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# Fair Rail for Grain Farmers

Canada 

# Purpose

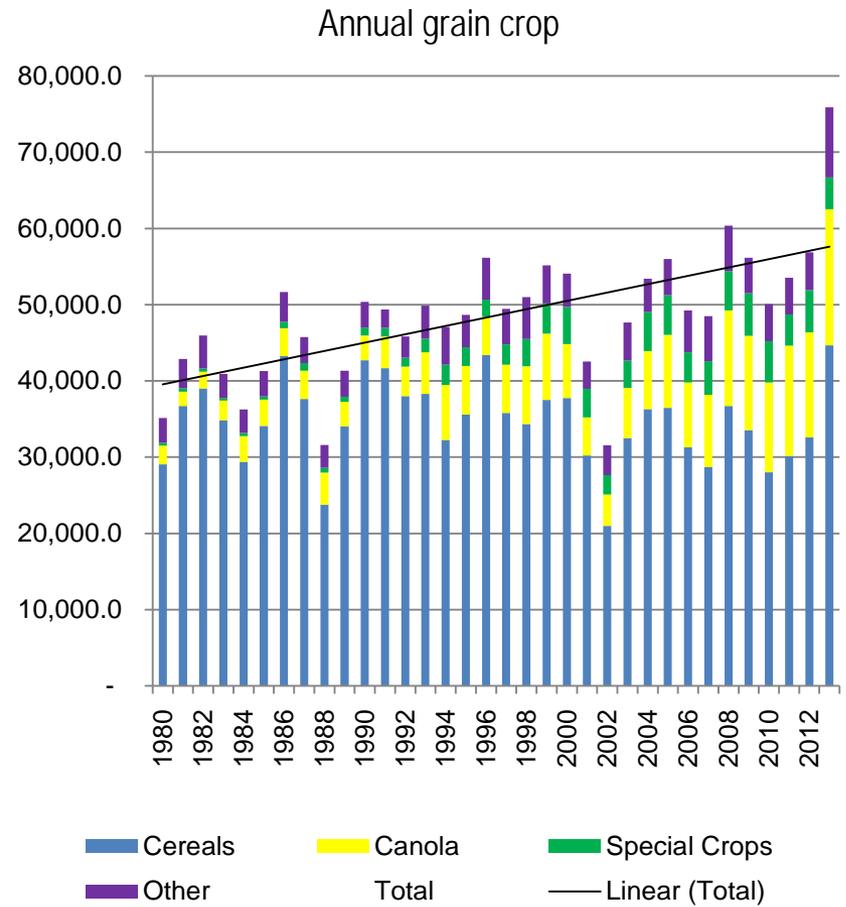
- To outline the proposed legislative and regulatory changes to help deal with the current backlog in the grain handling and transportation system.

# Context

- Western Canada produced a record 76 million metric tonnes (MMT) of grain this year – 50% higher than the average crop.
- In the fall, the railways were transporting above average volumes to port but by November were already behind 20,000 carload orders
  - since December, harsh winter weather has diminished that performance significantly
  - In extreme cold, train lengths and speeds must be reduced for safety reasons
  - 77,000 car-loads have been delivered as of March 9 - 68,000 fewer than ordered
- The value of grain currently sitting in bins is an estimated \$14.5- \$20B.
- Decreased rail service and the large looming carry-out are significantly impacting stakeholders throughout the grain supply chain, prompting demands for government action.

# Context (cont.)

- 50 per cent of total grain produced is exported, 94% of which moves by rail
  - \$23B in value in 2013
- Western grain production varies year over year depending on many factors but, on average, has increased approximately 3% per year over the past 30 years
  - New technologies and better agronomic practices are expected to accelerate yield growth
- In 2013, grains amounted to 20% of total freight weight shipped; fuel oils and petroleum for 6%
- A record amount of grain may be carried forward into the next crop year
  - A 3-fold increase over average levels
  - Depending on how much grain can be shipped, the carry-out could be 17-27 MMT
  - Therefore, similar pressures possible next year



# Context (cont.)

- The pressures in grain handling and transportation are evident across the system
  - Country elevators at near full (93%) capacity
  - Port terminal capacity underutilized - 39% lower terminal stocks available for loading vessels than in 2012-13
  - Partially filled vessels at anchor at west coast ports and record line ups – ranging from 43 to 57 vessels in recent weeks – historical average is 8-10 vessels at any point
  - Contracts with domestic and foreign buyers unfulfilled
- Implications of this situation include:
  - Risk of a reduced cash flow and potential lost revenue for farmers and shippers
  - Cash prices that are significantly lower than last year's prices and current world prices
  - Increased storage costs for farmers and grain companies as well as stiff penalties for demurrage, failure to consummate contracts
  - Risk of crop contamination for those who have resorted to temporary grain storage measures (an estimated 46 MMT of grain are being stored on-farm)
  - Risk of damage to Canada's global reputation as a reliable grain supplier

# Government Actions

- Over the past few months Ministers Ritz and Raitt have met with numerous rail and grain representatives identifying corridor capacity and demand.
- An Order in Council (OIC) took effect March 7, 2014:
  - Setting out minimum volumes of grain that each railway company is required to move
  - Increasing volume requirements carried each week, over four weeks, to a combined target of 1 MMT per week (more than doubles volume currently being moved)
  - Requiring railways to report to the Minister of Transport on weekly shipments
  - Creating legal obligations on railways that could result in penalties for non-compliance of up to \$100,000 per day
- The Government has now introduced the *Fair Rail for Grain Farmers Act* that will further contribute to a more efficient, effective and reliable supply chain that will support the competitiveness of Canadian businesses across all sectors.

# Proposed legislative and regulatory amendments: *Canada Grain Act (CGA)*

- Proposed amendments will establish authorities in the CGA to enable the regulation of mandatory grain contract provisions
- The proposed amendments will also allow the Canadian Grain Commission (CGC) to regulate compensation the grain company will pay to a farmer if the delivery dates set out in the contract are not honoured in a timely way
- Will enable the CGC to arbitrate or direct arbitration.
- This amendment will:
  - incent shippers to honour contracts with producers.
  - create the potential for producers to receive compensation.
  - will not need to be used if shippers and producers voluntarily develop contracts with appropriate performance and compensation requirements.

# Proposed legislative and regulatory measures: *Canada Transportation Act (CTA)*

- Proposed amendments to the CTA will give the GIC, upon joint recommendation of Minister of Transport and the Minister of Agriculture, the authority to set minimum volume requirements for the movement of grain by Canadian National Railway (CN) and Canadian Pacific Railway (CP). The penalty for non-compliance would be up to \$100,000 per day.
  - To address the current backlog CN and CP will be required to move at least 500,000 tonnes of grain each week beginning April 7, 2014 and ending August 3, 2014.
- The Canadian Transportation Agency (Agency) will be responsible for recommending a minimum volume level to the Minister of Transport, over the course of the summer and early fall, as the harvest yield becomes clearer. The Agency's advice will be based on information collected from grain handling stakeholders, including CN and CP, during the Agency's new annual consultation process.
- This amendment will :
  - enhance the reliability and predictability of the Canada's grain handling transportation system.
  - improve grain shippers' ability to forward plan and meet contract obligations with producers and customers.
  - improve Canada's international reputation as a dependable shipper of quality grain.

# Proposed legislative and regulatory measures: *Canada Transportation Act (cont.)*

- Proposed regulatory authority in the CTA will authorize the extension of the current interswitching distance from 30km to 160km in Alberta, Saskatchewan and Manitoba, for all commodities.
  - Interswitching is an operation performed by railway companies where one carrier performs the pick-up of cars from a shipper and hands off these cars to another carrier that performs the line haul. **This is not joint running rights.**
  - This will also create competition between the grain companies as farmers will have more attractive options as to where they deliver.
- This amendment will:
  - Provide 150 primary elevators located across the Prairies with the opportunity to be served by more than one railway, including US railways. Under 30 km, only 14 primary elevators had this option.
  - Improve grain shippers alternatives with respect to accessing rail capacity.
  - Increase competition between railways and grain companies.

# Proposed legislative and regulatory measures: *Canada Transportation Act (cont.)*

- Under the CTA, shippers currently have the right to negotiate a Service Level Agreement (SLA) with a railway(s), or obtain an arbitrated SLA should commercial negotiations fail.
- Proposed amendments would give the Canadian Transportation Agency the authority to regulate prescribed elements in arbitrated Service Level Agreements (SLA), details would be determined through a consultation process.
- This will:
  - allow for greater specificity on the elements of SLAs.
  - enhance shippers' ability to forward plan and optimize their operations.
  - improve service reliability and overall supply chain performance.
  - provide producers greater confidence in being able to deliver their grain into the system.

# Additional Measures

- Use existing regulatory authority to collect more data from railways.
- Accelerate the review of the CTA, the review is currently scheduled to begin no later than June 2015.
- The accelerated review of the CTA will allow the Government, with input from stakeholders, to consider further amendments aimed at improving the efficiency and reliability of Canada's supply chain over the long-term.

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