



POGA Position Paper On Canada Transportation Act Review Panel Report

April 2016

Summary

Fair, Responsive, Efficient, Transparent: these are the things all Canadians have a right to expect from a rail system founded on Canadian resources. This system has a unique duty as one of the bedrocks of the Canadian economy. Particularly since agriculture continues to underpin the rural economy, the success of the railways, handlers, and farmers are intertwined. Shippers of all shapes and sizes need access if we are to protect Canada's reputation as an exporter and grow our markets.

We believe that the Review of the Canada Transportation Act (CTA) has many merits including recommendations for data improvement, 5 year planning, and an emphasis on improving infrastructure and capacity.

Changes do need to be made to the CTA and the Review provides a good start, conditional on the following policy recommendations:

- a. Inclusion of corridor-specific data in the grain transportation reporting mechanism
- b. Retain the Maximum Revenue Entitlement (MRE)
- c. Retain Interswitching at 160 kms or extend further
- d. Create clear crisis response systems
- e. Develop stronger service level agreements

Context

Canada is dependent on trade, and thus on an effective transport system. **Canadian oat growers produce more than 3.0 million tonnes of oats annually and ship over half the world's exports of the crop each year.** The USA is Canada's largest purchaser of oats, representing over 90% of annual exports.

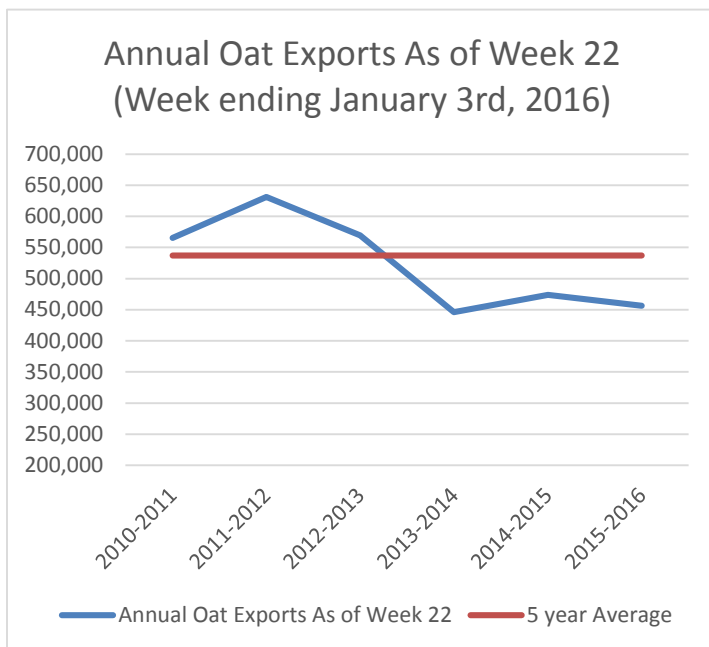
Conditions in 2013-14 resulted in the best grain crop Canada has ever seen. Oat crops saw their production rise from 2.8 million tonnes to 3.9 million tonnes. The oat sector experienced perhaps the biggest and most serious consequences from the winter's transportation crisis.



January 1st through February 16th of 2014 saw only 86,000 tonnes of oats exported, compared with 161,300 tonnes from the same period of 2013¹.

American oat customers went looking elsewhere for solutions and continue to. As you can see in the chart below, despite massive carry-out stocks, oat exports were down 35,280 tonnes against the 5 year average in 2014-15. Through Week 22 of the 2015-16 growing season, the export figures remain well below the levels of 2010-2013 and below the five year average. We have been told by the industry that this is not a railcar issue but that Canada has lost some market share in the US because in 2013-2014 Canada could not deliver oats a few hundred kilometers south to the mills in the United States. These companies have decided they must permanently diversify their oat shipments because the risk to rely solely on Canada is too great. This is the long-term consequence of the transportation failure of 2013-2014 and now Canadian oat farmers have to grow the oat market to export the same amount.

This is why we need a fair, responsive, efficient and transparent rail system.



¹ CGC Grain Statistics Weekly



Comments on the CTA Review Report

Service capacity is the backbone of the majority of the Report's recommendations for grain transportation. We need to focus attention on the Southern Corridor shipping to the US and Mexico. The United States represents over 90% of the export market for Canadian oat growers.

In this regard, we appreciate the Canadian Transportation Act Review Report's recommendations that focus on long-term solutions. Specifically, measures to increase service capacity through infrastructure investments, a more robust data system, and collaborative logistical systems are steps forward. However, there are many areas where POGA believes the report needs refinement.

Data

We appreciate the high value the Review Report place on rail movement data, and the sharing of that data. The panel noted, in particular, that though Statistics Canada is provided information on individual rail shipments through waybills, Transport Canada is not provided this information. The Report recommends that "supply chain performance metrics" be published with frequency to match industry needs, and be made available within the context of Service Level Agreements and we would add industry needs include corridor-specific data. It is also important to give the Agency leave to make the data public. Applying confidentiality to this data would defeat the purpose of collecting the data.

Corridors

In particular, there is reference to corridors in the Review Report, including planning and North American integration of corridors. This is not specific to grain, and is not sufficiently clearly defined to understand the operational implications in sections like 2.1.f. A reference to the need for corridor-specific planning is made. However, in 8.1.4 on data, it does not specify corridors regarding rail data.

Planning

In the POGA Submission, it was proposed that Transport Canada be enabled to create 5 year forecasts for rail demand. The Report recommends that "Transport Canada publish an evergreen five-year rolling forecast of rail network demand in order that future capacity needs can be better anticipated". While the forecasts are not specifically called upon to be corridor-specific, it is noteworthy that in a separate recommendation, the Report proposes the establishment of an "Advisory Committee on Transportation and Logistics", which would include consultations "that includes representation from the entirety of Canada's multimodal



transportation system". Here too, there is a need for corridor-specific planning to improve service south as well as to the ports.

Crisis Response

The Review Report did not propose the creation of a formal response program similar to the tiered response program proposed in the POGA submission, however the report calls for increased data reporting and forecasting to support "evidence-based decision making". It also noted that the 2013-14 grain crisis "demonstrated the need for a system that is structurally competitive for the long term, while being able to adapt to periodic fluctuations in supply and demand." There was a significant delay to mount a regulatory and legislative response to the crisis in 2013-14. It is critical to have a clear rules of how to respond to underperformance, such as mandatory movement by corridor and to reward outstanding performance.

MRE

One of the most aggressive recommendations in the Report with regards to grain transportation is that the Maximum Revenue Entitlement Program, more often referred to as the cap, be modernized and eventually eliminated within 7 years. POGA's submission supported the cap, and recommended that a costing review be conducted. The cap provides assurances to all farmers, but especially those in remote areas, of realistic and fair pricing. Movement to the US is not covered under the MRE, yet oat movement was hardest hit during the crisis – suggesting the MRE is not the primary factor in reducing service adequacy to grain and that eliminating the MRE will increase price but not increase service.

Interswitching

POGA's recommendations with regard to interswitching were, regrettably, not supported by the Report. Indeed, the panel advised that the increased 160 km interswitching distance be allowed to sunset, returning the interswitching distance to 30 km. The panel claims that "according to Agency officials, very few shippers have availed themselves of the extended limits to date", meaning that allowing the increased limit to lapse will have little impact. The Report also recommends that Transport Canada be permitted to set interswitching rates annually, and to set its rate setting methodology to be compensatory.

As of March 2016, POGA understand roughly 3000 cars have been shipped under the expanded distances. Based on an average value, that worth an estimate \$80 million in crops moved, and include oat movement. Clearly these provisions are important and create some competition in an industry that currently has very little. If, in fact, it is true that very few shippers are using the extended interswitching then the railroads should not object to allowing it to continue since, in that case, it is not be impacting their business anyway.



Service Level Agreements

Service Level provisions are included in the CTA Review Report. However, the specific proposal to amend section 115 (2) to state: “For the purposes of section 113 and 114, a railway company shall fulfill its service obligations in a manner that meets the rail transportation needs of the shipper” was not taken up. POGA believes clearer service level agreements are essential to ensure some balance of power between the two very large railroads and the shippers. They must provide for adequate and suitable service if we want our economy to grow.