A Review of the Maximum Revenue Entitlement

- The **Maximum Revenue Entitlement (MRE)** provides a statutory limit on the amount a prescribed railway can increase the rates applied to the movement of regulated grain from western Canada to an export position in Western Canada.
  - It applies currently to the rates and revenues earned by CN and CP.
  - Affects all export shipments from western Canada handled through the west coast ports, and Thunder Bay.
  - It precludes grain handled at Churchill since it terminates on the lines of a "non-prescribed" carrier (the Hudson Bay Railway).
  - Shipments destined to eastern Canadian domestic markets or to export positions are also eligible but must be routed through Thunder Bay (CP) or Armstrong (CN).
  - Shipments through a west coast port for export to the U. S. for consumption are excluded.
- The foundation for the revenue limits for CN and CP were based on an estimate of each carrier's total tonnage, average length of haul, and revenues for the 2000-01 crop year.

	CN Estimation	CP Estimation	Total Estimation
Tonnes Moved (000)	12,437.0	13,894.0	26,331.0
Average Length of Haul (miles)	1,045.0	897.0	966.9
Allowable Revenue ($000)	$348,000.0	$362,900.0	$710,900.0
Average Revenue per Tonne (dollars)	$27.98	$26.12	$27.00

- The MRE is *a dynamic revenue regulating mechanism*
  - Based on the estimates shown above, but provides for adjustments that take into consideration changes in:
    - The total number of tonnes of grain actually moved by the carrier.
    - The carrier's actual average length of haul (in miles).
    - Inflation.
  - Defined by the formula: $MRE = [(A/B) + ((C-D) \times \$0.022)] \times E \times F$

    Where: A is the carrier's revenue for the movement in the base year;
    B is the tonnage moved by the carrier in the base year;
    C is the carrier's average length of haul for the movement of grain in the crop year;
    D is the carrier's average length of haul for the movement in the base year;
    E is the tonnage moved by the carrier in the crop year; and
    F is the volume-related composite price index determined by the Agency.

- The MRE *does not penalize* the railways for:
  - Handling more grain in any given crop year.
    - Provides for a proportional gain in compensation when traffic volumes increase, and a proportional reduction when it declines.
    - Similar adjustments are made for any increase or decrease in a carrier's average length of haul.
  - The incursion of additional costs arising from inflation.
    - Railway input costs are reviewed annually by the Agency.
    - Compensation for additional per-units costs is factored into total revenues through the Volume-Related Composite Price Index.
      - Also declines in the event of input cost rollbacks.

The Maximum Revenue Entitlement – Myths and Facts

There are a number of misconceptions that still surround the MRE on railway grain revenues, despite the fact that it has been around for more than a decade. Perhaps the most persistent of these centres on the idea that it constitutes an absolute ceiling; and an inviolate monetary limit on the total revenues the railways can derive from moving grain. The simple truth is that this is a false assertion.

The Myth

Those who perpetuate this assertion contend that the MRE, once reached, becomes a natural disincentive for the railways. That, once this limit has been reached, the railways become naturally predisposed towards moving any commodity other than grain. That car supply is restricted and the standard of service deteriorates. Moreover, they contend that dispensing with the MRE will dramatically alter the economics of handling grain by rail, and give the railways the necessary financial means with which to properly invest in grain-handling and enhance service.

The Facts

The MRE is better characterized as an inflationary control mechanism. In effect, it contains any increase in railway freight rates to something reflecting the rise in underlying costs. In short, it attempts to ensure that any escalation in the freight rates associated with moving grain is consistent with the underlying rate of inflation. The MRE does not, in and of itself, limit the amount of grain that a railway may handle. Further, it does not preclude a railway from pricing differentially – be it in terms of commodity type, equipment, corridor, season or volume – and which the railways employ regularly in the rates applied to the movement of Western Canadian grain. All things being equal, if a railway were to see a doubling or even tripling of its grain volumes, its revenues would rise correspondingly.

For more information on how the MRE works you can link to the following sources:

https://www.otc-cta.gc.ca/eng/publication/routing-grain-and-maximum-revenue-entitlement-interpretation-note