way, what can the forces of agriculture and transport do to mobilize the interest of the urban sector to see that we really are serving them and supplying them with their incomes as well?

Dr. Gibbins:
I suspect that Barry has a better answer to that question than I do. Let me back into an answer from couple of different directions. One of the nasty little statistics I have run across in the last few years is that the province of Saskatchewan has roughly the same mileage of public roads as the province of Ontario. Now they are not the same public roads, but roughly the same mileage. So you have a population about an eleventh the size of Ontario’s population trying to maintain a road structure of a similar size. I think the ability of the public sector to do so is going to be increasingly constrained.

It is going to be difficult to find the political support within an increasingly urban electorate to direct resources to that infrastructure. Let me speak briefly from the Alberta experience. The Alberta government has just announced a fairly major plan, about $350 million dollars, to link all rural communities in Alberta with broadband facilities. Any center that is large enough to have a public school, hospital or a government building will have broadband connections throughout Alberta and the world. The idea is to bring those urban communities into this new economy. This initiative seems to enjoy a fair degree of public support. In other words, electronically linking the rural countryside to the world makes sense. However, if the provincial government had come out and said we are going to spend $350 million dollars paving secondary roads in Alberta, my suspicion is the urban electorate would have said, well, that is kind of dumb, because the real transportation issues relate to the time it takes me to commute from my home in Northwest Calgary to the city core.

The urban electorate is not going to be a terribly responsive electorate in terms of addressing the real infrastructure needs that western Canada will continue to face. Building a political constituency for that transportation infrastructure is going to be a significant challenge. Convincing people that truck transportation, for example, is an economic resource rather than a liability is going to be a major issue. I see that situation as getting worse, not better.

Dr. Barry Prentice, Director
Transport Institute

Thank you very much Dr. Gibbins and John Morriss.

The panel for Session 2 today, has three speakers. Our chair for the second session is Ian Strang, to whom I now pass over the podium.
Mr. Ian Strang, Chairman

AVAC

Chairperson, Session 2

The topic today is *Transportation Needs of Value Added Foods*, and I will speak to that in a moment. The panel is Lyle Minogue, who is the Chair of the Saskatchewan Pulse Growers Association, Blair Wright, President of Transfeeder, and Mike Sopora, Manager, Rail Transportation, CanAmera Foods.

AVAC is an Alberta not-for-profit corporation, and was established by the Alberta government a couple of years ago with a $45 million dollar fund, $10 million by the federal government, and $35 million by the province. The purpose of AVAC is to invest in research and development infrastructure and projects to enhance the value added agribusiness in Alberta, as well as investing in pre-commercialization projects, and knowledge platforms. AVAC's role is to facilitate the linkage of knowledge and investment with science and enterprise to help grow Alberta's agrivalue industry.

In listening to Dr. Gibbins' talk on the disengagement between rural Canada, and particularly Western Canada, from urban Canada, I have a bit of a different take. First, one of the things that we have to do if we go forward, is recognize that the word "agriculture" is no longer applicable. We are really talking about agribusiness, and there is a significant difference. When we talk about the new economy, we are really talking about the knowledge economy and the network economy, and those two issues will re-engage the world economy and reconnect the world economy to the urban economy. I am talking about the word agrivalue. Agrivalue describes those activities, industry initiatives and commercial successes, that enhance the value provided by and received for agriculture communities. The ultimate judge of that value is the consumer.

Globalization is having a profound impact on the agribusiness sector, certainly from a value added standpoint. We trade in a global marketplace. Competition is different in a global context than it has been in the past, and impacts the way we do business and the issue of transportation. Clearly, the Internet is a major factor in the future. E-business is growing at a rapid rate and will continue to have a significant impact on agribusiness, both from the standpoint of the products we produce and how we distribute those products to marketplace. Government's role is changing. Obviously we are in a mode of deregulation. Although one might argue in the grain sector we have not quite figured out how we are going to do that yet. Certainly from a standpoint of infrastructure, which is extremely important from a funding standpoint, the days of expecting to receive subsidies and funding by the public sector is not in the cards.

With respect to transportation, the future is intermodal. This is something that in Canada we have not gotten our heads around, both from the standpoint of the infrastructure needs, and for the regulatory framework that is required for an intermodal system. It is trucks. It is planes. It is rail. How these come together and work together to make an effective and efficient system is really critical to the future. The Western Canadian Corridors Initiative was started a year or so ago to look at the transportation network in Western Canada and what was required. An
outcome was that a small group got together to try to define a vision for the transportation system in Western Canada and identify some of the key principles. As you know, the CTA Review is going on as we speak. I will read from the vision statement that the group put together, because I think it is applicable to what we are talking about today.

Transportation in its broadest sense is a key enabler to Canada’s economic activity and social well being. To support its policy of liberalized trade and the achievement of an internationally competitive and successful economy, government will implement policies that assure Canada’s position as an innovative leader in the transportation of people, goods and services.

Two of the key principles that we identified were that the government must in its policy recognize and support the achievement of the vision and must create a climate that fosters cooperative relationships among all participants in the transportation and logistics system.

With respect to grain, my view is that the cereal grains sector today is dysfunctional. It lacks a vision for the future. We can no longer carry on just producing grains as we are and shipping them in bulk. The reality is that Canada cannot and will not enter into strict compensation and subsidization of this sector. Therefore, we need a new vision. This does not mean that cereal grains will not be produced, they will be, but they need to be produced in the context of a value added system. The value added sector is market driven. There are plenty of niche markets that our speakers today will talk about. The issues when it comes to the transportation of value added products are, meeting the customer’s expectations, and speed to market.

I would like to call upon our first speaker, Lyle Minogue.

Mr. Lyle Minogue, Chair

Saskatchewan Pulse Growers Association

Thank you Ian. I was asked to come here today to answer the simple question - are the transportation needs of value added products receiving adequate attention? I would like to say no, and sit down, but I am afraid that Barry will come up with a tougher question if I do that.

I would like to just back up a little bit and give you an idea of the type of industry we have and the scope of the industry for those who are not familiar with it. Our pulse crop industry has been going through a period of rapid and almost explosive expansion. Production has increased from almost nothing in 1970 to 4.6 million tonnes in 2000/2001. Sixty one percent of this production is exported. A conservative estimate of future growth is 7% a year. Chickpea production quadrupled in one year, going from 51,000 metric tonnes in 1998/99, to 200,000 tonnes in 1999/2000. This growth has occurred and will occur in the future for several reasons. Pulse crops have been more profitable than other crops. If you talk to any farmer in the last few years, he will tell you that what is putting bread on the table is the lentils, chick peas, field peas, and in some cases, beans. The pulse crops are a good rotational crop. We have been able to take land out of summer fallow, put it into pulse crops, and maintain our same, and sometimes even better yields, of the wheat and cereal crops, in addition to getting the pulses. We also get better quality.
The high protein wheats and durums seem to come off fields that have had pulses in the rotation. The pulses break the disease cycles and they increase the yields and the quality of other crops in that rotation.

The pulse crops also produce nitrogen. So they replace the nitrogen fertilizers made from fossil fuels and this is a plus when we are worried about adding to the carbon dioxide in the atmosphere. They tend to put carbon back into the ground because they are part of a move to zero till and minimum till that leads to build up of carbon in the soil, and the carbon sequestration that we are hoping to get credits for under the Kyoto agreement.

The big factor that keeps pulses growing is that Canadian pulse farmers have a comparative advantage to other countries in the world. We are not just sure why that is, but if you look at pulse yields in Canada compared to wheat and cereal grains, they are roughly equal. If you go to a place like Europe or even Australia, their cereal yields will be one and a half times what our pulse yields are this tells us that as long as we maintain our research and development activities, we should be in the pulse business for a long time to come. So we are keenly interested in what is going to happen to the pulses and our ability to get them out to world markets.

As our trade approaches 50 percent of the world market share, transportation rather than production, is rapidly becoming the major challenge to future growth. I should point out that we are already the world’s largest exporters of lentils, chick peas and peas, and we are a major player in the international bean market. The value of pulse crop cash receipts in 1999 was estimated at over $930 million, representing 13% of Canada’s total farm grain receipts. By 2005, the value of pulse receipts is estimated to be $1.4 billion, with exports of over $1 billion. We are not talking about a minor industry.

Pulse crops require processing before export. The major exception to this being feed peas, but for the other pulses, they are often bagged and shipped with identity preserved. The method of shipment in 1999 was intermodal (16%); marine container (20%); tractor trailer (3%); boxcar (5%); hopper cars (56%). In the future, we hope to see further processing, packaging, fractionalization, sale and utilization of constituent parts. Our processing now is primarily cleaning, bagging, and shipping to markets. Some markets want to buy from a specific farm or from a specific sample others allow some mixing.

The future in all agriculture is going to lie in our ability to move on beyond the stage of bulk shipment and into value added products. In five or ten years, we will be reading the paper to see what the price of starch is, what the price of protein is, what the price of fibre is. We will be designing peas and other crops to have the specific starch molecule to suit the newsprint industry, the adhesive industry, or biodegradable plastics. We will be designing canola for the nutraceutical industry, to produce medicines and those sorts of things. And as Roger Gibbins pointed out earlier, agriculture needs to be seen as a part of the new economy. If we can show where our industry will create jobs, not just on the farms, but in the cities and in processing and transportation activities, that will keep our industry alive. If we do not move this way, the land will be going back to grass and buffalo again.
Transportation is a key to where we are trying to move our pulse industry. The modes of transportation that we used is not necessarily how exporters would like to ship. Processing directly into a container, which is then locked and sealed for delivery to the end user is a preferable method to other options that may involve stuffing at the port, or shipping in bulk and bagging in another country. But often our processors cannot get empty containers to ship the product out. The next best alternative is boxcar, or intermodal truck. Haul the stuff to the port and have it stuffed into a container at the dock hoping that they do not rip a bag while they are doing it, and that they do not get the bags mixed up. Hope that it is not too wet and that somebody does not put in something that you do not want in your container. But the reality is that you cannot always ship the way you want to, so we have to do it however we can. Sometimes you ship it bulk in a hopper car and have it put into containers at the port. We do not have a system that is meeting our needs at the moment, we are just getting by as best we can.

Pulses have a high degree of seasonality of demand. The premium markets are in September, October and November. A lot of our pulses go to countries where Ramadan, a Muslim holiday, has an impact on when the people eat our product. We have to get it there before the religious holiday to hit the peak market. Also some of our products do not maintain their quality over time, so the longer you leave them, the more they lose their colour and some of their best features.

I could go on indefinitely with statistics to prove my points about the actual volumes and export markets, but I think it is more important that we discuss the problems and the processes, or the lack thereof, that have shaped our transportation policy to date.¹

Now to give a little background of transportation policy and how it has evolved the last few years, as we see it, from the pulse growers industry. It was announced in 1997 that Judge Willard Estey would be conducting a grain transportation review. We were excited about that. Saskatchewan Pulse Growers commissioned Doug Campbell to do a study for us. We took that study to the Estey Review Process to explain what kind of needs we had in the pulse industry.

The questions that we were asked when we presented our study to the Estey Review made it obvious that the people involved had little or no understanding of the pulse industry and its special needs. We did the best we could to explain the situation, left our document, and we came back a few months later to present a second time. We were appalled to find that knowledge about our sector of the industry was no better than the first time we were there. They were asking questions like: what are pulse crops?; and, how do you ship them?; and all that sort of thing. Very discouraging for us, because we had hoped that by this time we could get into the details and work on some of the problems and how to improve things.

When the Estey Review came out, if you look at the first page of it, in paragraph two, in line two, it states that Wheat Board grains constitute 70 percent of all grains. The only place it is ever mentioned that another 30 percent is out there. The needs of the pulse industry were ignored in that study. It is ironic that when we go to 2000/2001, Board grains are now less than

¹ We will soon have available a study that was just completed by Dick Dawson from Fulcrum Associates, putting together a lot of this information. We will be distributing it to governments and people within the industry so we can put forward the case for better transportation systems to meet our needs.
half of the total grain movement, and we still have not addressed the needs of the pulse crop industry.

The end result of that study was a series of recommendations of how to get grain moved in 100 car unit trains from centralized grain handling facilities. In 1999, the Kroeger Implementation Report outlined the details necessary to implement the recommendations included in the Estey Review. The highlights were: a revenue cap replacing the rate cap; introduction of a Canadian Wheat Board tendering process; amendments to the Canadian Transport Act (CTA) to facilitate branchline transfers to shortlines with the final arbitration process; while increased rail access issues were deferred to statutory CTA review.

On July 14 of 2000, Bill C34 was proclaimed. Bill C34 contains a number of recommendations regarding branchline closures. The major feature of Bill C34 is a revenue cap replacing a rate cap. And note that the rate cap revenues exclude incentives, rebates, demurrage, performance penalties, running rights compensation and building grants. So where does the pulse industry fit in all of this? And in particular, the value added side, with specific requirements for containers, boxcars and intermodal service.

What are some of the potential problems that we see with Bill C34 and the way we are moving? Problem number one: the operating rules are being changed constantly. Legally, railroads have to only give 20 days notice to change the rules. This is not adequate in an industry that has to sell its products 60 days into the future, because it takes that long from the time you order your cars until the product will actually get to the port.

Problem number two: what are the implications of the rate cap? With a rate cap on revenues, the best way for a prudent businessman to maximize profits is to cut costs. How would these railroads cut costs under the revenue cap? First, discourage small car spots, and the use of containers and intermodals. Well that is what we use in our industry, two, five and ten car spots, containers and intermodals. Under the current regime, railways make maximum profits if they force all grain into hundred car unit trains. The only time we would be able to do this is in the case of feed peas, and the odd time edible peas. But every time that hundred-car unit train goes out to port, it probably takes about four jobs with it. Because incentives, rebates and building grants are excluded from the cap, grain companies can be enlisted as willing partners in the move to cut costs. A railway can give a grain company money to be used as an incentive to get people to haul off the branchline or to close their smaller elevators, and to bring the grain into the bigger facility. So who is protecting the interests of value added shippers? We do not know that at the moment.

Problem number three: the pulse and the special crop shippers have never been included in the process of car allocation. When the weekly meetings on car allocation are held, who represents the pulse crops? Pulse crop representatives must be included in all operational transportation meetings.

Problem number four: the loss of branchlines, or poor service on branchlines will have a major impact on the pulse industry. A lot of the current processing capacity is located on branchlines, and we are short of processing capacity because of this rapid escalation in our industry. It will
take a major injection of capital to move the processing capacity from branchlines over to the main lines.

Problem number five: the availability of containers and rail cars to move containers. This has always been a problem and is getting worse because of the increase in size of our industry. We must not only have better service for current production levels, but plan for the projected increases. And what plans are being made? There may be plans, but we are not aware of them in the industry. We have tried to have ongoing dialogue with railroads in the industry, but have not had much success. If a dialogue is going on, it must be between the railroads and one individual company at a time.

Another problem I would have to mention is labour disputes. Last year, about this time of year, there was a strike on the West Coast, and 80 some containers of red lentils got stranded on the docks until they missed their sale commitment. Then there was a problem to get those containers moved out and into the market. Prices were twenty cents a pound at the farm gate when that strike occurred, and were seventeen cents when it was over, and prices never returned to pre strike levels. Again this fall an illegal truckers strike in Port of Montreal stopped shipments and backed up containers to the farm sector. The prices dropped and they are still trying to sort that mess out. I think there is another clerical strike on now, disrupting things again, sales are being lost and our reputation is being damaged.

Quite frequently you will see estimates that the strike costs $7 million or $9 million a week, or whatever the figure is. I will argue that that figure is too low. I have traveled around the world with grain traders on the feed side and on the edible side, we do seminars and introduce our products, we convince people that we have a good product, and they say, "Awe know you have a good product, but how would you get it through Vancouver, or how would you get it through Thunder Bay?" I do not get involved in actually making the sales, company traders do that, but I know how they make sales in that environment, they just keep ratcheting the price down until someone is willing to take the risk of shipping out of Canada. So, if we are losing 10% of the value of the product in our pulse industry, and I think this applies to many other crops besides pulses, we should not be asking for farm aid to get $100 or $200 million into the hands of farmers. All we have to do is get a more reliable system where we can get premiums for our products for reliability of supply instead of facing discounts.

I have talked about the pulse industry, I think the same could be said about the buckwheat, canary and coriander and many other crops that are coming on the scene and may be very big players in the future, and will add value to the economy. I will leave it to the growers of those other crops to speak on their industry, but I am sure the principles are the same. With that I will conclude my presentation by saying that I was asked the question, are the transportation needs of the value added food products receiving adequate attention, and to that I say a definite no. Thank you very much.
Mr. Ian Strang, Chairman

AVAC

Chairperson, Session 2

Thank you Lyle. The next panelist is Mr. Blair Wright, President, Transfeeder Ltd.

Mr. Blair Wright, President

Transfeeder Limited

Thank you, Ian. I would like to thank Dr. Prentice for inviting me. This is a topic that our industry needs to address and I have used it as an excuse to kind of put my thoughts together as far as what transportation means to us.

My industry is the densified hay export industry. Many of you may not know what that is. We purchase forages from about 1500 producers that work in our industry. It is processed through three facilities in Manitoba, two in Saskatchewan and twelve in Alberta. We exclusively rely on sea-going containers, and produce 100 percent for the export market. In 1985, when we started, about one thousand metric tonnes were exported from Canada. The 1999 crop exported about 180,000 metric tonnes, which is equivalent to about 15,000 TEU’s (twenty foot equivalents). We expect it to rise to about 300,000 metric tonnes out of Western Canada within a five-year window. The global market, by our calculation, is about 3 million metric tonnes of this product. It is full fibre baled hay, mostly going to the dairy industry in Asia. There is also a large horse market worldwide.

Our biggest question always is; are there enough containers, and will there be enough containers in the future? To date, our exports have only been limited by supply of hay, getting producers to look at forage as a cash crop for us to export. We have always been short on the supply side.

The industry is highly specialized. We have very specific qualities going to very specific customers, everywhere in the world. I would suggest that in the last two years, the number of different types of products and styles have doubled. We will probably double the number of types of products that we can ship and the formats we ship in again, as our customers become more aware of what we can do, what we have available, and what niche market they operate in.

For most of our products, the major market is Asia. They have a real problem with putting up quality forages. Most of their dairy diets are short of fibre and we often have to enhance high protein, compound feed diets. It has only been in the last decade that we have had the technology to be able to export hay bales at full container weights, meaning that we can gross out the weights on the containers, which makes us very competitive against all other container-shipped commodities.
Fibre and forages are an important part of animal diets, and I think we are going to see a global increase in this market. I hope that Canada will be able increase its market share.

The biggest advantage in Canada is our land base and environment. Forages are most palatable when grown in clean, cool, pristine environments. As they are grown further north, their palatability goes up, sugar content goes up, lignin goes down. Our major competitor is the United States, which holds about 80 to 85 percent of the global forage export market.

One of our major disadvantages is shipping products to port. Most of the American competitors are located within trucking distance of their ports, including Long Beach, Oakland, Portland, and Seattle. The locations furthest away from ports are in the Columbia Basin, and they have a highly subsidized infrastructure of barges to Seattle.

I will now follow the routing through to the end user. Farmers truck their crops to our plants, and being the innovative people they are, have advanced the efficiency of delivery. When I first started in 1985, we were using converted 40-foot highboys, loaded and off-loaded by hand. Today, they are delivering the product to our facilities in thousand-bale units that are loaded and off-loaded mechanically. The regulatory side of transportation to the plants has been relatively generous to the producers, and it is a good system. We will continue to see the farmers using their innovative nature and continually improving in that area.

The processors, including myself, increase the bulk density of the hay. The product is worth the same to the Japanese dairy farmer whether it is densified or not. The only money I make is in how much efficiency I can gain in the transportation system by increasing its weight in the containers. We do other things, but that is the primary objective.

We are fortunate in that our regulatory system allows us to transport maximum weights in the containers on tri-axle container chassis. I, again, feel that the regulatory portion is not cumbersome, as we seem to be better than other jurisdictions. In fact, in California, they are only allowed to ship between 21/22 metric tonnes per container, where we can go up to 26/27 metric tonnes, net weight. I do not think we can gain more efficiency in this sector, but the maintenance of our infrastructure is critical.

We are the only exporting nation in this industry that uses rail, due to the distances to ports. All US competitors trucks to port. One of the critical issues here is that we feel the steamship companies have a closer relationship to the railroads than the exporters do. We have a non-negotiable rate with the railroads. We would like to be able to independently negotiate for service and price. Since the steamship companies deal directly with the railroads, certain containers only come into certain yards, either CN or CP. There are different levels of services with those two companies. It would be an advantage to us if we could use any steamship company, and be able to access either rail line with it.

The availability and security of containers is a big issue. We often send trucks in without any pullbacks. If the containers are not there, we have to switch container companies, delay shipments, etc. The system is east to west movement. Generally, the containers move into the west empty and we pick them up here and move them on into Vancouver full.
The rail link increases our inventory costs, and causes us logistical problems that our competitors in the south do not have. This link is one more obstacle that the Canadian export hay industry has to overcome in order to remain competitive in the world market. Overall, I have been relatively happy with the rail service. We just need a little more work on the competitive relationships between the two railroads and the steamship companies. It should be mentioned that the rail link has several unions, which have the potential to cause further disruptions.

The port in Vancouver is a bottleneck. Distance is relatively short from rail to the boat, but its influence is great with us. Over the period of time that I have been in this business, we have had four major disruptions at Vancouver, and they caused many problems. Unfortunately, because of Canada’s current reputation for unreliability, we often find our customers are hedging their bets and buying from our competitors in the south to make sure that they never run out. I think we are losing up to 10 to 20 percent of our potential market because of this.

We have very little control over ocean freight. Availability and cost determine our competitiveness. For example, the cost of ocean freight containers from Long Beach is around $250 U.S. dollars per container right now. Oakland is $300, Seattle is $650 and Vancouver is $870. This gives California exporters a $20 U.S. per metric tonne advantage. I am not one hundred percent sure why there is such a differential. It is often stated in the industry that there are two rates: there is one rate with containers and one rate without. What we find is, we cannot strictly go for the cheapest ocean freight container, because service is more important to us than price. Quite often there will be a steamship company that will reduce their prices, maybe by $100 U.S. per container. They will be able to pick up lots of containers for a week or so, and the next thing you know, they run out. Then we have to switch back to the more expensive lines.

The export hay industry is affected by many things: earthquakes, wars, insolvencies (we have had a few steamship companies go bankrupt), and everything has a ripple effect on our industry down to the producers. We generally are very level seasonally, every month we ship the same number of containers. Any disruption in the system reduces our exports for that particular year. We will see the ocean freight system increase in ship size, and the number of containers landing. We will hopefully see North American rates level out, and we hope to see more and better access from our east to west traffic.

We have had very little trouble with the ports offshore. Other than the Kobe earthquake in Japan, we have had very little interruptions. Taiwan and Korea also have been very steady, reliable services. Once the crops hit port and clear customs, they are trucked directly to warehouses or end users.

In closing, for us to predict the future, we have to know what our customer is doing. The demographics in Asia are very similar to Canada. Their farm population is aging, the farms are getting larger and there are fewer of them. Milk consumption in Asia is increasing by about 1% per year. There is increased productivity on the dairy side from a reduced number of farmers. As farmers focus more on dairy production, domestic supply of forages goes down, forage imports go up. I think you will hear more about our industry in the future. I am hoping to work with some of you to improve our systems of transportation. Thank you for your attention today.
Mr. Ian Strang, Chairman

AVAC

Chairperson, Session 2

Thank you, Blair. I would now like to call upon Mike Sopora from CanAmera Foods.

Mr. Mike Sopora, Manager, Rail Transportation

CanAmera Foods

Thank you very much for the opportunity to address this conference. I will restrict my remarks to the Canadian oilseed processing industry. However, many of these comments are applicable to other domestic processors.

Oilseed processing is a significant value added industry, and represents a Canadian success story. In 1999, the industry provided direct economic benefits of over $3 billion dollars, and contributed $2 billion dollars to the balance of payments. We serve customers such as Proctor & Gamble, Lipton, Kraft Foods, and Robin’s Donuts. Every day, every Canadian consumes a product that originated in this industry.

The industry is represented by COPA, the Canadian Oilseed Processors Association. The members of COPA are: CanAmera Foods, ADM Agri-Industries, Camra Foods and Cargo Limited. Each member of COPA owns and operates crushing and refining operations in Western Canada. Additionally, CanAmera Foods and ADM operate crushing and refinery operations in Eastern Canada.

Our Western operations are effectively captive to rail transportation due to the nature and the volume of the commodities produced and due to the distance from the markets. A competitive and efficient rail transportation system is therefore a prerequisite for the viability and future growth of our industry. For the operations that are located in Western Canada, most of our product moves to the California market, as well as the Mid-Western U.S. Our products are moving significant distances, and the bulk density of these products are very low. Consequently, we are captive to rail transportation for these processing plants.

The oilseed processing industry purchases locally produced canola, soybeans, flaxseed and specialty crops in the Prairie Provinces, Ontario and Quebec. The commodities produced are protein meal, which is used in livestock feed formulations, and vegetable oil, which is refined for edible consumer products. These products are shipped to markets in Canada, the U.S., and offshore. In response to growing domestic and international markets, the Canadian oilseed processing industry expanded significantly in the 1970’s and early 1980’s. This growth was curtailed by the international agricultural commodity trade wars, this caused depressed oil and meal prices. Canada was effectively unable to compete in the commercial offshore oil market.
and exports were limited to international aid shipments under the CIDA program. The net result was industry over-capacity and unacceptable financial results.

The oilseed processing industry began to restructure itself in the late 1980's. The industry is now characterized by a high degree of horizontal and vertical integration. It is competitive on a world scale, with optimally sized plants that are owned and managed by multi-national companies who are involved in integrated agrifood processing and most major oilseed producing regions around the globe.

The United States emerged as a major market for oilseed products in the late 1980's and early 1990's. The achievement of GRAS status\(^2\) for canola oil, coupled with fast track removal of oil tariffs under the Canada-U.S. Free Trade Agreement, removed the regulatory impediments to market access during this period. Consumer acceptance of Canadian canola products has allowed the U.S. market to grow to its current level, which accounts for approximately 80 percent of Canada's exports of canola products.

As some of the previous speakers have mentioned, in 1995 the federal government repealed the Western Grain Transportation Act. This ended the government subsidization of Western grain rail transportation rates, and placed an indexed cap on grain freight rates. In response to difficulties encountered in moving grains to port in the 96/97 crop year, the Minister of Transport appointed retired Supreme Court Justice Willard Estey to conduct a review of the grain transportation and handling system. Justice Estey's report was submitted in December 1998. It recommended sweeping changes to the grain transportation system, including provisions designed to promote railway competition. In its 1999 Annual Report, the Canadian Transportation Agency states that Justice Estey envisioned a commercially oriented system with appropriate safeguards to protect the public interest. The Minister of Transport subsequently appointed Mr. Arthur Kroeger to work with system participants to develop the operational details of a system based on Justice Estey's vision.

The Kroeger report was submitted in September 1999, and did not define any new recommendations for additional competition, as had been envisioned in Justice Estey's report. It recommended that future caps on grain revenues be derived from a base cap set at 12% below each railway's grain revenues in 1998. The recommendation set the initial cap at $838 million, or $112 million below the 1998 level. The revenue cap actually implemented on August 1, 2000 reduced railway grain revenues by 18%, or $178 million dollars.

Two things I would like to point out about the industry are that the annual crush in Canada peaked in the 1997/98 crop year at 3.2 million tonnes, and its current level is about 3 million tonnes. This means that the industry is currently operating at about 75 or 80 percent of total capacity, which is not good for an industry that is very capital intensive. Second, the export of canola seed to offshore destinations makes up about 80 percent of the total volume of canola shipped overseas. The volume of canola seed exports is about the same as what we crush in Canada.

\(^2\) GRAS stands for Generally Regarded As Safe.
The needs of the domestic oilseed processors are not served by the current regulatory environment. It does not provide for the increased rail competition required to stimulate future growth. Our industry has been a strong advocate of deregulated rates, coupled with effective competitive access and shipper relief remedies. Fair and equitable competition should constitute the basis of the relationship between processors and rail carriers moving Western Canadian oilseed products to market. Legislation that provides for effective railway competition is required to provide our industry with the bargaining power required when negotiating rate and service levels that will support the current viability and future growth of our industry.

Approximately 3 percent of the canola meal that CanAmera produces is exported offshore and 97 percent of the canola meal produced is shipped within Canada and the U.S. Our refined vegetable oil markets are split up as follows: approximately 10 percent is exported offshore; and approximately 90 percent stays within Canada and the U.S. These ratios are important when we start to talk about how the effect of divergence between rates for products and the oilseeds affect our margins.

Oilseeds and products are defined as grain in the Canada Transportation Act. The revenue cap therefore governs shipments to Vancouver for offshore export. These shipments account for 80 percent of all seed exports. Freight costs to Vancouver have declined by about $2.50 per metric tonne under the revenue cap, allowing exporters to bid up seed prices by this amount. Domestic processors have to match this increase in order to secure seed for our plants. At the same time, approximately 90 percent of our oil and meal move within Canada and the U.S. and are shipped under unregulated commercial rates. These rates have increased by 3 percent this year. The combination of higher seed prices and higher freight rates for our products have a direct negative impact on the profitability of Canadian processors. Based on an annual average crushing volume of 3 million tonnes, total industry margins could decline by $12 million annually.

Seed shipped directly to domestic processors is not subject to the revenue cap, and one railway is already increasing rates for these shipments. This again reduces crushing margins. While there is currently rate parity between oilseeds and products for shipments governed by the revenue cap, nothing requires the railways to maintain this parity. Should these rates diverge, processing margins will decline further. This environment discourages future investment in Canada in favour of other countries such as China. If margins are unprofitable for an extended period of time, we could see the eventual relocation of Canadian processing capacity, thereby losing the economic benefit of value added processing within this country.

The FOA process is limited to dispute resolution and has little impact on increasing railway competition. It is not a very effective tool for shippers in the oilseed processing business in the rate negotiation process. The current environment of competitive remedies available to shippers is insufficient to assure effective railway competition. The final offer arbitration process has been simplified to provide a simultaneous exchange of final offers. There is also now an option to use a shortened 30-day arbitration process. These changes are positive, however, the litigious nature of this process is a disincentive. Also, rate negotiations may take place at the same time that shippers are trying to establish sales to new destinations. Negotiations for the sales of oilseed products are typically finalized within hours. Since the outcome of an FOA dispute
cannot be known during the price discovery process, sales will be missed if satisfactory freight rates cannot be negotiated during the short commodity sales cycle.

The competitive line rate remedy, or CLR, has been ineffective. CN and CP have not competed for traffic using this remedy. In fact, no CLR applications were submitted to the Canadian Transportation Agency since July 1st of 1996. Burlington Northern was the only carrier prepared to participate in this process prior to that date. Strategic alliances or potential mergers between North American railways means that future CLR applications are highly unlikely. This remedy has no tangible impact on railway competition and has no value on negotiating rates in our business.

Regulated interswitching is currently applicable only when a shipper is served by one railway and has access to another railway within a thirty-kilometer radius. It provides no assistance to processors who are located beyond this limit. Also, this remedy only has value if the connecting carrier provides better service or rates than the serving carrier. This particular remedy has limited application for our business.

The Canadian Transportation Agency’s right to grant an interim exporting order was removed in the 1996 Canada Transport Act. This is an important remedy that was successfully used as bargaining leverage by our industry in railway service negotiations. COPA members advocate the reestablishment of this remedy.

Section 138 of the Canada Transportation Act provides for running rights. These provisions are available to federal railways and require agency finding that the granting of such rights are in the public interest. CN and CP both have running rights agreements. Both railways regard existing and future agreements as a key tool to improve their efficiencies. COPA members strongly advocate that running rights provisions in the CTA be available to any qualified person wishing to operated trains or crews over the line of a Federal regulated railway. This change would open the market to competition from other carriers, such as short line railway companies, or shippers. Federal railways opposing a running rights application should be required to establish that granting such rights would be contrary to the public interest. This reversal on this requirement is not unusual in that it was contained in the National Transportation Act of 1987, applying to railway customers who oppose applications by railways seeking to sell, lease or transfer lines. The significant reliance of processors on shipper owned and leased equipment for the transportation of oil and meal makes the utilization of this remedy a realistic competitive option in our business. This change is an important building block in the evolution of a competitive, market-driven transportation system that will support the future growth of the oilseed processing industry.

Two of our plants illustrate the difference between Eastern and Western locations. The Harrowby plant at Harrowby, Manitoba, is land-locked and captive to a single railway. Major markets are too distant for shipment by truck, and there is no access to water transportation other than through Vancouver. In contrast, the Hamilton, Ontario facility is located on Hamilton Harbour and is served by a short line carrier. The short line is able to switch cars to CN or CP at Hamilton. Both carriers have to compete with truck and water movement in the Ontario/Quebec corridor. Now that is not to all the markets served by the Hamilton plant, but two of the major
ones. Short line carriers who provide access to CN and CP also serve many meal customers in Quebec. Consequently, we have much more Federal leverage when negotiating rates and service for Hamilton than for Harrowby. However, meal is shipped under published tariffs. The railways can decline to compete and can raise rates to destinations that cannot be effectively served by truck or water transportation. The proposed remedies are necessary to improve railway competition, even for Hamilton, which already has many more competitive options than any of our Western processing operations.

In summary, the Canadian oilseed processing industry provides a vivid illustration of the benefits that occur to this country through value added processing. Our industry has fought for the acceptance of Canadian oilseed products in the international market, and we have fought for access to those markets in the face of tariff barriers and internal subsidies. The current regulatory environment and competitive remedies available to shippers do not adequately address the needs of the oilseed processing industry. Freight rates for oilseeds and products should be determined by competition and market efficiencies. Through investment and integration, Canadian processors have become competitive and efficient on a global scale. We believe that regulatory changes and remedies described will hasten the evolution of a competitive, market driven transportation system. We need this framework to be strong partners in an alliance with rail carriers. Along with oilseed producers, this alliance has the opportunity to capture a large portion of the 3% annual growth in global vegetable oil consumption, leading to increased efficiencies and economic benefits for all participants.

Mr. Ian Strang, Chairman

AVAC

Chairperson, Session 2

We will now have some questions. If new players are allowed to access the grain dependent branch lines, will this be a positive or negative step for the pulse industry?

Lyle Minogue:
I think that has to be a positive step, because, we have processing plants all over the branch lines. The way things are shaping up, with no trains on these lines, the plants have no value. If we can get a short line operator that could arrange to have cars delivered to the main line where they could be picked up, it has to be a positive step for us. We have to have long haul on a railroad. I was in Australia last winter, at a processing plant and asked how they get their product to market. It took the guy a long time to understand what I was getting at, because he does not have a transportation problem. When I finally explained, well how do you get that container to the boat, oh well, I just run into town and get a container and fill it and take it back and they put it on the train that goes out. The plant was a hundred miles from the water. We could have very efficient short line operators who could have those cars placed where they would fit on the bigger trains heading for the ports. If we could get the right environment with incentives for everybody to participate and make it work, we could do great things.
Mr. Ian Strang, Chairman  
AVAC  
Chairperson, Session 2

Please clarify whether the revenue cap applies to container intermodal or not.

Mike Sopora:
Thank you for an excellent question. I do not know. Our oilseed products are shipped in hopper cars, and I cannot imagine that we would have a competitive rate to ship those products in containers because the quantity moving is too small. If we were talking about a packaged product that might move by container, I believe the answer to that might be yes, but I would have to check on that. My comments are mostly addressed to the movement of bulk commodities, and not containers.

The revenue cap is a cap on the total revenues. There is no cap on the individual commodities moving within that framework. If the rates between the canola seed and our products start to diverge more than they already have, that has a direct negative impact on our bottom line. The railways are free to move rates up and down, as long as they stick to the total cap.

Mr. Ian Strang, Chairman  
AVAC  
Chairperson, Session 2

Can strike-bound containers be diverted to U.S. ports?

Lyle Minogue:
I do not think we have a very good option to get our containers to U.S. ports. In the case of the Montreal strike, a lot of those containers were already on the way. The containers arrived in Montreal and got stacked in piles, and then people bought some of our pulse crops identity preserved. They wanted a certain grade, a certain way, and now when they are shipping them out, the best they can do is make sure that the guys that asked for red lentils get red ones and the guys that asked for green lentils get green ones, because the containers are so far on the bottom of the pile that they cannot get the ones that they want. Anytime you look at trucking to the U.S. ports, the costs just get too high to be a viable long-term option.

Representative, Keystone Ag Producers:
We have been lobbying for container loading facility in Western Manitoba. I would ask the presenters if they feel that that is the right location for one, and how container availability would affect that?
Lyle Minogue:
I am no expert on where container ports should be located, but I know in Saskatchewan, we have two container ports: one in Regina and one in Saskatoon. If you go to Swift Current, a container is hauled to Calgary on a truck. It strikes me that there is some illogical movement there, when you haul a container 250 miles on a truck when it is going to be stuffed right within twenty feet of the track.

Representative, Keystone Ag Producers:
How much would the threat of delivery against the futures affect your competitiveness?

Mike Sopora:
The futures market is really a price discovery mechanism, and delivery against the futures constitutes a threat that keeps market prices in line. Specifically what can happen is that somebody could corner the market in paper, but if they do that, they stand to take delivery if prices get out of line and producers decide to deliver. The delivery mechanism itself really does not have an impact per se on our prices, other than to reduce the price of our commodity if the price was artificially high. Now, having said that, very little product is actually delivered against the futures market, and the delivery mechanism is there more as a threat to keep prices in line rather than as a mechanism that is often used for taking or making delivery of the product. The bottom line is that it does not really have an impact on our prices per se because it is part of the normal mechanism.

Mr. Ian Strang, Chairman

AVAC

Chairperson, Session 2

Just a few words to wrap up this session. The question was, are the transportation needs being met for value added processors. I think that what we have heard here today is that they are not. The whole issue of competitive rates is a key one. It strikes me that one of the challenges is how do we ensure that producers and the ultimate customers control the distribution chain. What is happening today is that too many intermediaries are involved in the chain and it is not working effectively. Certainly it is a logistics issue, and the answer really lies in the information-communication-technology advances that are being made. Value added is a growing sector in our industry and we need to work together and collaborate more to ensure that we succeed in meeting the needs of the value added processors. I would like to take this opportunity to thank the panel for their contribution here today.
Dr. Barry Prentice, Director

Transport Institute

At this point I would like to ask Dr. James Nolan to come forward and introduce our luncheon speaker.

Dr. James Nolan, Assistant Professor

University of Saskatchewan

Luncheon Chairperson

Speaking today, we have the Honourable Steve Ashton, who is the Minister of Transportation and Government Services and the Minister responsible for the Gaming Control Act. He is the MLA for Thompson, and is with the Government of the Province of Manitoba. Steve was first elected to the Manitoba Legislature in 1981, so he has been at this game a lot longer than I have. He was re-elected in the general elections of 1986, 1988, 1990, 1995 and 1999. He was appointed Minister of Transportation and Government Services in October of 1999, and the Minister responsible for the Gaming Control Act in July of 2000. Steve is a graduate of R.D. Parker Collegiate in Thompson. He received a B.A. (Honours) in Political Studies at the University of Manitoba and an M.A. in Economics from the University of Thunder Bay. While at the University of Manitoba, Steve was elected President of the Student Union and served on the University Senate and Board of Governors. Steve was previously employed at the Inco Mine in Thompson, and was a member of the United Steel Workers of America, Local #6166. He has lectured in economics for the Inter-University North. He has served as legislative assistant to the Minister of Labour, and as a government whip. In March of 1986, he was elected chair of the New Democratic Party caucus. In May of 1989 he was appointed House Leader, a position he held until August of 1999.

Honourable Steve Ashton, Minister of Transportation & Government Services

Province of Manitoba

Luncheon Speaker

It really is a remarkable time to be not only Minister, but to be involved in the industry. We had a discussion at our table, and what struck me as one of the most clear and evident facts out there, is that trends, even long-term trends, tend to be six months from now or a year from now, especially in transportation. We are dealing with a whole new system. You can get into historical debates back and forth, but we are starting to see these long cycles become quite short. Now that does not necessarily mean that we are always inventing new ground, today we are dealing with many of the same issues that people were dealing with a hundred years ago.
I believe, and I think our government believes, that essentially we are going to have to be increasingly careful about words like regulation and deregulation. In transportation it is a matter of recognizing that there is going to be some degree of regulation. There is going to be some degree of setting rules, and the real debate is going to be over achieving a regulatory balance that promotes an industry structure that operates in a competitive manner.

Conferences like this are particularly important. I want to commend the role of the University of Manitoba Transport Institute. Recently, I was very pleased, on behalf of our government, to announce a $300,000 contractual arrangement with the Transport Institute that we believe is a win-win arrangement for us. We are able to access the expertise of the Transport Institute in a way that benefits us as a government. We have a very strong policy component in government, our needs on the policy side are expanding dramatically, and it is very important. I also commend the role of WESTAC, I do not think that people realize the many ways the WESTAC format is a model for a lot of industries.

I want to deal with a couple of general themes, and update some of the issues that we see as being important. Generally, in Western Canada, the linkages between different areas of our provinces and between different provinces are not seen. I come from northern Manitoba, resources are an important part of what we are all about, whether it be mining or forestry or hydrop electric capability. Manitoba is finally getting recognition for having one of the most diverse economies in the country. There is agriculture, mining, forestry and hydro, which all add significantly to the value added to this province.

As Transportation Minister, I realize that highways tends to be far more important to people in rural and northern areas, than they appear to be in urban areas. But unless you establish the linkages, and transportation is very much about win-win types of situations, I think you duck the most important part of the debate. I have been talking about a national vision on transportation. I do not think we have one, which is ironic for a country that was built on a vision of transportation, dare I say, of rail transportation initially. Our country understood that because of its large geographic area and scattered population, transportation was the key. Until recently, the Canadian transportation system generally has been one of the best in the world. We are slipping on some areas, like highways, where we are not reinvesting, particularly the Federal Government. But a lot of the debate is on how to take a system that has been relatively good, and improve on it. Other parts of the world are starting to recognize the imbalance in their transportation systems. To give you an example, the British government in its last budget, had transportation and infrastructure spending exceed health care spending as part of the Blair government’s priorities. They are reinvesting in a major way in terms of their infrastructure.

In Canada, the highways program the Federal Government has recently talked about may only involve one or two projects on our system. We will be receiving $175 million dollars across Western Canada under the PFFRA, including $33.8 million in Manitoba. We have come to an agreement with our municipalities. We will support, as a province, the allocation of 50 percent towards municipal grain roads, and the other 50 percent on the provincial system. It will not put a huge dent on the incredible stress on our road system due to the many changes in the grain collection network. For Manitoba, it will be the first Federal money on our road system in about four years. So it is quite significant.
There are a number of other things that I want to deal with in terms of Manitoba context, before making some comments specifically on rail. We will be announcing very shortly 2020 Manitoba’s transport vision. We will be asking some very clear questions to Manitobans about the kind of transportation system they want, and how we should pay for it. We will be looking at all forms of transportation in all regions of this province.

We are faced with some challenges not just in our existing system. Thirty seven communities in Manitoba do not have access to an all-weather road. Some have access to rail, but over thirty communities have no access other than air. It is important in this intermodal world, that when we talk about the future of transport we involve all stakeholders, all sectors, and take a broad picture of how we develop.

I could not come here today and not say a few things about railways and rail competition. I will not dwell on the Estey/Kroeger review. Up to this point in time I think most people are aware of our position. I do want to talk about some basic principles we see ahead, particularly with the CTA Review. We believe as a province that it is important to examine the means of increasing rail competition. We support the need for viable opportunities for continued investment by the two national railways, in the context that they face international competition, as well as competition from the trucking sector. However, this must be balanced with the need to promote competition. One of the key focuses is to try to promote competition. We see this as being important in Manitoba. We believe that shippers and grain farmers in Manitoba would benefit from more rail competition. There needs to be a thorough, in-depth analysis of open access as part of this.

In terms of running rights, we believe that this can have a significant role in promoting competition. And we believe that a reverse onus process is important. There are cases to be made, obviously, where this can be detrimental to the public interest. But we believe that the onus should not come from those requesting the running rights, but from the host rail companies.

We also have supported the development of a regional rail concept. We have approached this from the point of view of setting basic principles, seeing a regional rail concept as being important as an enhancement to what we have currently with a number of very successful short lines in this province. We have put these conditions forward because we think this is the appropriate way to proceed, rather than strictly looking at one particular proposal. The basic principles are that it: introduce competition amongst railways, should enhance access to the Port of Churchill, can operate without government subsidy, can preserve branch lines wherever feasible, and can maximize public, social and environmental benefits to this province. We certainly welcome the proposal from OmniTRAX, because we believe it does satisfy initially many of these conditions.

This is an important part of a dramatically shifting situation in the rail side. There is obviously possible future rail mergers, like Canadian National/Burlington Northern Santa Fe, and with CPR and the Union Pacific. We see some significant changes happening with our dominant rail companies. I want to stress again as Minister of Transport, I believe it is important to have successful investment in our basic rail companies and rail facilities. That is a given. I do not
think it is an either/or. It is important to get some of the debate away from running rights being seen as inherently negative for the existing major rail companies. There are other examples of regulated industries where this has happened, and where they deal with the same kind of issues. Telecommunications have had competition on the long distance side that is essentially carried over the lines of the local phone company. This has resulted in dramatic decreases in rates, but within a framework that ensures the ability of phone companies to invest and reinvest. This is essentially the balance that we wish to see in the CTA Review, with regional rail and short lines being part of it.

The development under the short lines, particularly in this province, has shown how moving into this kind of environment has been quite useful. There are a number of short lines, and short line operators here today, that quite frankly, probably would not not be operating, if it were not for short line operations thinking somewhat differently than before. The ability of companies to be able to get out and innovate and offer services in a different way is part of competition. Our main carriers, CN and CP, have done a significant amount of work in this area. We see this as probably being the best end result through this process of competition, and have indicated that to the CTA Review.

I do want to just stress a couple of other things that are important to us. I mentioned the Port of Churchill and the Bay line. This historic legacy of the province was started pre-First World War, and completed in 1929. It has gone through some ups and downs, but we have been very much in a working partnership with the Federal Government, and with OmniTRAX in upgrading the Port. I have been working as Minister to support reducing some of the remaining marine insurance challenges that exist for Churchill.

Global warming is going to be a factor in the next number of years. There are some significant changes to the ice patterns in Hudson Bay. When you hear the warnings coming from the UN conference, I believe they are real. Whether it is global warming, per se, or changing weather patterns, there will a significant impact on transportation, and increasingly is going to have to be factored into our discussions. I talked earlier about the ways in which our time frames seem to be compressing, and we are used to dealing with that in technology, but we are not used to dealing with that on the regulatory side. I mention global warming because I think you are going to see a whole new round of transportation discussions that increasingly are going to focus on this issue. This area of the country may suffer less than others, but we should not underestimate the impact that it will have. In our department, we have done a lot of policy development work in that area. Increasingly, we are going to have to look at environmental changes.

When we are talking about having the best quality of life in the world, we often tend to forget that it is a balance of social and economic progress. It is the ability to deliver wheat to China, or forest products to the southern United States. One of the reasons we have such heated debates is because there is a lot at stake. I look around this room, and a good or bad decision on the CTA Review, for any particular stakeholder could have a significant impact. It could be devastating. This is why we have to have a very good debate, and we have to be very careful. But I do not think we should forget that we have a lot of strengths and what we are really aiming at, on the transport side, is making sure that we can be leaders again. To have the most efficient, effective transportation system in the world should be our vision. To have the policies to support that.
should be our goal over the next period of time. Quite frankly, we have shown we can do it in the past, I think we can do it again.

I just want to finish up by saying that, ministers come and go, but stakeholders tend to remain the same. I have enjoyed, and continue to enjoy every meeting I have with stakeholders, and I would encourage you to talk to people in government, not to make assumptions about what we believe or do not believe, and if you think we are missing something, please tell us. I believe that governments in Western Canada are willing to listen, and we are willing to learn as well. As things change rapidly, we need information, and we need it on a timely basis. So please, do not hesitate to talk to us directly if you believe that we have anything more to learn.

Thank you again for your time.

Mr. David Gardiner, President

WESTAC

The Minister mentioned that he was at the WESTAC conference in Vancouver last week. I thanked him then, for his work, and I want to thank him again. I think from the vantage point of the WESTAC organization, that you do have in this province, a Minister and a department that is engaged and is outward looking and that has a passion for transportation.

Minister, you talked about a number of issues about the trends that we are facing and that we need a national vision. We have a lot of needs for investing and reinvesting and making sure that we are doing what we need to do in this global context. You gave good examples of initiatives within the province of partnering and of getting that message out. You talked about the CTA, and I think that we need to go no further, except to say that it is refreshing to hear anyone involved in this talking about the need for balance in a competitive world. Railways need to make money to invest, shippers need to ship and be competitive, and as long as we approach it on that basis, then we have a hope ahead. So, without further ado, Minister Ashton, I would like to thank you on behalf of both WESTAC and the Transport Institute and the people here assembled for a very enlightening talk. Thank you.

Dr. Barry Prentice, Director

Transport Institute

I would like to now introduce Mr. Douglas Duncan, who is a Business and Strategy Development consultant and also works closely with the Transport Institute.
Mr. Douglas Duncan, CA

Strategy & Business Development

Transport Institute

Chairperson, Session 3

We had a very interesting second session this morning that dealt with the transportation needs of value added foods. And if I glean a few thoughts from this morning's session, Lyle told us that we still have a risk in moving products through our ports. Blair reaffirmed that and put a bit of focus on the transportation system, and Mike closed off by telling us that we need to deregulate our rates and create greater rail competition. We now have three speakers who are going to address how we are meeting the transportation needs of the value added foods, or what are we doing from the point of view of the shipping and logistics community.

Our first speaker is David Gardiner, the President of WESTAC.

Mr. David Gardiner, President

WESTAC

My task is to say a little bit about the marine mode, how it is responding and what it is going to be doing in the future. If I can use a bit of license, I also will refer to some of the comments on the land or ship interface. By that I mean, the marine terminals that are involved.

From a maritime and a terminal perspective, what trends are affecting those sectors? I put them in two baskets. One is what I might call the commercial requirements. What you are seeing in the agfood business, as in any other commodity business, is innovations that are coming out of the commercial imperative. One is the whole issue of custom ordering. What I mean by that is the definition of the product type, the precise delivery criteria and the other measurable factors that are identified and specified.

The second I would call inventory reduction. By that I mean that quantities are being drawn into the system when they are required. They move quickly, and the idea is to avoid as much as possible, expensive storage, or hold ups, or delays in the system.

Another point to make is we all call the just-in-time delivery. As an extension of the minimal inventory approach, product is expected to arrive at the contracted time. Just-in-time does not mean, just not late. It equally can mean not early. Because, as we have heard, the systems are now so integrated that any missed performance in terms of the windows that are contracted and called for, can be harmful to either the shipper or the consumer.

The last commercial imperative that I see is the trend towards multiple varieties and forms. We have heard about specialty grains. They have been described as peas, lentils, oilseeds and malts.
There are other products that are tailored for the end use. These can be in pellets or cubes, and maybe free-flowing, bagged, or in containers.

All of these commercial demands are driving the system to respond in new ways. Some of the physical things that have to happen to accommodate these trends come fairly easily to mind. I will offer them to you not in any specific order. What the system has to do is the following: demonstrate the ability to segregate commodities and to preserve identity; demonstrate the ability to handle smaller lots more frequently; have the ability to maintain and protect product quality to very rigid specifications; and demonstrate the ability to respond quickly to changes in conditions. There is little time and little slack in the system anymore, so when interruptions in the ports occur, the shipper or the buyer does not care. What he wants is a response.

So what are some of the things, that are happening in response to these developments? In the interface side, which I will call the terminals, certainly from where I am in Vancouver, we see evidence of tremendous investment going on in creating dedicated handling facilities for these new types of products. The marine mode is also responding in several ways. Containerization, the grocery vessel (a type of specialized bulk ship) and to a somewhat smaller degree, but still important, self-unloading technology that was pioneered originally on the lakes.

With respect to the terminals, and again, these are West Coast examples, millions of dollars are being invested in new and dedicated agriproducts handling facilities. These have specifications and features that respond to commercial imperatives. They include rapid rail car unloading, segregated on-site surge storage and capacity and sophisticated conveyor belt systems to protect product quality (everything from belts run on air to the cascading system of gentle ship loading).

There is also new investment in conventional grain facilities. In Vancouver, a conventional elevator is being heavily invested in to separate rail car unloading for some of these products, to separate the handling, the weighing, and the quality control system. Also, there are many specialty container-loading facilities, which are providing a valued service.

From the marine point of view, everyone knows if you look at international shipping, the rate of growth in containerization is exponential. Containerization is increasing in terms of volume, in terms of ship size, and more importantly, in terms of the types of commodities that are finding their way regularly into the containerized world. Forest products, for example, on the West Coast, started to be shipped in containers during the Asian flu situation, when the container rates were so low that the forestry industry could not pass it up. But a funny thing happened on the way to returning to viability in the shipping industry, and that is that many of those forest products are staying in containers. Not because it is cheap, but because quality and being able to meet spot demand on volumes. The ease of handling the product has proven to be so valuable in the overall chain, that the price of the overall shipment has not been as important.

To a lesser degree, and to a noticeable degree, the same thing has been happening in agriproducts. I was astounded to hear someone at the Vancouver Port tell me that 20 percent of loaded export containers going through Vancouver now carry ag products. The Vancouver Port Authority has set up a task force to find ways to double the annual capacity of containers moving through the Port.
Many investments going on in existing container facilities, but most are in response to increased ship sizes and the need to be able to marshall more boxes for those sizes. This is an effort to find ways in a very congested port environment to actually double the number of containers. Part of the impetus for change is what is happening in agrifoods. Something like half a million tonnes of grain now moves off the Canadian Prairies in containers, so it is not small, and it is going to carry on.

In the more traditional fields, you see the advent of what I term the grocery ship, which is providing new meaning to the movement of agriproducts in bulk as opposed to containers. The best illustration is the Vagenburg fleet, which is showing up more and more in the Great Lakes. This is a series of almost thirty vessels, fairly new in construction. They are much smaller than the conventional grain-handling vessel and they have a go anywhere capability. They are small, ice strengthened, and can go where they need.

The existence of this kind of grocery fleet that has appeared on the Lakes has also been instrumental in rerouting some grains from traditional routes in North America. For example, the Caribbean, where there are those kinds of services. Canadian grain moves to ports in the US Gulf in order to take advantage of discounts and to hit these vessels which then deliver the parcels to their end-use.

Self-unloading vessels have long been a fixture on the Lakes. They have also carved out a role in grain, where their rapid turn-around times can be fully exploited. With the investment going on in terminals and the emphasis on the West Coast, I believe it cannot be that far ahead when technology will be applied in those situations where the ships can turn quickly and where their own abilities can be recognized. Self-unloading vessels have a deep sea role as well.

The level of investment that is going into new facilities is ensuring a highly competitive environment, which means choice and pricing options for the shipper. These terminals who invested millions in the West Coast are going to have to have a return on that investment. There still is a question in today’s environment as to whether the degree of accountability in the system that can lead to appropriate risk and reward contracts is really in place.

Is there more that we could do in terms of keeping up with these changes? Container capacity is an issue. Expansion for handling in containers on the West Coast is slow. The lack of collecting and loading facilities on the Prairies was mentioned by a couple of speakers. It has to be addressed because it is absolutely essential that those shippers can get access to boxes when they need them and they have got to be very near the source.

Lyle Minogue talked about a system in which “we are getting by as best as we can”. This is not sufficient in terms of a system in which we are able to compete in the future, and meet value added targets. If you look at the Government of Alberta projections, or any other jurisdiction in the West, we have got to make sure that we have everything in place in terms of our collection system, meaning the road and the rail interfaces, the information flow and exchange, the co-existence of sufficient traditional capacity with new capacity, the revitalization of all parts of the system, the need for the regulatory framework, and lastly the issue of reliability at the ports.
that expects me to compete with a rate that some farmer using purple fuel is going to offer them. The farmer/trucker scenario is not a big issue for me, because I do not feel the impact in rural Manitoba, on the prairies or in the U.S.

Part of the reason that a lot of these farmer/truckers appear is simply because of the realigning that we have seen, especially in the Western provinces, of high through put elevators. Farmers simply have to haul their grain further. It is only economical for them to get a bigger truck to haul. Instead of twelve miles down the road, their elevator is now a hundred and twenty miles down the road. It is not feasible to do that on a small, six hundred bushel truck. So they turn to something that is going to haul about fifteen hundred bushels of wheat. They haul their grain and their elevator agent says to them, your neighbor has about twenty or fifty thousand bushels of grain, how would you like to just haul his grain in for us? They just sidestep the issue of purple fuel and farm plate, and the farmer says, sure, it will make my unit more worthwhile. Once the grain is caught up, the elevator agent says, you know, I have some fertilizer in the next province, would you be interested in going to pick that up? Before you know it, this guy is saying wow, I have got so much work, I better get another truck. He says, I cannot drive two trucks by myself, so I better hire a driver. He hires a driver and sends him to Alberta on a farm plate and dyed fuel. The driver shows up at the first scale, and guess what? Mr. Farmer gets a phone call. The driver at the scale says we are doing everything wrong. And they are. This is why I say it is not a big issue to me. If you are going to any scale in trucking, you have to go through the proper channels, and law enforcement agencies are looking out for that. It is quite alright in a free enterprise system, that if a farm company feels that they want to get into trucking and go through the proper channels. It can be a real complement to any farm operation.

When our business started out, I sure realized it was not for the faint hearted. Many times it would have been easier to walk away. Every newcomer, including farmer/truckers feel that way, and many call it quits before they really get going. So, in my opinion, purple fuel and farmer competition is not a real big issue.

Rising fuel rates, is an issue to me. This is something that will grab any trucker's attention. Fuel has been, and continues to be one of our biggest operating expenses in trucking. This has been a bit of a roller coaster ride in the last couple of years, except now we do not ever experience the rush of prices coming down anymore. We just seem to be stuck at the top.

Understand that this affects trucking more than other modes of transportation, simply because of the percentage of operating cost that fuel represents. As was mentioned before, the illegal trucking strike out east, caused havoc, and I can understand and appreciate that it would. In my opinion, sometimes truckers, and I say this carefully, overreact. Although the fuel issue is something to be really concerned about, I do not agree with blocking traffic and holding up all kinds of other activity that people are trying to carry on.

In the early 1990s we enjoyed fairly stable fuel prices until the summer of 1996, when it started to climb. By the middle of winter of 1996/97, we were looking at prices that we had not seen before, and they reached 18 percent higher than what we had seen on the long average. At that time, we managed to collect a bit of fuel surcharges, but not to the equivalent to our fuel price increase. In the summer of 1997, we were back to numbers that we could live with, and we
started enjoying a decline in fuel pricing until March 1999, when we saw the lowest fuel prices that we, as a company, had ever experienced. Then, the low prices went away. Today we are looking at fuel prices that are 64 percent higher than we saw in March of 1999, and 39 percent higher than our previous five year average fuel price. When prices reach this kind of historic high, it does not take long for the truckers to get a little excited.

In working with a majority of individual truck owners versus company owned trucks, the owners notice an immediate impact of fuel prices on their bottom line. Just to shed some light on that, we are a company that owns the trailers and hire drivers to pull them. It is very real when the guy comes in to my office and says, I am out a thousand bucks this month, a thousand dollars more went to fuel. Drivers would come into my office and ask me what am I doing about the price of fuel? What could I do about the price of fuel? Sometimes, jokingly, I would just tell them, as soon as I have a minute, we will phone OPEC and put it back where it should be.

Do we really have a fuel crisis? It is not really evident when you are on the highway, is it? When some of these big rigs pass you at 120, I say to myself, is there still a fuel problem? But really, it is a crisis for us. When I look at our five-year picture, and I believe it is a fair picture for fuel surcharge calculations, we are looking at fuel taking 9 percent more of our total revenues. In October it was 10 percent of our revenues, and fuel has come down just a few pennies. I have used for calculation purposes only a price that we would purchase fuel at a Winnipeg location. If I calculate the area in which we travel in the U.S., where typically we have seen higher prices than in Manitoba, we would put that number at 12 percent.

Some shippers do not want to talk about fuel surcharges and may pay a little bit. They think, well, we will just throw on a little bit and they give us 3 percent. Others are in full cooperation. Fuel is such an important issue in the trucking industry. It takes such a large percentage of operating costs. It is bigger than wages and bigger than capital servicing. It seems sometimes that there are very few concerns that the level of service could erode, or are there just so many trucks available that shippers will hold out to the bitter end, until they just have to pay a little bit. Some shippers have asked, what if we do not pay? Our answer is simple. We are going to haul for the guys that understand our problems, and understand that we have to make a little bit of profit, or we will not be around.

Agricultural commodity prices do not affect trucking in a big way. When farmers were selling canola at $10 a bushel, nobody offered us more money, and when it reaches $5, nobody offers us less. Our freight prices pretty well stay the same. We work for pretty much the same freight rates as we have for the past ten years, we just have to keep getting better at what we do.

Farmers have become very economical in producing grain and fruit, and truckers have become very good at hauling ag commodities for them. Unfortunately, somewhere down the line, our profitability on both of those sectors have eroded. We have hauled ag commodities in good times and in bad, and I would have to say that the commodity prices are the least of which affect us. Commodities may change lanes because of prices, but they still move, and usually when they move in a different direction, it is not streamlined, and it is actually good for the trucking business. I say that because I believe that trucks are the most flexible mode of transportation. We are good at turning on a dime, if you will, and can adapt to loading and unloading almost
anywhere at any time. So when ag commodities fall off the rail, so to speak, trucks can pick it up and go.

Some swings in commodity flows come as a result of grain and fertilizer companies merging, and companies streamlining their warehousing and handling facilities. Other reasons for commodity flow changes are weather and weather-related disease in grain that are beyond our control.

We have noticed big changes since the grain companies have built high throughput elevators. It is just amazing how quickly the grain industry has changed its whole structure logistically. If we could back up five years and look at our grain companies, we would hardly recognize them. Trucks are putting a lot of grain into position from farm to elevator, or from smaller elevators to a larger elevator for the hundred plus railcar spots, instead of putting the load on the truck and heading to the end user.

Another big area that has seen changes in commodity flows is U.S. trade. The recent Countervail duty on U.S. corn has given us a good picture of how commodity flows can change. The day the duty on corn was announced corn stopped moving north. We probably do not realize what impact this sort of action has, but we know for sure that it affects many more people than the supposed 400-member corn grower association that fought to impose the countervail. It is not often that I have seen a commodity flowing in one direction stop so abruptly.

There is an increase of primary road improvements showing up on the map. When you get an updated map, you see that they have upgraded this road and that road. There seemingly has been some improvement, at least in allowing us to haul bigger loads down more roads. In Manitoba we are getting more primary roads, and this is a necessity if we are going to keep streamlining our flow of ag commodities economically. However, in Saskatchewan, it seems a few too many roads are reverting back to gravel. Turning blacktop roads back into gravel, does not do a lot for the trucking industry. We need to have more paved roads, more primary roads and so on.

We have all heard numbers about how our federal road tax money is not being reinvested into our roads. We think of it every time we hit a pothole in the road. Whether it is 17 percent of money collected or whatever the number is that is not getting returned to roads, I do not believe the issue is about money, it is about accountability.

How are the companies responding to the needs of value added commodity companies? The shipping community has enjoyed a good supply of trucks available in the past number of years. Although there are situations that are more service-specific, more in the line of containers, there is probably a lack of trucking services. More and more trucking needs to be aligned with the rail. Maybe not so much with the ocean, but with the rail especially on the Prairies, where the trucks need to move containers or bulk or bags to the rail site and work together.

The ag trucking industry, in my opinion, has accommodated and responded to the shipping community in the past. I think they will continue to do that. I have checked around with some shippers and they have said that there is ample trucking available. I say this with some degree of hesitation, because of what I have just said about some of the services that are still lacking. I
would like to say, however, that service does seem to be of second priority in a lot of cases. Something that comes out in talking to the shipping community is the quality of service that has emerged over the years. This is something that will continue to challenge the trucking industry with driver retention issues, higher equipment values, repairs to equipment rising, and fuel costs continuing to escalate. What I see in the future is the need for any ag related commodity shipper to form closer relationships with a good, solid and reliable carrier, be that rail or truck.

Now the challenge for us as an industry is to continue to grow with the market without losing quality control. We have seen tremendous opportunities in the past and I believe that they will be there as the ag industry grows.

Mr. Douglas Duncan, CA

Strategy & Business Development

Transport Institute

Chairperson, Session 3

Our next speaker is David Nyzuyk, President of AGRITRANS Logistics. We are now going to get some input from an organizer, or provider of logistics services. The core business is commodity brokering and third-party logistics for the special crops industry.

Mr. David Nyzuyk, President

AGTRANS Logistics

The future will be more deregulation, continued rationalization, and discontinuance of unprofitable rail lines. Larger vessels are really giving us more of a push to go back to the sacks and to concentrate on more value added products. Peak load pricing is actually being reflected for the first time this year. Because of the Montreal strike companies such as ourselves as well as carriers from Saskatchewan to Montreal, were unable to make up their freight because no equipment was available. I would suggest that this would happen more often in intermodal business first and then in the bulk hopper freight for grain. I suspect Canada may have to go to some sort of a bidding process similar to what they have in the U.S. for rail hopper cars.

We have many key services that pertain specifically to value added products. Ironically, most of these services are discovered just because you have to get it done. The railways have recently begun shipping value added packaged goods in one hundred pound bags, lentils, peas, beans, canary seeds, used to work under the same WGTRA freight regime at a fixed rate per ton. Minimum lot was two containers, now the railways have revised their freight to be a per boxcar rate based on load weight of three containers. So this has presented a little bit of an opportunity for us. If the shipper has a sale or demand for only two containers, and he does not have regular flow to the port, what is he to do? Or, many specialty crop shippers, and there is about 160
capable of processing in Western Canada, do not have the capability to load boxcars at their siding, so they have to incur a cost. On average it costs $10 per ton to truck it to the closest rail point that has boxcar loading capabilities and load it into a boxcar. We have flat deck freight that is more competitive than the rail. This week alone we moved nine flat decks, which is the equivalent of nine boxcars, to Vancouver. We also move flat decks to Montreal.

Custom processing is cumbersome, but we do it anyway. We did about 4,000 tonnes of Kabuli chickpeas this year. We go to the farm, pick up the Kabuli chickpeas, take it to the processors, negotiate the processing agreement and packaging, and arrange for the inland transportation to the respective port. We are involved in the entire supply chain from the farmer’s gate to the port of export on behalf of the licensed and bonded grain company.

If we started pooling producer cars three years ago, we probably would have had zero success. Now we have an established business, and are trying to give something back to the producers. We have two producer car loading sites where we facilitate the loading of the producer cars. We loaded one hundred cars last year, mostly peas and wheat and are looking forward to being able to participate in the Canadian Wheat Board tendering process to the ports this year.

Exporting to Mexico is complicated, but it is worthwhile for us. We have contracts with BN and the Mexican railway. What we do is take the bid from the Mexican buyer and convert it to Canadian funds FOB a plant of any supplier. We then add on freight, customs, all other costs, all the way to the door in Mexico City. We offer to convert the contract to the local currency. This way we feel we are not compromising the Mexicans ability to pay.

We have recently formed an alliance with an in house freight forwarder for a large volume exporter. We have joined hands with them to take advantage of their rate schedule. We have competitive rates as a result.

What we are looking forward to is the Super B multi functional carrier. We envision leased open top containers moving within the Canadian prairies, being able to carry a full payload equivalent to the Super B hopper bottoms. Also, imagine if you are fairly far from the railhead in Saskatoon, Regina or Winnipeg, we have an aluminum chassis super B that is able to carry two full loaded containers instead of one. There is nobody that I know of in Saskatchewan or Manitoba that can do this right now, but they are doing it in Montreal, so why isn’t anyone importing that technology here into the prairies?

We have had our eye on IP wheat for sometime, but it is not our specialty. This is something that we feel is going to move in larger volumes, it is certainly working in Australia, and there is a big demand for it overseas. I do not understand the rationale in moving bulk conventional cargos of 20,000 tonnes each through the lakes when you can move containers for a cost that works back to about the same.

Increased pooling of freight and freight services is going to continue, especially as transportation becomes more complicated. Shippers prefer just to order and bill the cars under our account and let us negotiate, deal, or pay the railways for demurrage, or other out of line haul services that are otherwise cumbersome.
So, what is the future of the logistics system for value added products in Western Canada? I say it is what ever it needs to be, what ever it has to be to get the job done. Anything can be done at a cost; it is just a question of whether the cost you are using is more effective than your competitor.

Mr. Douglas Duncan, CA

Strategy & Business Development

Transport Institute

Chairperson, Session 3

Now we will take questions for any of the panelists.

Question: In a couple of cases today, we heard about a strategic plan or a new vision for national transportation. I know David is integrally involved in a lot of stuff that is happening with western transportation, what do you see happening in that area or do you see anything happening?

David Gardiner:
It is easy to talk about there not being a vision, but I think for the first time in some of the issues we have been dealing with, we have begun to sense that now is the time to go back to some basic principal. The Delta group put together some basic framework ideas for policy makers; I was astounded at the buy-in that we got. A small group of 8 or 9 people put the document out widely and we are hearing those principals referred to by a number of shipper groups, by carriers, by those who are normally on the opposite side of the equation. I think there is recognition that if we are going to compete globally, we are going to have to get our act together and work from the same song sheets the best we can. How long that is going to take? How effective it is going to be? Difficult to say. I do feel it is imperative that those who have been antagonists must understand the general impact of the industry and what it has to do.

The other component we are heavily involved in is to get the man in the street to understand that health care and all the wonderful things we want depend on a healthy economy. A healthy economy in this country, more than almost any where else, depends on a vibrant and vital transportation system. This takes time but we must go on until we get the context right.

Question: Regulations between Canada and the United States differ for trucking. I heard you mention that you are operating into 30 of the American States. How do you accommodate the differences in a regulatory environment?

Dave Klassen:
We have had to be fairly creative and just in this last year, we have had to make a fairly substantial change in our equipment configuration to accommodate the US regulation. I am talking more about weight laws, measurement, and dimensions of truck-tractor configurations.
We are seeing more integration as far as licensing and regulation through IRP. When we go to license a tractor trailer or power unit, we can do that right here in Winnipeg.

Question: Does the trucking industry have separate rates for identity preserved commodities?

Dave Klassen:
I would say no. Because of deregulation, we are not working with a lot of established freight tariffs. However, a lot of this sort of thing is established on a contractual basis. If you have that sort of a situation, you would typically discuss and negotiate on that particular movement by itself. For instance, in human grade types of commodities, it is always a big concern that there could be contaminants in a food grade product, especially in bulk. To answer your question, there are not different rates, but there will likely be different rates.

Question: David Nyznyk has a good perspective to assess the problems and opportunities for container rail building in the prairies. This morning, we talked about a shift to containerized products, within pulses and other special crops. What is your perspective on the future in this area?

David Nyznyk:
Containerized cargo is going to increase. The cost and expertise of trans loading bulk products in Montreal for export east or to the eastern destinations is very expensive. Consequently, it is more cost effective to use containers. The shipping lines are open to this as long as you give them some advance warning. Zim Line alone, is moving about 12,000 containers a month out of Saskatchewan, that is a lot of containers, but they are going to need a lot of containers to fill some of these larger vessels. The vessels are getting larger. I was at a conference not too long ago where Mersk Sea/Land was show-casing a vessel that is now on the water, that holds in excess of 6,600 T.E.U. If you stood it from bow to stern it would measure up at a larger height than the Eiffel Tower. They are going to be getting more and more desperate to fill their container ships.

There is also more versatility with the containerized movement. Two major leasing pools that I know of, are actively promoting the movement of their leased boxes. They have pile and piles of them in the US and in Canada that they are struggling to get back to overseas destinations. They actually pay you to take those containers out of their depots and put it onto a shipping line. The challenge is going to be for a third party logistics company to act like a virtual shipping line, and negotiate what we call slot space onto those container vessels. The answer to the questions is yes; it is definitely going to increase.

Question: I attended an energy conference last week and there was a lot of talk from the bankers and the oil companies that effectively the oil crisis has passed, that the $32 - $35 a barrel oil was gone, but the projections that they were showing, allowing for no instability or anything else, were still at a per barrel price in the future something like 40 to 45 percent above what it was in 1999. My question is, does the shipping community really understand that the transportation industry, trucking in particular, is at a new plateau in terms of its fuel pricing.
David Klassen:
I do not know if the shipping community understands the magnitude of the fuel crisis in trucking. Fuel constitutes a bigger percentage of operating expense in the trucking than it does in any other transport mode. I do not think that the shipping community really understands that if we do reach $40 a barrel in oil, shippers at large will just have to recognize that we have reached a new plateau of freight costs, and are going to have to factor them in to freight rates. You can rest assured that the trucks will stop if rates do not rise. In dealing with my individual truck owners, who have come to me with various fuel related issues, I have had to tell them, this is what I can provide for you now. We are compensating our drivers to try to keep their bottom line from sliding. We have been able to maintain their bottom line because we have been able to collect a fuel surcharge from some of our customers.

It is not fair that some shippers are cooperating 100 per cent with us, while some say thank you very much, we have lots of trucks, were not paying anything. It is like a slap in the face, and an arrogant way of coming across to truckers. I have had to say to some of my biggest grain company customers ‘thank you very much, we can do without you’. We have turned to different sources where people actually appreciate trucking services. I take a fairly strong position on this. Fuel is the biggest situation that we have encountered in ten years. I do not make any apology for saying that I get a little worked up about fuel. So shippers, you have to understand.

Question for David Nyznik.
I certainly applaud your whatever it takes entrepreneurial attitude to this market place. Maybe you could be clear about which specific regulations, or what kind of obstacles, are stopping you from being more effective in this market place.

David Nyznik:
One aspect of the CTA that I would advocate even more than running rights, and it is something that I have been pushing for a long time, is the competitive line rate. I can remember the days when you could call the railway and say, ‘look if you are not going to give me this rate, I am just going to call the NTA and get a competitive line rate (CLR) put in place. They would go back to work, put their pencil to paper, and come up with a sharper rate. Now it is a reverse onus on the shippers, they have to prove substantial commercial harm in order to get that competitive line rate.

I have sort of thrown my hat off. I used to throw it in the ring, now it’s off, and I say whatever, just tell me the rules and we will deal with it. If I was to go back, CLRs is one thing that I would fight for, because if you have a competitive line rate you can force the railways to compete. They do not necessarily want to compete with each other.

More directly for us, it has been the limitation of financial resources. We are actually seeking some additional capital to implement a containers on aluminum chassis service.
I am very glad to be here today, partly because I know our newspaper and the Manitoba Cooperator can not get enough of writing about the transportation industry. We have been talking a lot today about having a crystal ball and looking out into the future. I think it is very timely for us to be doing this here with the different representatives that we have from the organizations. What they are supposed to be doing is telling us where the grain handling and transportation industry will be in the year 2020. This is the question the farmers are asking right now, actually they are still asking where is everyone going to be a year from now and I think that the perspectives of the people here are really going to help us see where we are going. I would like to introduce Mark Mettrick, the Associate Director of Standard & Poor's in Toronto.

Mr. Mark Mettrick, Associate Director

Standard & Poor's

At lunch the Minister referred to cycles and the long time horizons in the rail industry. He is right on. About 120 years ago railways had an investment boom of their own, with names such as Gould, Vanderbilt, etc. who were as wealthy in their times as Gates and Dell are today. Subsequently, they had a bust, much like high technology is going to have in a few years as well. Nonetheless railways are still around today, and they remain one of the best ways to move product over land. That is not to say that there has been a century long period of prosperity for the industry, in fact it has been quite the opposite.

Trade volumes have been increasing, almost doubled the rate of GDP growth, in some years trade volumes have increased 10 per cent plus. The shipping and trucking volumes have boomed, but freight volumes have remained pretty flat over the last 50 years or so. The result is a half century of declining traffic share and the physical assets of railways. Recently however, both in the US and Canada there has been a dramatic industry change. It has really been catalyzed by regulatory changes and that has revitalized the rail industry.

So this century, we are starting to see progress again. We are starting to see substantial investment not only in infrastructure, but in technology. There is a significant cutting of non-productive assets and new ways of operating in the rail industry. We are seeing scheduled railways coming in, and working closely with shippers. There are financial guarantees, financial incentives and the word that some shippers hate, some variable costing in the industry.

Rail has some inherent variable cost advantages. It is intuitively obvious that rail is a very good way to ship non-time sensitive low value goods long distances. Rail also has some extremely high fixed costs. It is one of the most capital-intensive industries. It has one of the highest ratios of assets to revenues of any industry in Canada, and it is a great user of capital. The average
return on capital in the rail industry today, even after the financial improvements over the last few years, is just over 8 per cent. This is not far above the money I can make by putting my money into a Canadian Treasury Bill, so this is not exactly the most attractive industry from an investment point of view. If you can not recover the cost of capital, you are not going to invest.

So what has a high capital industry been doing over the last few years to help reduce its cost and become more efficient? It has really been in the US that we have seen the bulk of consolidation, but it also makes sense in the Canadian context when you see what CN has done with IC, and when you want to understand why some of these railways are forming alliances. In North America only six class one railways are left. Prior to the Staggers Act (1980) the US rail system was quite fragmented. The same consolidation in Canada happened back in 1918 when CN was formed. The reasons behind the consolidation, from a business perspective, have been the drive for scale to cover the high fixed costs, and the drive for economies of scope to provide better service. The railways are doing a better job on both service and scale costs points of view.

The other impetus for this to come about is regulatory changes. In the US, of course it was the Staggers Act, but it also was the introduction of the CTA in Canada in 1996. To put regulatory changes in perspective, in the US they were brought in to stop an industry going bankrupt and in Canada much of the changes were brought in for the same reason. If you look at the performance of CN up until the changes with CTA and what CPR was doing, they were giving up on investment. CPR had about ten years where they were not putting any money, or any sort of management focus into that railway. So, while it was still operating in the old regulatory environment, it was probably on a very long decline towards oblivion.

So, what has been the result? From 1981 through to 1998, a dramatic increase has occurred in size or scale of the US and Canadian railroads. Looking forward, the competitive concerns right now on both sides of the border become much more acute. There has been dramatic consolidation, and because the original intent of consolidation, to fix financial problems, has been mostly addressed, new regulations are going to be coming out in the US that will probably restrict further mergers. The Canadian government has been relatively silent on their position on a large cross border rail merger.

In Canada, railways have been working very hard on rationalization. This was enabled by the change in regulations. Up to 1998 almost 160,000 kilometers of track has been taken out of the CN and CP operations. Not all track has been abandoned. Some has been transferred to short haul operators, but a substantial amount of that line has been abandoned. The reason behind it is, the tracks were not making their return on capital. They were vastly underutilized, and just were not earning their way.

The other thing that CN and CP have been doing has been dramatically stepping up their capital expenditures. Actually the biggest increase is probably with CP. CN was always a pretty well kept physical plant because of the government involvement. Starting with deregulation, the railways here realized that this may be an industry that they can affect change in and may be an industry that is worth starting to invest money in again. This has been a dramatic change over what we saw through the 80's.
The CN and CP trends show a dramatic increase in the Canadian railroads productivity since 1996. The Canadian railways have now caught up to the productivity per employee that US railways had a few years ago. I should also point out that the US railways are still ahead of the Canadian railways in this productivity measure. The other productivity measure is asset utilization. Again a gap develops between the US and Canadian railways. The US railways got a head start because of the early consolidation that they were allowed. But again, the Canadian railways have dramatically caught up over the last four years.

Net result of all of this is the Canadian railways today are much more profitable than they were pre-1996. Although these profitability levels look pretty good, it is only when they start to get the operating ratios down that you even come close to earning a descent profit. It is only at these levels that you earn a level of profit sufficient to make you want to think about investing in the industry again. These operating ratios came about notwithstanding the fact that some $700 million a year of direct subsidy for grain movement was taken out of the railways top line revenues. So with taking grants out of the top line revenues, and allowing the railways to become flexible in their operating cost, the result is that they are earning a descent return on capital today.

Quick synopsis of the two railways, CN was really a gold plated plant with a blotted work force. It has done a tremendous job in turning its fortunes around and becoming self sufficient, attractive to capital, and attractive to investors. I think it has also done a better job in providing service as well.

CPR have had a much more difficult job. They had to undertake a major capital improvement program while grappling with a lot of the same issues and problems that CN had. Both Canadian railways have done a pretty good job.

So, what does this mean with respect to the grain industry? The grain segment actually constitutes a small portion of CPR's revenue base. Out of that grain base, about 50 percent is regulated and from the railway's perspective, the growth story has been in the service sensitive sectors. It has been growth in automotive, intermodal, industrial products and forest products that have really been driving a lot of the railways focus.

Railway management is frustrated by controls and they are turning their attention to growing opportunities in other areas. As the grain industry becomes smaller, perhaps less relevant, it is going to take effort to get the railway management's attention, and the railway's capital back into that sector. One of the major growth areas for railways is cross border trade and the railway systems focus has been concentrated on north-south traffic flows. Whereas a lot of the grain regulation is an east-west commodity export based frame work, the railways are not really thinking that way at all. They are thinking north-south, and about developing those trade routes. Admittedly grain exports are not going to show up on trans-border trade, but tremendous volume of automotive, forest product, finished goods and intermodal traffic are being moved through Ontario. The railways have seen double-digit growth of north-south trade since the introduction of NAFTA.
CP Rail's network through the prairies is only a very small part of the total rail system. They have been focusing on their intermodal capacity, through the Port of Montreal, working on their sister company's CP ships and trying to drive a lot of these industrialized products through the north-east. They focus on intermodal terminals and interchange points because they have a North American route system that is able to serve north-south trade flows. The US railways move is a lot smaller percentage of grain than the Canadian railways. As the railways focus on these sort of networks, grain becomes less and less relevant. As regulations impede what railways would like to do with grain, their focus naturally turns away from that sector.

Deregulation has been terrifically successful from the standpoint of the railways. Shippers benefit when costs are taken out and the Canadian taxpayers benefit because the CN railway is now a stand-alone entity. Investment is now pouring back into Canada's vital rail infrastructure. You have innovation, technology and flexibility. Railways have some natural advantages over trucking from a cost and from an environmental point of view. There should be a regulatory environment that encourages the growth of the railways and encourages more goods being shipped over railways. Railways are starting to invest in technology in the systems that will allow them to do a better job, but the regulatory environment needs to promote the transfer of more goods onto the rail networks.

Ms. Tami Reynolds, Vice-President of Corporate Policy
Canadian Wheat Board

I would like to talk about trends that are affecting the major players in the wheat industry. Specifically, what could be some of the factors that are going to affect those trends, a glimpse of where we think the year 2020 could lead us, and finally the Board's role in that sector.

First in terms of farmer trends is the movement to fewer and larger farms. This trend seems to be breaking out into two areas, larger more corporate farms and smaller farms which are more flexible in responding to immediate needs coupled with off-farm work. We are also seeing an increased trend to commercial trucking and an increased focus on maximizing margins through the reduction of the whole transportation component. This leaves us to look at different ways of doing logistics. Within that system, products are moving, are changing and responding to the needs of farmers and customers. There is definitely a need driving it and that is the production of the GMO specialty trade crops. In addition, on the industry side, we have not begun to see the end of the mergers between grain companies. There is a sense that we are not even half way through. If you look at the flour industry, as an example, and the changes that happened there, it happened much more quickly. You saw a move to very few companies with much smaller, Canadian companies, that were handling some of the business, but the focus was a few larger companies, mainly US owned.

Not surprisingly we have also seen a reduction of stocks in commercial storage systems. As a trend in the industry we are probably further ahead than a lot of other countries in this aspect and we are just moving further in that direction. Consistent with the GMO and other food safety
issues, we are seeing an increase in the IP or segregation of product. This is beginning at the farm and continuing through the system of suppliers right to the customer.

One trend that we are seeing happen in the United States is further alliances, not only in railways, but in the grain companies. The emphasis is now on moving to shuttle trains from country to port, the emphasis on having large business that can manage at a very high level. Those are the over-riding trends that you see in today’s Canadian environment. We are very much in the portion of the business cycle that is increasing the size of the business.

On the international side, a couple of trends are evident. The international market itself is very competitive, dynamic, and very diversified. Ten years ago, fifty percent of Canadian wheat was sold to two countries: Russia and China. Today we have two hundred customers, with the top five countries take less than ten percent each. We expect over the twenty years, a significant consolidation will have occurred in the purchasing power of end users. Instead of individual mills, groups of mills will be buying because they want to maximize their buying power. Further liberalization of central buying agencies may also occur as well.

On the customer side, we have also seen increasing interest in specific quality factors. This is a result of more mechanization of the industry, because they are looking for uniform consistency in products. There is increasing emphasis on “just in time delivery” as businesses do not want to carry the cost of inventory. The idea of differential service levels is not new, if the customer is willing to pay for a premium service. Clearly the reliability of supply is one of the key factors for customers as well. The focus on providing end use product qualities will become increasingly critical. If you can get in and capture the business, you keep the customer.

This leads us to the factors affecting system change. Profitability for all players in the system is a key factor that will affect system change. In the flour industry or a milling industry in the United States, there are players that no one had anticipated ten years ago. So in the industry 20 years from now, fully expect at least one or two new players to emerge. Right now there is some overbuilding in the handling industry and so further rationalization is expected. In the United States, some companies were bought out or went bankrupt during their transition period, and that may happen here.

Assuring quality is an issue for every food supplier in the world, whether it is grain or beef. Every time a major issue like mad cow disease, or star-link corn emerges, the end users become less assured that the system is delivering what they need. So it becomes critical to ensure that we are meeting the qualities the customer wants, and ensure their other concerns, such as health are addressed as well.

We are moving through a period of increased trade friction. As a small country that depends on trade, a rules based system works better for us. But let’s all recognize that the rules are primarily set by the large players.

Our largest single trading partner is the United States. As a shipper into the States, we expect special interest groups are going to have much more power than in Canada. We often forget that the increase in protectionism in the United States effects the transportation logistic system. We
are going to have a lot of trouble maintaining the open doors that we currently have. We advocate continuing the bi-lateral negotiations, and would also advocate maintaining connections in the United States with interest groups to try to bring that pressure down a bit.

This leads us to the system in 2020. We expect to see mergers and alliances within handling and rail industry as well as on farm and track side storage. We are going to a system where we have more limited general information, but it is in everyone’s interest to share key pieces so that we work more closely together. There will be increased use of shuttle trains for bulk and containers for specialized commodities. It remains to be seen how far containers will move into the bulk movement commodities. We need to be prepared for contingencies. For example, in the twenty years that I have been in the industry, droughts have lasted only one to two years. But we have had droughts in western Canada that have lasted as long as ten years. What are our contingency plans for such an event?

I would also like to talk about the Board’s role in the future grain handling and transportation system and to focus on some key principals. We adapt the Board’s sales and logistics programs to meet the customer’s needs and to ensure adequate delivery opportunity for farmers. It is also important to maintain a long-term sales planning focus. As we grow to where needs are more specific, it is important to source supplies from specific geographic locations to meet sales and to facilitate farmers ability to contract for deliveries. It is important to allow our partners in business, such as agents, or other service suppliers, to grow their business and to enhance efficiencies.

In conclusion I would like to highlight some of the elements of the future system. We are going to continue to see bi-lateral contracts between the Board and industry players for Board movement. We will continue to refine and clarify accountability and performance requirements for everyone within those contracts. The emphasis on lower cost grain handling and transportation system must be done within the idea of meeting defined service limits and levels. I expect to see differentiated service levels based on customer preference, and the overall ability of the Board to operate in a dynamic market place and to fulfill mandates from farmers of price pooling and maximizing returns to farmers.

Mr. Peter Marshall, Vice President, Prairie Division

Canadian National Railway

No shortage of things are going on right now in the grain industry, the railroad industry, and the grain companies. There is a continuing evolution and in some people’s minds it is a revolution, depending on where you come from and where you think you should be heading. The fundamental changes we are seeing includes more grain being moved within the Canadian and over the US border, but a lot less reliance on moving Canadian grain to offshore markets. Certainly the majority of the demand is on the export side, but there is a lot of change and diversification of value added products.
Elevators are being consolidated. Some view this as very progressive and positive, others view it as not good, but it is happening and going to continue. Our planning would suggest more consolidation of the elevator networks. Economics dictate this consolidation.

Further consolidation of railroad branch lines will occur. The railroad will go where the traffic warrants. We look for creative ways to provide levels of service that are consistent with demand. It is never a black or white situation. The analysis that we do is never an absolute threshold. Considerations and issues have to be taken into account before a rail line is deemed to be surplus or non economic. Then once we make a decision there are other alternatives for the rail line to be absorbed, as a short line or some other opportunity. Lots of factors go into branch line consolidation.

A big change for us, coming out of the Estey and Kroeger process, is an eighteen percent reduction in rail revenues. Rail revenues used to be capped on a rate basis by station, now it is all grouped together. We have a revenue cap that both CN and CP must come in under at the end of every crop year. A monitoring system is being established that will examine rail revenues from one year to the next and determine whether we are meeting the eighteen percent reduction that was stipulated by the government. Right now there is a lot of confusion. A lot of things are happening in the market place between the various constituents and partners in the grain handling and transportation system. This is creating inefficiencies. There needs to be clarity. Some decisions need to be made in the short term because we have an opportunity to move forward and to ensure a place for Canada in the grain handling and transportation system.

The guiding principle is the understanding that we need to provide a competitive rail service to our shippers, whoever they may be and wherever they may be. We drive efficiency within our rail network, to ensure that we can provide and pass on those efficient transportation methods to our shippers. We are in the business of providing a transportation service. We are only as good as the ability to convert that efficiency into a competitive transportation product. We are investing where it makes sense and rewarding performance. When we bring a rail car to a sight to be loaded, it should be loaded efficiently.

We like to operate with all hands on deck and make it very clear what our performance and reward measures are. How we provide service, the level of service, and how we will deliver service to our customers should be transparent. Transparency is a key principle for us and we like to see the same rules for all shippers, currently we do not. There is a lot more regulation on grain than any other commodity. There needs to be standardization of the rules that are being applied to bring out the efficiencies that are available to everybody. Most rates are published though tariffs on the grain side. There should be price differences based on the level of service required. Value needs to be extracted from the ultimate market place and should be reflected in different rates. We have talked about incentives for efficient loaders and un-loaders and we tend to sometime forget about the smaller shippers. As protection for smaller shippers, we need to be able to provide a service to all shippers. It is not always majority rules. There has to be some provision for shippers who want to be able to access the service within reasonable foundation. We have implemented some changes on the grain side, specifically relative to the demurrage, to bring it more in line with the other commodities that we move. I think that has been beneficial to all parties.
What does the future look like for the rail system? I am speaking specifically around grain, but really there is a bigger umbrella. I am going to touch very quickly on each one.

More efficient – we have to continue to be more efficient with the rail transportation services. The world continues to become more competitive in its own right, we need to be efficient to compete along with it.

More customer focused – transportation services are becoming more fragmented, there are more options for customers, more segregation in the grain industry. What is going to be transported is going to look a lot different in 2020 than it is today. We have to be responsive.

Absolutely more electronic – The actual physical activity of moving rail cars and loading and unloading is not very different but the technology of railroading has changed quite a bit. We will carry more in the rail car, but generally that is not where the biggest changes are coming from. More electronic really means how people will do business with the railways.

More deregulation – as soon as regulations are put on the system you start to impede the ability of the railway to deliver its best product, which is safe, reliable, consistent, cost-efficient transportation.

More efficient – the big components of the railways are the rails, the cars and the locomotives. Car utilization is a critical factor in terms of efficiency, moving cars faster creates capacity. Every day that we can reduce car cycle in our network, is equivalent to about three thousand extra cars in the system. Asset utilization is critical. New locomotives, more horsepower, better utilization, and better reliability generate more time on the road. We do not have clunkers that are breaking down every day. We put thousands of miles on a locomotive before we bring it in for service. Our reliability is getting better, the more time we can put the locomotive on the tracks, the more efficient we are going to become.

Contractual high-throughput elevators is happening outside of the rail industry but is a direct reflection on how efficiently we can provide rail services. As the grain handling system converges and consolidates, the railroad can gather up the cars and move them to destination more efficiently.

We are moving rapidly to a system which is much more forward looking. We call it demand pull. Customers pull inventory through the system as opposed to pushing from behind. The better we can be at planning the more efficient we can be. It is frustrating to be in the value chain, but not made aware of all the information that we should be: when is the ship going to be there? when is the grain going to be available? when do you want us there? is it the right time? As a railway, I am not saying that we are perfect, that we are always there on the right day at the right time and we are always bringing the right number of cars. We are not perfect; I will grant you that. Are we getting better? Absolutely. Can we get even better? Absolutely. If we share more information, we can be even that much better. Customer satisfaction is continuing to be a major driver. The closer we get to our customers, the more information we share, the more issues we can tackle head on, the better we will be.
Computers and the Internet are becoming hugely important and we are spending millions of dollars on information exchange. EDI is like a hula-hoop now, old technology. E-commerce, exchange of information electronically is really overtaking a lot of the industry. You are going to see a big impact in how we exchange information, how cars get ordered, how we track cars on the network, how you can get into the system, how you can track your own cars, how we can track shipments and payments on specific cars.

The CTA is very important to CN. The Staggers Act in the 1980’s was the genesis of the renaissance for the US roads. It was the catalyst to revise railways and make them viable and able provide services that are being utilized today. The CTA has done a lot of the same things for the Canadian rail industry and shipping community. There is an advanced piece of the CTA, which revolves around the issue of open access. Where is it heading? From our prospective the current legislation is working but, there are some enhancements that people want to see take place. There is a forum for that, but lets not throw out the 95 or 98 per cent of the stuff that is working. Competition exists in the rail industry. Open access means a lot of different things to a lot of different people and our analysis is, true open access does not really exist anywhere.

An example outside of grain, which is very powerful, is the coal business. Coal shippers by definition are captive. They are deep in the mountains, the infrastructure to get to a coal mine is expensive and mines were built often with a collaborative effort between the railway and the mining company. If we want to get the coal out we need a competitive rail rate. Our coal rates are among the lowest rates we have, Why? Because coal has been just hammered in Canada over the last two to three years. You would think this industry is captive, prices can be what ever you can get away with. Well short sighted yes, long term, not a very effective strategy. We are trying to keep coal mines in Canada competitive with the Australians and the Indonesians. We are not going to be able to do that if we raise our rates. Yes, we have contracts. Yes, we negotiated prices with the mines. Have we gone in and re-opened those contracts? Absolutely. Our interest is in moving the product. So our coal rates today are significantly lower than they were two or three years ago even though you would consider those customers "captive".

We are not interested in doing business with 98 per cent of the grain industry. We want to do business with everybody. So, let’s put something in place that works, that is commercially based and has some market principals attached to it. We discount about 200 points on our grain system because of the competitive nature directly with CP. Our discounts range from $.25 to over $8 a tonne. In our view it is necessary to compete to move the amount of grain we think CN should be moving.

Freight rates in Canada have fallen by about 35 per cent since 1987 when deregulation really started to take hold here. Canadians have the lowest railway freight rates in the world. The lowest freight rates in the world that is a pretty good starting point. The grain side was only seeing about 5 percent reductions from 1984 to 1999. Now what is the reason for that? Well, we have a regulated system. And if you want to get at the same kind of drivers and the same kind of productivity improvements and efficiencies, which ultimately get translated into market competitiveness, you have to have a deregulated system. It is as simple as that. We do not have that today, and there is a price to pay for it.
Will CN achieve the 18 percent mandated revenue cap reduction? At the end of the crop year, when the monitoring agency does its math, we will be there. Now will we be there to the penny? It is hard to predict that, probably not. We might be over, we might be a little bit under. If we are over, there are penalties to pay. But it will not be for lack of attention. We have a lot of activity going on at CN, directly addressed at monitoring the revenue cap as we go through the year. As most of the grain gets moved in the first five/six months of the year we have some time to ensure that if we have an issue to address, we will do it over the following months.

It used to be very onerous for rail lines to be transferred, however over the last few years, we have taken about thirty five hundred miles of rail line out of the CN network. Over 80 percent of those rail lines have been transferred to a short line rail operation and the remaining 20 percent of those miles have been abandoned. In Manitoba, about 70 percent of the rail line that we have abandoned has been transferred to a short line. The biggest being the Hudson Bay Railway with Omnitrax, which runs from the Pas to Churchill.

On open access, if the CTA does get to the point where it believes that open access needs to be part of the Canadian fabric, then there needs to be realization of some principles. The first principle is that if someone is going to come on a rail line, they need to be paying a full cost recovery. If somebody wants to come on CN, I do not have an issue with that. I just want to get paid for the investment that I have made and the cost that I am going to be incurring by letting them on the railway. I would like it to be two-way, meaning if they are going to come on CN lines, I would like to be able to go on their rail line as well. If these principles are not realized, then you have more regulation being applied, and we need full deregulation of the whole system.

If we have disputes let them make commercial mechanisms to resolve the disputes. Do not make more regulation on top of regulation. Certainly we have to be mindful of our trade obligations. Otherwise you are going to have a problem – short term and long term.

Mr. Brian Hayward, Chief Executive Officer
United Grain Growers

I want to talk about time, then I will touch briefly on about four major things that I think are going to drive how your business is conducted in the grain handling and transportation system over the next twenty years, and then close with some thoughts.

I was thinking about all the things that have happened in the last twenty years, and if you could put them into an envelope and say here is what is going to happen. First of all, twenty years ago we still had the Crow, and there was a lot of debate. Who would have guessed that CN would have been a successful IPO, and become one of the stellar performers of the 1990's. So there are a lot of things that have happened.

At the same time, there is a lot of predictability to some of the underlying trends, so what are the really important trends that you can sort of predict, and where are they likely to take us.

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It has already been said – we are moving away from a storage based system towards a just-in-time type of system. This is being driven by investment that has been made in fixed assets, technology and moving towards specialty types of products as opposed to commodity. About 40-50 years ago, we had about 15 million tonnes moving through the elevator system. It is reasonable to think that in about twenty years we are likely to see growth to around 40 to 45 million tonnes due to technology, better farm practices, etc.

Grains will go through fewer facilities. It is interesting that the media is talking about this consolidation happening now, but in large measure, the big piece of consolidation has already taken place from 5500 down to just under a thousand elevators. Years ago the average elevator probably handled about 8000 tonnes a year, or about what Mr. Marshall’s railway can do through one of our high throughput facilities with a hundred car unit train. What are we going to see in 2020? We are likely to see average facilities handling around 150,000 tonnes a year. More likely, it would probably be closer to 200,000 tonnes a year. The type of system that prevailed and the policy environment that we are operating in today was largely built for the past era.

Another trend that has been mentioned is biotechnology. Again, we are in a bit of a microcosm in terms of what is going on these days with starlink corn, etc. The lab and the end-user are becoming partners through business relationships increasingly. We have end users that want to invest in research programs with us to develop particular seed varieties and identity preserve them right through the handling system. So in about twenty years, there is going to be a lot less reliance on commodity business, and a lot more reliance or opportunity for farmers, particularly in value added situations where grain is being grown for particular end users and particular situations.

Farming is going to be like Magna International, where we are manufacturing something for a particular end use. It will be a situation where farmers are acting more in a manufacturing capacity. This is controversial now, but by the time we get to 2020, this will be seen as a speed bump in the road towards successful implementation of technology.

The third major trend is electronic commerce. In the fullness of time, I think it is going to change the very fabric of how people communicate. Think about it, twenty years ago, Internet was not even a word. Now we can have intelligent conversations about what we think is likely to happen with it. The Internet will change access to information. Everybody can get information now on what is going on – for farming, markets and transportation it is going to open up a whole new vista of being able to peer behind the veil and find out what is going on. Farmers will know what markets are, and in terms of logistics management there will be the kind of control system that CN has got in its mission control. This will be something that probably every logistics manager will have access to. The Internet has already changed your level of patience. It used to be okay to write a letter to order a product, now you send an email and you expect that before you sign off, you will have an answer back. So there is a time expectation that is going to permeate how farmers look at things, the decisions they make and how logistics happen, through the invention and application of electronic commerce. Finally, E-commerce effects market access. Even the most remote locations people will be able to find out what the price of grain is in Rotterdam or anywhere. There is a huge amount of information that farmers
the world around, commodity marketers and specialty marketers are going to be able to access just by applying this technology.

The last driver and one could argue whether it is going to continue or not, is the changing attitudes that are happening within the agricultural industry. There are three pieces to this that I just want to touch on briefly. First, there have been fewer and fewer farms each time there is a census. I strongly doubt that it is going to go up. It is self-evident that there are going to be fewer farms in number and that they are going to be larger. Again, census information shows a pretty steady trend upwards.

What it means, is that the average farm is becoming a business that requires outside capital and outside expertise. It is no longer just a one man, one family operation, but increasingly there is going to be risk management, expert advice, tax advice, etc. that a mid-size business here in the city would be accessing. This is a very profound trend that will affect the attitudes of the people running these businesses. Farming is going from a way of life to much more of a business, and in the process the people who are involved in the business are much more business literate. They can pull together cash flow statements. They are going to be reliant on outside expertise and they are going to want control of their operation because they have got big dollars on the table.

So those are the big trends and I want to give a snapshot of some of the things that I think are going to be out there in the year 2020. A couple of challenging statements about how we might address what is probably one of the key issues facing the industry in the interim.

In terms of what the snapshot looks like, fewer farmers, fewer elevators, and less track. Assets are going to be widely spread out, so there will be more reliance on trucking to get to the locations where you are loading 150 to 200 thousand tonnes a year. The people who are involved in making the decisions are going to be business people that have very little loyalty. The farmer is going to be very involved in technological agricultural manufacturing. He will want specialized advice on exactly what he is doing, and he will be able to move away from what he is doing now to another alternative. He is also going to want choices in terms of where he buys his crop inputs, financing, and risk management alternatives. I would not be surprised in twenty years if there are products offering farmers drought insurance. There will be a lot of choices in terms of how farmers acquire distribution, through the Internet, or going directly to a location for one on one service. I think farmers are going to want a lot of choice in terms of marketing products. Which, in my estimation, probably will lead to the Wheat Board being a voluntary organization. I would not go so far as to say it will not exist, but I think that the Wheat Board in the year 2020 would be optional in terms of whether farmers choose to use it or not. It is going to create all sorts of reasons for people to logistically deal with each other as opposed to having an entity outside that value chain becoming involved. I think there is going to be an attitude towards enterprise and freedom to make decisions largely driven by farmers because they have got a lot of money on the table and they want to be involved in making final choices.

In terms of the next twenty years, the major policy issue for the grain handling and transportation systems will involve how the Wheat Board changes. This is very significant for both the handling side and the transportation side, so a plan or program can be put in effect for a long period of time.
The Wheat Board will change over the next twenty years, with respect to how cars are booked and how assets are configured, and what the people do. What kind of investments do I make in terms of unload capability in my terminal at Vancouver or Thunder Bay? In my humble opinion, the question is not going to be what will happen, but how and when. I am not here as a critic, as a matter of fact, I think the optimal situation and the best solution for our industry is that the Wheat Board, in effect, takes it on itself and looks out to 2020, and says, here is what we really need to do. Further on in the continuum is to say that barley is not something where from time to time there is a value added issue for the Wheat Board. Is there value added in terms of the Wheat Board being involved in the domestic sale of grain from Western Canada to Eastern Canada, within our own country. It has been said before with respect to other issues that sometimes we create more impediments east/west than north/south.

All of this, requires a lot of leadership from the Wheat Board, it would not be a simple task for them to take on right now, but will provide food for thought for the future.

Ms. Elaine Shein, Editor and Deputy Publisher
The Western Producer
Chairperson, Session 4

Well it looks like you have been saving your questions all day and we have a whole bunch now. What I will be doing is reading through some of them and asking that we get fairly short responses so that we can get through as many of these as possible.

With the more efficient, rationalized grain handling system that has developed, why have handling tariffs risen so drastically in the last two years?

Brian Hayward:
I would submit that the actual realized charges that exist within the grain industry have stayed flat and probably dropped. There is a difference between what the tariffs are that are filed and what companies ultimately actually realize in terms of margin. In our company, we pay out more money in terms of trucking premiums than we receive from in rail incentives. So, in our case, and I believe that other companies are operating in a similar way, people can make adjustments, local pricing, etc. So I can just tell you because we are publicly traded, I do want to give the question justice, but I cannot get into the specifics, per se, but our margins have not gone up as an organization, and in the last couple of years, if anything, have declined.
Ms. Elaine Shein, Editor and Deputy Publisher

The Western Producer

Chairperson, Session 4

You had mentioned in your presentation that the average rate of return for a railway is 8 percent. Do you have some idea of what the rate of return is for grain?

Mark Mettack:
I guess if I had the answer for that question I probably would have made a couple of million dollars by setting up an accounting software program. It is not a trivial question to answer, but I think you have to try to understand that there are shared capital costs, shared equipment, shared trains. So it is not a simple matter of breaking out, the total revenues divided by the total volumes carried. There is a whole intermix of costs. If I was able to answer that question, it would also make open access a much easier question as well, because you would be able to say, here are the costs that are attributable to a specific train. You are just not able to do that. One of the things that you could try to pull together is how much revenue you get per carload. You can balance that between such things as how long the average haul is in that particular commodity sector, and try to overlay something such as an RTM measure. Obviously that does not get you exactly where you want to be. RTM measures cannot be used as an absolute top line number. You have to have some sort of cross basis to go into that. So it all does get down to margins, and margins at the end of the day are almost impossible to break out on a commodity by commodity basis.

Ms. Elaine Shein, Editor and Deputy Publisher

The Western Producer

Chairperson, Session 4

Carrying on in that, someone had asked, is the return in the grain sector higher or lower than the railroad's average rate of return?

Mark Mettack:
I think that is part and parcel of the same question. Again, if I could sort of guess amongst classes where the railways are making good money these days, I would say in forestry, maybe a little less so in automotive because there is a much stronger competitive dynamic there, grain is probably in the middle. Unlike rails in the States, coal is export coal, so the Canadian railways have really had to sharpen their pricing just to keep the coal mines in business. This gets to another interesting factor, which is marginal pricing. There is a whole dynamic regarding how low can your rates go that the railways actually want to carry it. The bottom line is it is pretty low, because there are some costs. But generally the railways are making money. Industrial goods are doing pretty well. Intermodal stuff is probably down near the bottom because there is much higher costs attributed to a lot of the facilities they have been building. So I would say that
grain probably fits in around the middle. The railways are making decent money in grain, but it is not lights out. I do not think it is an unreasonable rate of return.

Ms. Elaine Shein, Editor and Deputy Publisher
The Western Producer
Chairperson, Session 4

If CN believes in efficiency, would CN support providing the same incentive to a short line operator which brings one hundred cars to an interchange point as it provides to an elevator which loads one hundred cars? From an efficiency point of view, it should not matter whether CN picks up a hundred cars at an interchange point, or one hundred cars at an elevator point.

Peter Marshall:
The efficiency that we have been working on up to this point is at the loading point. Not necessarily where cars get handed off. The efficiency for us and a majority of our grain starts with where does it get loaded, and our role in that. At an interchange point, you have a whole different set of dynamics, and we have not established incentives for that. There is not a large demand right now. We have concentrated our energy and resources around the changing elevator network. So that is a piece of the puzzle that may come later. Right now all our energies and resources are directed at loading and unloading points.

Ms. Elaine Shein, Editor and Deputy Publisher
The Western Producer
Chairperson, Session 4

How many independent short lines has CN created compared to abandonment of grain dependent branch lines?

Peter Marshall:
We have short lines in Manitoba, Alberta, Saskatchewan, B.C. and in Eastern Canada. I do not know that we have ever bundled up which ones are 'grain dependent'. I would say on the Prairies that the short lines that we have would be largely grain dependent. I cannot think of a rail line that we have short line that is not majority grain. Although would you say it is grain dependent? I think that is debatable. But certainly the majority of the traffic that is moving on the short lines in the Prairies that have gone from CN to a short line operator - the majority of that traffic would be grain.
Ms. Elaine Shein, Editor and Deputy Publisher

The Western Producer

Chairperson, Session 4

Will the creation of grain dependent short lines negatively affect the profitability of the concrete terminals?

Brian Hayward:
I do not know. When I started with the company, we used to run a system of four hundred elevators and now we are at about ninety. In about five years, we will be running probably about forty-five elevators. So instead of running a forest, what we are going to be running in the future is a collection of trees. So when the question is asked, I am trying to think of the trees we have out there, and really the issue for us is getting good service. Whether it is provided by a short line or not, is not the issue. It is getting economic good service and the only issue on short lines that we have is that we would just like to know if the operator is going to be in business for a sustained period of time.

Ms. Elaine Shein, Editor and Deputy Publisher

The Western Producer

Chairperson, Session 4

How do you expect to keep GMO and traditional wheat separate, when GMO wheat comes on line in under three years?

Tami Reynolds:
We have advocated a system so that you have identification before the grain actually is produced, so that we know in advance that there are markers we are able to identify and segregate it through the system. We do that with our partners.

Ms. Elaine Shein, Editor and Deputy Publisher

The Western Producer

Chairperson, Session 4

You spoke of increased cooperation in grain forwarding. I do not see it. I see confrontation and power politics. Please elaborate regarding industry cooperation.

Tami Reynolds:
Well, every industry has to go through a transition. I think at this point we are knocking heads trying to slice out portions. It will be interesting to see if the pie is actually going to get bigger, or is the pie that we are working with just going to change. This will have an impact on if we get tired of knocking heads and get to the point where we actually want to sit down and work cooperatively. I think a truly strong logistics system works cooperatively.

Ms. Elaine Shein, Editor and Deputy Publisher

The Western Producer

Chairperson, Session 4

If CN and CP truly compete, then why do their market share ratios remain stagnant?

Peter Marshall:
The fact that they do compete is a reason why they are stagnant. It is very hard to get a competitive edge. If there is an adjustment, and this is not just true for grain obviously, but if there is an adjustment in service levels, in rate, in how a shipper or customer does business with one railway or another, it is incumbent on the other competitors to follow suit very, very quickly. Otherwise you would see a significant change in market share. This is the nature of competition. Another good example would be the oil industry where service stations fight tooth and nail, and you look at their market shares over time, they have not changed a whole bunch. Yet some people say they collude, because of the speed in which prices at the pump move up and down in unison. Market shares that are not moving around very much is a good indication of competition. There is no room to have a competitive offering, whether it be rate, service or ease in doing business. If you have a competitive advantage, you are going to get something for it, and you just cannot let your competitor get far away from you. Otherwise you are going to see significant shifts. So I think that is a real statement about the nature of competition today.

Ms. Elaine Shein, Editor and Deputy Publisher

The Western Producer

Chairperson, Session 4

At what point does an agrifood product escape the basket of commodities subject to the revenue cap?

Peter Marshall:
The revenue cap is specific to regulated grains. So grains like wheat, canola, etc. fall under the revenue cap, if it is exported off the West Coast or through to the East Coast. Some pieces do not fall under the revenue cap, moving to the U.S. is an example, but you know, 70 percent of what we are tracking is regulated. As grain volumes move up and down during the year and as
those flows change the revenue cap gets adjusted. It is not just a point in time which never changes.

Ms. Elaine Shein, Editor and Deputy Publisher

The Western Producer

Chairperson, Session 4

If the revenue cap is exceeded, what happens then?

Peter Marshall:
If it is exceeded, you have to pay the money back. Let us say the revenue cap is X and we are X plus $2 million dollars at CN, you have to pay the money back. It is not clear yet if there is going to be a penalty beyond that. This is what the monitoring agency is currently working with today, and we will know over the short term, I think, sometime in the spring what that will look like. Again, the first crop year will not be finished until July 31, 2001, and at some point after that you have got to do all your calculations. So we have almost a year, I would say, before we get that definitive. My expectation is that there will be some penalties and maybe there will be some adjustment to the revenue cap beyond what the flows and grain production would dictate.

Ms. Elaine Shein, Editor and Deputy Publisher

The Western Producer

Chairperson, Session 4

What regulations do you think need to be put in place to promote the use of rail over other modes?

Mark Metrnick:
I am not sure you can put regulations in that force people one way or another. What I am trying to advocate is deregulating both rail and truck. I think also what you have to have is a system that allows railways to invest in their infrastructure and reclaim those capital costs through more equitable tax deductions for the depreciation rate allowed in the trucking industry or what is allowed in the U.S. Canadian railways are not allowed to write off their capital expenditures as quickly as U.S. railways. They are not allowed to write off their capital expenditures as quickly as trucking companies. So, you want to encourage capital investment into each one of those industries. Another thing that I think needs to be acknowledged is that trucks do not pay for their proportionate costs of highway maintenance. So I think there is a very real reason why it should be encouraged, or the taxation policies on investment should be encouraging to railways to get more traffic onto the railways, because I do think it is a better way to move products.
But I think you also need to be aware, and I think everyone in this room is aware, that it also needs to be done to encourage competition. You cannot just have these sort of deregulations without competition to make sure that people are spending their investment dollars wisely. Obviously there is no point in people building multi-billion dollar railways and then try and pass those costs on to captive shippers if those investments are not actually improving the cost base of the railways. So competition is also very important. Maybe you want to have policies that foster competition between railways. This can be such things as carefully locating where you want to have producer parks, for example. You have this in high tech, where you have clustering. I do not see why you cannot have that more in agribusinesses where you have government-sponsored locations that have maybe some built-in transportation infrastructure that is part road, part rail. In that way, you start to keep the options open for the shippers. It all goes part and parcel, you have to have competition, you have to have deregulation, but you also have to have a fair tax system that is equal across all modes of transport.

Ms. Elaine Shein, Editor and Deputy Publisher

The Western Producer

Chairperson, Session 4

Is revenue per tonne mile a good measurement for grain when traffic is moving to more efficient lines with far fewer pickup locations?

Mark Metrick:
What would be more interesting to see is the length adjusted, RTM. Obviously if you look at the absolute RTM value for grain, it is quite low, but grain is probably transported one of the longer distances. You have a bigger divisor over which to spread those costs. You need to put that in the context with how much revenue per car you are getting and definitely you get some decent revenue per car for grain. To make that number meaningful just for a specific commodity, you have to know the cost per tonne mile for that commodity and you have to know what the stage length adjusted trends are for that particular commodity, and that information is not readily available, or the railways just do not have it. So, no it is not a valid number, but there really is not a better one out there.

Dr. Barry Prentice, Director

The Transport Institute

I would like to now introduce Dr. Harold Bjarnason, Dean of the Faculty of Agricultural and Food Sciences at the University of Manitoba to give us his closing remarks.
5th Annual Fields on Wheels Conference

Dr. Harold Bjarnason, Dean

Faculty of Agricultural and Food Sciences

University of Manitoba

It has been a long time since I have been totally absorbed by transportation issues. I have spent a lot of my career dealing with transportation problems, so it certainly was an excellent update, particularly the value added aspect of transportation. I enjoyed the talk that was given first thing this morning by Dr. Gibbins, when he spoke to the topic of *A Vision for the Emerging West*. It was very thought-provoking. His talk gave an excellent historical view on where we have been and a new perspective on where we are going. The perception of the Prairies being changed from a grain- powered economy to a marginal Canadian economy is something that we have all experienced.

When I was growing up in Western Canada, grain was so important that my favorite team was the Brandon Wheat Kings, because they were called the Wheat Kings. This was such an important element of our economy. Even in urban centres, so many people had a farm base, that they identified totally with the wheat economy. Now that perception has changed, and the Prairies, as Dr. Gibbons said, are probably the most urbanized part of Canada. About 70 percent of the population of Manitoba, for example, lives within Winnipeg. The creation of an urban/rural division can be seen in the politics of Manitoba as well.

So transport solutions, the types of things that we were talking about today, become very much more difficult. In the past it was always acknowledged that grain and agriculture was a very important engine in our economy. Now this is greatly discounted.

How do we deal with the change from this old view of power to a new view of being marginalized? How do we respond to this new, emerging economy that is characterized by a high-tech growth surge? Now, this affects all of us. As Dean of Agricultural and Food Sciences at the University of Manitoba, I certainly feel it. When I was just starting university, about ninety to ninety-five percent of the students at the University of Manitoba Faculty of Agriculture and Home Economics were male. About ninety-five percent came from rural areas. Now it has totally turned around. About sixty percent are female in our faculty, and close to sixty percent come from urban areas. Of course we have to be concerned too, that our enrollment is falling because of the public’s perception of agriculture. This is very unfortunate, because agriculture as a discipline is shifting.

For example, one of the biggest initiatives I have had, deals with the establishment of a centre for functional foods and nutraceuticals. For those of you who are not familiar with the terms, a nutraceutical is a plant-based product with medicinal properties in it, like Echinacea, St. John’s Wort and so on. Probably many of you are using nutraceuticals. Functional foods are those plant-based products with health enhancing properties. If you eat oat bran on a regular basis, for example, it does actually reduce the build up of cholesterol in arteries. Now this is where agriculture is leading. We are retaining our roots, but at the same time, we are expanding into the life sciences, which means we are moving into the whole area of preventative medicine.
One of the speakers mentioned bio-technology. Well there is a great deal of opposition to it right now, and is an awful lot of concern. But the field is not going to go away. There is going to be a tremendous demand for students because of activity in the area, and we have to prepare them for it. Last year I talked to BioTech Canada, and they said that there were 11,000 professionals in the biotech area in Canada right now, including medicine. Agriculture is about 30 percent of that. They say that by the year 2005, there will be a need for 30,000. This need may be reduced a bit because of the current controversy, but not by much, and it will continue to expand in the future.

Genomics is another area of opportunity. An awful lot of work is going into gene mapping. The government put up $160 million dollars last year for five centres. We want to make sure that we play a role in that, because $160 million is just seed money for an area like this. There is going to be a great deal happening in the future. In Manitoba we are shifting. I talked about the Brandon Wheat Kings because wheat was king. Right now we are moving, particularly with the WGSTA change, to a farm economy based much more on livestock. Again, when you shift like that, that affects the type of product that we grow. So plant breeding initiatives will be very influenced by this.

Dr. Gibbins' comments were echoed by many other speakers. They are struggling with regulations and infrastructure that were prepared and put in place for older times, older technology and older thinking, as far as the economy is concerned. So I thought it was an excellent start that we had to the program.

The second session was also very interesting, Transportation Needs of Value Added Foods. There was some comment and disagreement with the previous speaker, Dr. Gibbins, because the moderator said we are no longer talking agriculture, we are talking agribusiness now. This is true. When I went to university, all the students in the department of agricultural economics were students of agricultural economics. I would say 90 percent are now students of agribusiness. The connection with agriprocessing, connects agriculture with the urban groups.

It was pointed out just how much the value added area has been ignored in the context of the Canadian transportation issue. Production and deliveries of traditional crops have been greatly reduced as farmers have moved rapidly into specialty crops, such as beans, peas, chickpeas, lentils and canola products. This is going to continue. Yet, Estey and Kroeger and their teams basically said nothing about these crops. So the preoccupation of those people that are making policy decisions in Ottawa, in particular, certainly remains a preoccupation of the past. This simply cannot go on because the future is the transportation of value added goods.

In the third section, it was pointed out just how dynamic the transportation sector is. The three speakers addressed different modes and the issue of competition. David Gardner mentioned that the marine sector is responding in many positive ways with containerization, self-unloading and so on. Trucking is also responding. It has tremendous challenges right now, but it will continue to respond. Finally, there is this whole area of high-tech, making its way into logistics. Companies and individuals have the opportunity to outsource their logistics functions.
The last section got back to bulk products. We heard a great deal of information about railway consolidation, capital expenditure, the regulatory environment, and how we should change to encourage more shipping; also, now we need to be more efficient, more electronic, more deregulated and so on. All of that is true, but there was some difference there. Tami Reynolds suggested that we will see major consolidation of buying power in twenty years time, whereas Brian Hayward suggested that there will be less reliance on commodities. I tend to side with the latter view. Biotechnology is a fifty billion dollar industry right now. The expectation, according to BioTech Canada, is that in ten years it will be a $500 billion dollar industry. We need to put this in the context of what we now have in Western Canada, where our entire grain and oilseeds industry might be seven or eight billion dollars.

Tremendous opportunities exist for us to get into value-added agriculture, but what does this mean? Look at flax seed, which contains omega-3 oils. These oils are very effective antioxidants that fight free radicals in your body. If we enhance the bio compounds in flax seed through plant breeding, how do we sell it? We sell at a premium to people and buyers that want to have this particular product. What is the best way to sell it and keep it segregated? In containers. This is the way many products are going to move.

People will be buying on the basis of exact product specification. We can look for that. Even with GMOs, there is going to have to be a lot of segregation. How do you do it? It is going to be much more difficult in the future. Maybe some of the big inland facilities used to store 1CW and 2CW are not necessarily the models that we are going to want to have in the future. Consider the grading system that we have in Canada. I was involved with the Canadian Wheat Board in the 1970's when the change was made to a system of protein grading. It was the right thing to do at the time. But the customers were basically European nations, and then Russia, in particular. These countries wanted high quality, high protein wheat, because they had such bad harvests regularly. They wanted to have a blend to bring up the quality of their crop. In Europe they wanted to blend with their own crops to get the high rising North American loaf. This is not true anymore. Those are not our primary markets anymore. So we have got to do a lot of work now and in the future to identify what kind of grading system is best suited to this generation, and to the next.

When the Western Grain Transportation Act was changed, it set a lot of economic forces into motion. It has meant a great deal of change for land use, with people moving out of Board grains and into other crops where they would have easier market access, at prices that cover the cost of production. From my point of view, the best solution is to maximize the production that we can get from all the crops that we grow. And hopefully, to export nothing in terms of bulk commodities, but use those crops for value added production. This increases employment in the province and keeps young people on the prairies, instead of Calgary, Vancouver and Toronto.

Anyways, there are a lot of things that I could touch on, where I think the industry is going, and how it should be adapting to all the changes that we have right now, but I do not think you are going to give me the time to do that Mr. Chairman. So thank you very much for your attention, and before I leave the podium, I would like to say to the Chairman and everybody here that I consider this to be a very successful conference. The presentations that I heard were without exception excellent, and I think we can all leave the conference with a better understanding.
which means that we are better prepared to deal with some of the future issues and events that we will be faced with. So on behalf of everybody here, I want to thank Barry Prentice and the organizers, Doug Duncan, Jill Dutka and her team, and again, thank you Mr. Chairman, for giving me the opportunity to speak.
2000 PARTICIPANTS

SPEAKERS
(in order of appearance)

Dr. Barry Premice
John Morriss
Dr. Roger Gibbins
Ian Strang
Lyle Minogue
Mike Sopora
Blair Wright
Dr. James Nolan
Honourable Steve Ashton

David Gardiner
David Klassen
David Niznyk
Elaine Shein
Mark Mettrick, CFA
Tami Reynolds
Peter Marshall
Brian Hayward
Dean Harold Bjarnason

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CanAmera Foods
Transfeeder
University of Saskatchewan
Manitoba Transportation & Government Services
WESTAC
Norfolk Transportation Ltd.
AGRITRANS Logistics
The Western Producer
Standard & Poor’s
Canadian Wheat Board
Canadian National Railway
United Grain Growers
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Canadian Grain Commission
BCR Marine
Transport Canada
Agricore
Canadian Transportation Agency
Thunder Bay Terminals Ltd.
Mission Terminal Inc.
OmnitrAX Canada
Campbell AgriBusiness
Manitoba Transportation & Government Services
Manitoba Agriculture & Food
Agricore
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Manitoba Transportation & Government Services
The Manitoba Co-operator
Saskatchewan Agriculture & Food
Western Economic Diversification Canada
Canadian Canola Growers Council
United Grain Growers
Manitoba Transportation & Government Services
Canadian Wheat Board
Western Grain Cleaning & Processing
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Seaway Marine Transport
Aikins, MacAulay & Thorvaldson
BCR Marine
Agriculture & Agrifood Canada
Canada Steamship Lines, Inc.
Saskatchewan Highways & Transportation
Agriculture & Agrifood Canada
Agriculture & Agrifood Canada
Saskatchewan Association of Rural Municipalities
Scotia Capital
Mission Terminal Inc.
The CSL Group Inc.
Agricore
Manitoba Transportation & Government Services
Western Rail Coalition
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Brent Vankoughnet  
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Cliff Weber  
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Western Opinion Research Inc.  
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Western Rail Coalition  

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