Monitoring the Canadian Grain Handling and Transportation System

Second Quarter
2006-2007 Crop Year

1 Summary Report

Government of Canada / Gouvernement du Canada

Quorum Corporation

Foreword

In keeping with the federal government's Grain Monitoring Program (GMP), the ensuing report focuses on the performance of the Canadian Grain Handling and Transportation System (GHTS) for the six-month period ended 31 January 2007. In addition to providing a current accounting of the indicators maintained under the GMP, it also outlines the trends and issues manifest in the movement of western Canadian grain during the first half of the 2006-07 crop year.

As with previous quarterly and annual reports, the report is structured around a number of performance indicators established under the GMP, and grouped under five broad series, namely:

Series 1 – Industry Overview
Series 2 – Commercial Relations
Series 3 – System Efficiency
Series 4 – Service Reliability
Series 5 – Producer Impact

Although the indicators that follow largely compare the GHTS's current-year performance with that of the preceding 2005-06 crop year, they are also intended to form part of a time series that extends forward from the 1999-2000 crop year. As such, comparisons to earlier crop years are also made whenever a broader contextual framework is deemed appropriate.

The accompanying report, as well as the data tables which support it, can both be downloaded from the Monitor's website (www.quorumcorp.net).

QUORUM CORPORATION
Edmonton, Alberta

Table of Contents

Findings

The 2006-07 growing season was warmer and drier than the one that preceded it. The above average temperatures experienced on the prairies helped advance crop production by a factor of almost two weeks. This was supported by exceptionally good harvesting conditions, which contributed to the reaping of the first high-quality crop since the 2003-04 crop year. At the same time, a continuing strong demand for Canadian grain coupled with production problems in Europe and Australia helped elevate grain prices for the first time in four years.

1.0 Industry Overview

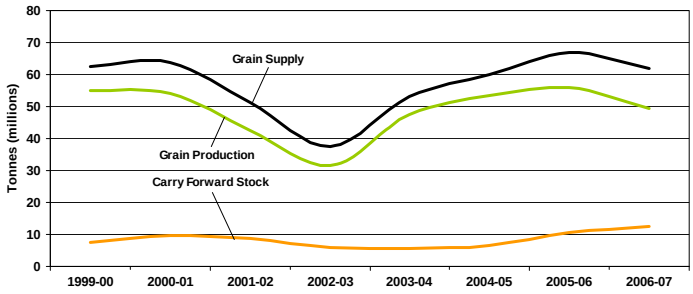
1.1 Grain Production and Supply

Overall grain production for the 2006-07 crop year fell to 49.3 million tonnes, a decrease of 12.0% from the GMP record of 56.0 million tonnes set a year earlier.[1] This ranked as the fifth largest production volume in western Canada since the GMP was initiated, and fell well below the 53.1-million-tonne average for output in the program's non-drought years.[2] Special crops witnessed an even steeper decline, with production having fallen by 23.8% to 3.9 million tonnes.

The overall decrease in production reflected declines for most producing provinces, chief among these being Saskatchewan and Alberta with reductions of 22.5% and 15.5% respectively.[3] Running counter to this was Manitoba with a 60.6% increase in production, which was due in large part to a significant improvement in provincial growing conditions.

In a reflection of this decline, the overall grain supply decreased by 7.5%, falling to 61.8 million tonnes from 66.8 million tonnes a year earlier. To a large degree, this reduction was cushioned by a 16.2% increase in the amount of stocks carried forward from the preceding crop year, which reached a record under the GMP of 12.5 million tonnes. Much of the impetus for this came from the build-up of below-average quality grains.

Figure 1: Western Canadian Grain Supply



A significant improvement in the quality of this year's harvest, along with a reduction in the output of competing nations such as Australia, did much to heighten the demand for Canadian grain and boost railway shipments to a record 7.1 million tonnes in the first quarter. However, the advent of heavy rains in British Columbia began to impede grain shipments in the second quarter. More specifically, landslides and track washouts in the Fraser Canyon disrupted train service into the greater Vancouver area. Despite traffic volume having fallen by 20% between the first and second quarters as a result, year-to-date shipments stood 2.8% above that of the same period a year earlier.

[1] As a result of the 2006 Census of Agriculture, Statistics Canada reduced its earlier production estimate for the 2006-07 crop year of 52.3 million tonnes to 49.3 million tonnes. Accordingly, the production values presented here, whether in regard to a specific grain or province, differ from those published in the Monitor's report for the first quarter of the 2006-07 crop year.

[2] Grain production in the 2001-02 and 2002-03 crop years was adversely impacted by drought, and fell from values in excess of 50 million tonnes annually to 42.5 million tonnes and 31.5 million tonnes respectively.

[3] Grain production in British Columbia also declined, falling by 49.5% to 132,600 tonnes. However, owing to the considerable differences in scale, the reductions posted by Saskatchewan and Alberta were more significant.

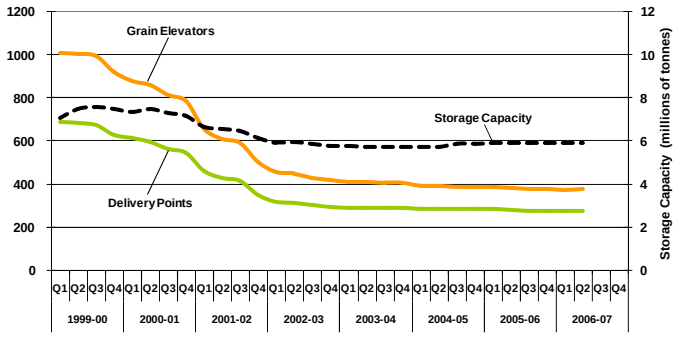
Much of the overall gain was tied to a 20.7% increase in wheat shipments, although significant increases were also noted in the movement of oats and other non-CWB grains. The only major decline in volume was in the movement of barley, which fell by 50.8% for the period.[4] Special crops also posted a modest decline in volume, with total shipments having fallen by 3.9% to 1.4 million tonnes in the first half.

1.2 Country Elevator Infrastructure

As outlined in the Monitor's previous reports, although the country elevator network continues to be rationalized, the pace of the restructuring has abated significantly. The first quarter of the 2006-07 crop year marked a continuation of this trend, with a net reduction of just three licensed elevators recorded for the period. This reduction was, however, nullified by the licensing of three other elevators in the second quarter. By the end of January 2007 the remaining network encompassed a total of 374 facilities, which represented a net decline of 62.7% from the 1,004 elevators in place at the beginning of the GMP.

The decline in elevator facilities has been accompanied by a largely parallel reduction in the number of grain delivery points at which they were located. The first six months of the 2006-07 crop year brought a net reduction of just one grain delivery point, which declined by 0.4% to 274 in total. As with the reduction in elevator infrastructure, the number of delivery points remaining constituted just 40.0% of the 685 that were in place at the beginning of the GMP. Although these installations are distributed generally throughout western Canada, grain deliveries have been concentrated at about one-third of the system's delivery points. In the 2005-06 crop year, just 90 of these locations accounted for 80% of the total grain delivered into the system.[5]

Figure 2: Grain Delivery Points, Licensed Elevators, and Licensed Elevator Storage Capacity



When contrasted with the decline in the number of elevators and delivery points, the reduction in associated storage capacity has not been nearly as dramatic. Moreover, it reflects the rate at which the storage capacity of high-throughput facilities has replaced that of smaller elevators. As such, even though licensed storage capacity declined by over 1.2 million tonnes in the first seven years of the GMP, from 7.0 million tonnes to 5.9 million tonnes, the reduction amounted to just 16.4%. In the first six months of the 2006-07 crop year a further 9,100 tonnes of storage capacity was reduced despite the addition of liecenced facilities. This had the effect of reducing the system's overall storage capacity by just 0.2%, which fell to slightly less than 5.9 million tonnes by the end of the period.

These broad trends provide a clear indication of the evolution that has been taking place within the industry since the beginning of the GMP. The elevator network now comprises significantly fewer facilities, many with larger storage capacities and the ability to load railcars in trainload lots. It is worth noting that while only 11.9% of the system's elevators were able to load 50 or more railcars at a time when the GMP began, by the end of the second quarter that proportion had increased almost fourfold to 47.1%.

1.3 Railway Infrastructure

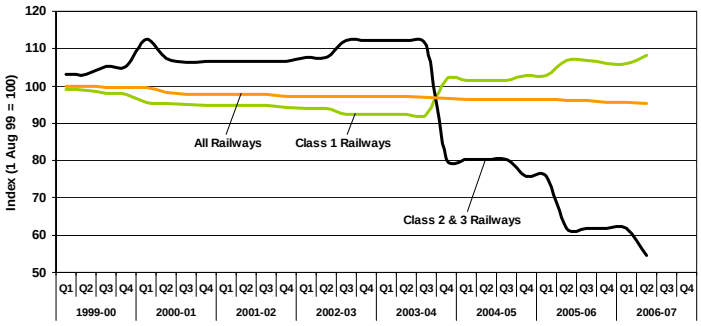
As previously reported, total railway infrastructure in western Canada has experienced comparatively modest change since the beginning of the GMP. By the end of the 2005-06 crop year the network had been reduced by 4.5%, to a total of 18,595.0 route-miles of track. Even so, there were noteworthy changes to the makeup of the system itself. The most significant of these involved the transfer by CN and CP of numerous branch line

[4] Barley shipments in the first half of the 2005-06 crop year were unusually large owing to the fact that the CWB was able to successfully exploit a shortfall in the production from other competing nations.

[5] The most recent statistics available for grain deliveries by station are those from the 2005-06 crop year.

operations to a variety of new shortline railways. This practice, which began in the mid 1990s, was one of the cornerstones in an industry restructuring that ceded control over almost one-third of the railway network in western Canada to a collection of smaller regional and shortline carriers.

Figure 3: Relative Change in Railway Infrastructure



Yet, recent events suggest that the shortline railway industry – at least those based in western Canada – is clearly in difficulty. The waning financial health of shortlines at large has prompted several of them into either selling or rationalizing their own operations. In most instances, this has resulted in shortlines reverting back to the control of the Class 1 carrier that had spun them off in the first place. Perhaps the most vivid example of this came in January 2006 when RailAmerica Inc. sold most of its holdings in western Canada back to CN.[6] Such shifts resulted in a significant realignment of Class 1 and non-Class 1 railway operations in western Canada over the course of the last three years. By the end of the 2005-06 crop year, the total number of route-miles managed by CN and CP had increased by 6.1%, to 15,725.1 route-miles from 14,827.9 route-miles at the beginning of the GMP. Conversely, the scope of the network operated by western Canada's non-Class 1 carriers had declined by 38.2%, to 2,869.9 route-miles from 4,640.3 route-miles.

Another Class 1 reacquisition was recorded in December 2006 when CN purchased the Savage Alberta Railway from its Utah-based parent, Savage Companies, for $25 million. Interestingly, the sale came only eighteen months after Savage Companies purchased what had formerly been Alberta RailNet, Inc., a shortline created in June 1999 following CN's divestiture of several branch lines in the province's Peace River region.[7] Although largely focused on serving the coal and forest industries, grain reportedly represented about one-fifth of the shortline's overall shipments. In addition to several producer-car loading sites, the 343.8 route-mile network also served several licensed elevators, including three high-throughput facilities at Rycroft, Alberta.

This transaction, along with the abandonment of a 15.8 route-mile spur in the British Columbia interior, had the effect of tilting the balance even further in favour of the Class 1 carriers.[8] By the end of the second quarter, the railway infrastructure under CN and CP management had increased another 2.1%, reaching a new height of 16,053.1 route-miles. In comparison, the network operated by Class 2 and 3 carriers shrank another 12.0%, falling to a GMP low of 2,526.1 route-miles. Still to be factored in are the pending changes inherent in the Southern Manitoba Railway's application to abandon the last 78.6 route-miles of its network, and in the over 1,200 route-miles of infrastructure that CN and CP have targeted for discontinuance under their Three Year Network Plans.[9]

---

[6] The sale, valued at $26 million, encompassed 702.8 route-miles of railway infrastructure grouped under three separate operations: the Central Western Railway; the Lakeland and Waterways Railway; and the Mackenzie Northern Railway. The CN purchase denoted a reacquisition of the very operations it had sold off several years earlier.

[7] Alberta RailNet, Inc. was established as a wholly owned subsidiary of North American RailNet, Inc. Headquartered in Bedford, Texas, the company was the parent of several shortline railways until May 2005, when its American operations were folded in with those of Denver-based OmniTrax, Inc. Savage Companies acquired the operations of Alberta RailNet at that time, renaming it the Savage Alberta Railway.

[8] In November 2006 CP abandoned 15.8 route-miles of its Kimberley subdivision.

[9] The Southern Manitoba Railway (SMR) was established in 1999 following the purchase of CN's former Miami and Hartney subdivisions. Owing to declining traffic volumes, the SMR abandoned the westernmost 64.0 route-miles of this network – which extended from Elgin to Mariapolis, Manitoba – in March 2004. Two years later, the carrier moved to discontinue further operations, applying to the Manitoba Motor Transport Board for permission to abandon the remaining section of its line in March 2006. On 19 January 2007, the SMR's application for abandonment was approved by the Board. However, commercial activity did not cease until February 2007, following the last shipments of grain from local elevators.

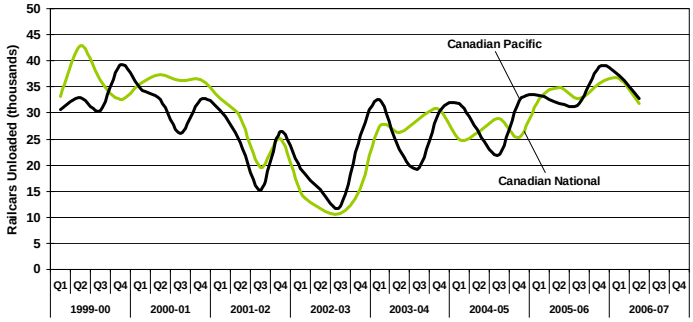
The past experiences of the shortline industry do not augur well for its future in western Canada. Although traffic gained from producer-car loading has helped compensate for the closure of some local elevators, the tonnage originated by shortline carriers is clearly faltering in comparison to that of the Class 1 carriers. Grain shipped from shortline-served points fell by 30.0% in the first six months of the 2006-07 crop year while those from Class-1 points increased by 5.6%. Despite the best efforts of most shortline railways, they have simply been unable to reshape the economics that gave rise to the elevator rationalization strategies of the grain companies in the first place. This was reflected in a further 22.2% decline in the number of licensed elevators served by shortline railways in the first half, and the 74.4% net reduction posted since the beginning of the GMP. In addition to having exceeded the 62.0% net reduction in the number of elevators served by Class 1 railways, the associated storage capacity of those served by shortlines declined by more than six times as much: 76.7% versus 11.6%.

1.4 Terminal Elevator Infrastructure

No changes to the licensed terminal elevator network in western Canada were recorded during the first six months of the 2006-07 crop year. At the close of the period, the network comprised a total of 16 facilities with an associated storage capacity of 2.6 million tonnes.

A total of 138,177 carloads of grain were unloaded at these facilities during the first half. This represented an increase of 4.1% from the 132,688 handled during the same period a year earlier. Having originated 50.5% of the cars that were unloaded during this period, CP only marginally nudged out CN as the largest handler of export grain in western Canada. Moreover, CP's share proved only slightly greater than the 49.0% it had secured in the same period a year earlier.

Figure 4: Terminal Elevator Unloads – Railway Carrier



Although the record is somewhat mixed, CP has often outpaced CN's quarterly handlings since the 2002-03 crop year. In large part, this can be explained by a distribution in crop production that has tended to benefit CP rather than CN in recent years. Still, CN's more recent efforts to promote its Prince Rupert gateway appear to have done much to compensate for this. Through reduced freight rates and a better allocation of cars to the corridor, CN appears to be gaining market share – even if that gain has come at the expense of reduced handlings into Vancouver.[10]

[10] In terms of the cars unloaded at Vancouver, CN's handlings in the first half fell by 16.3% while CP's increased by 7.4%. This resulted in CN's year-to-date share of the handlings at Vancouver falling to just 38.8%. Conversely, CN's unloads at Prince Rupert climbed by 24.0% to 26,628 carloads, a record under the GMP for the period.

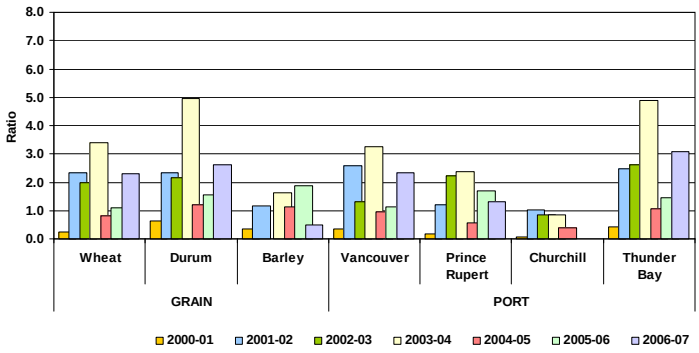
2.0 Commercial Relations

2.1 Tendering Program

Given the changes brought forth in the 2003-04 crop year, the CWB targeted to move a fixed 40% of its overall grain movements to the four ports in western Canada using a combination of tendering and advance car awards. Under the terms of this arrangement, the CWB is expected to tender up to a maximum of 20% of this volume in the 2006-07 crop year.

In the first half the CWB issued 111 tenders calling for the movement of 1.8 million tonnes of grain. This marked a 29.7% reduction from the 2.6 million tonnes put out for tender in the first half of the preceding crop year. As in most previous crop years, the most substantive portion of this tonnage, 60.7%, related to the movement of wheat.[11] Barley constituted the second largest block at 24.7%, with durum accounting for the remaining 14.6%. Prince Rupert displaced Vancouver as the principal designated export gateway for tendered grain, with slightly more than half of the tonnage called, 50.8%, having specified delivery there. Vancouver's allocation slipped for a second year in a row, falling to 37.8% compared to the 2004-05 crop year's record of 70.9%. The share of tender calls issued in favour of Thunder Bay also declined, falling to 11.4% in comparison to 14.6% a year earlier. For a second consecutive year, no tenders calling for delivery of grain to Churchill were issued.

Figure 5: Tendered Volume – Ratio of Tonnage Bid to Tonnage Called



The calls issued by the CWB were met by 464 tender bids offering to move an aggregated 3.4 million tonnes of grain, almost twice the volume sought. The scope of this bidding generally showed a marked increase in intensity compared to that exhibited in either of the two preceding crop years.[12] Using the ratio of tonnage-bid to tonnage-called to measure grain company reaction, a broad increase in the response rates of the bidders was observed. Wheat showed the steepest relative gain in the response rates tied to individual grains, its ratio having climbed by 111.5%, to 2.3 compared to 1.1 for the previous crop year as a whole. Similarly, the response rate for durum rose to 2.6, although this rise from 1.6 or 66.7% was less than that for wheat in the 2005-06 crop year. Only barley showed a marked decrease in bidding activity, with its ratio falling from the previous year's record high of 1.9 to just 0.5.

Equally pronounced changes in the response rates for the port specified in the tender calls were also evident. In particular, the ratio associated with grain intended for delivery at Prince Rupert fell by 22.8%, to 1.3 in the first half compared to a ratio of 1.7 for the previous crop year as a whole. Conversely, the ratios noted for Vancouver and Thunder Bay both rose substantially above the 2.0 mark for the first time in two years, reaching values of 2.3 and 3.1 respectively.[13]

In large part, these better response rates reflected the improved ability of the grain companies to secure the wheat and durum volumes set out in the tender calls. To a degree, this was reflected in a reduction in the proportion of the tender calls that went unfilled, which fell to 38.6% in the first half compared to 54.7% for the

[11] Owing to a sizable short-term movement of barley in the first quarter of the 2005-06 crop year, wheat was briefly displaced as the largest single grain put out for tender by the CWB.

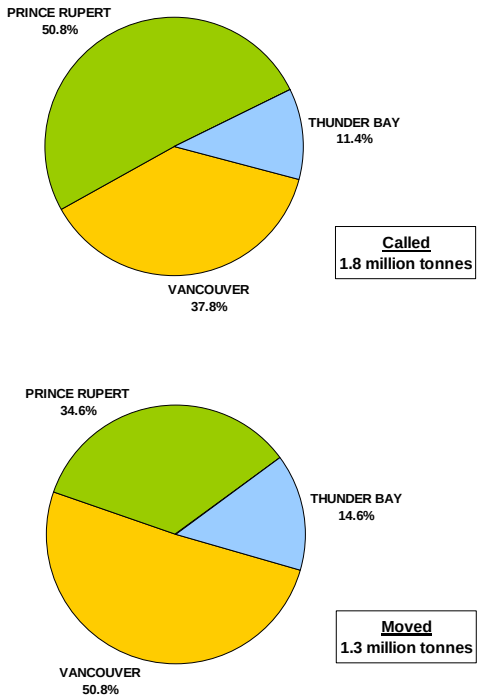
[12] The contrast presented here largely relates to the bidding activity exhibited since the 2001-02 crop year since meaningful comparisons with the 2000-01 crop year cannot be drawn as a result of the industry's limited participation in the CWB's new tendering program.

[13] With no tender calls having been issued for Churchill, the ratio of tonnage-bid to tonnage-called remained at zero.

2005-06 crop year as a whole. However, this overall value ignores the proportions tied to specific ports, which in most cases moved much lower. A closer examination of these values reveals that over half of the unfilled volume, 68.4%, was attributable to tender calls issued in favour of Prince Rupert. In fact, 51.9% of the tender calls issued for Prince Rupert went unfilled. This proportion easily surpassed those for Vancouver and Thunder Bay, which amounted to 29.1% and Thunder Bay 10.3% respectively.[14]

The skewed nature of these results reflected the disinclination of those grain companies having terminal facilities in Vancouver to aggressively bid on the tenders issued in favour of Prince Rupert. Although the preference for Vancouver has led to better bids on tenders to that port, the differential widened substantially in the first half of the 2006-07 crop year.[15] Whereas there was little difference between the maximum discounts advanced on wheat tenders to Vancouver and Prince Rupert in the 2005-06 crop year, the discounts put forward by the major grain companies favoured Vancouver by as much as $9.00 per tonne in the first quarter, before then narrowing to $8.82 per tonne in the second.

Figure 6: Tendered Grain – Cumulative Volumes to 31 January 2007



Still, improvements in the supply of higher-quality grains were broadly mirrored in more aggressive tender bids.[16] Deeper discounting was again the norm, and the premiums the CWB had often been required to pay over the past two years were largely gone. No premiums were paid by the CWB on movements of wheat and durum in the first half. Moreover, the value of the maximum discounts advanced during this period rose to $24.51 per tonne and $21.56 per tonne respectively.[17] Even so, many of the bids relating to the tendered movement of barley required the CWB to pay a premium of as much as $16.00 per tonne.[18]

During the first six months of the 2006-07 crop year, the CWB awarded a total of 167 contracts for the movement of an aggregated 1.3 million tonnes of grain.[19] This represented a decrease of 26.1% from the 1.7 million tonnes handled in the first half of the previous crop year. As opposed to the destinations specified in the tender calls, the largest proportion of the grain shipped, 50.8%, was sent to the port of Vancouver. Prince Rupert and Thunder Bay followed in turn with shares of 34.6% and 14.6% respectively.

[14] The unfilled proportions attributable to tender calls issued for Vancouver, Prince Rupert and Thunder Bay were much closer in the 2005-06 crop year, amounting to 59.4%, 50.0% and 45.1% respectively.

[15] The shareholders in Prince Rupert Grain Ltd. all hold larger stakes in Vancouver-based facilities. This provides them with real incentives in favouring Vancouver routings, as terminal revenues need not be shared to the same degree. Some shareholders are also concerned with the port's dependence on single-carrier service, and the lack of a practical competitive alternative.

[16] The tender bids advanced by the grain companies are typically expressed as a discount to the CWB's Initial Payment.

[17] These discounts exceeded the 2005-06 crop year's maximums of $18.58 per tonne on wheat, and $18.05 per tonne on durum.

[18] These premiums were substantially above those paid in the 2005-06 crop year, which reached a maximum of $7.00 per tonne.

[19] The volumes cited as moving under the CWB's tendering program also extend to malting barley – which is administered independent of other CWB grains.

As observed previously by the Monitor, the vast majority of the grain moved under the CWB's tendering program did so in blocks of 25 or more railcars. For the first six months of the 2006-07 crop year, 90.2% of the tendered grain volume moved in such blocks. This proportion proved to be only marginally above the 88.6% recorded for the entire 2005-06 crop year. However, movements in blocks of 50 or more cars increased noticeably in the first half, to 71.8% from 57.8% a year earlier. This was in large part driven by a shift away from movements in blocks of 25-49 cars, which fell by 11.4 percentage points to 18.4%. One of the reasons for this reduction is the elimination of the railways incentive payment in this block size.

High-throughput elevators remained the leading originators of tendered grain shipments. During the first half, 85.4% of the tendered tonnage was shipped from these larger facilities. Although this proportion proved to be below the 86.0% recorded for the 2005-06 crop year as a whole, it remained consistent with the values posted since the 2001-02 crop year.[20]

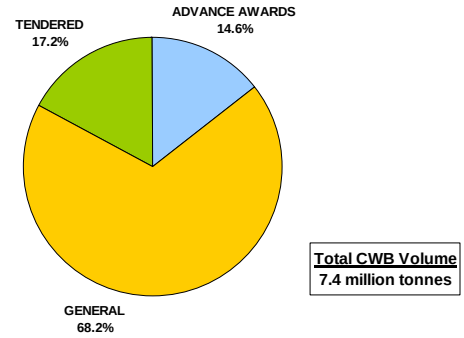
In terms of originating carriers, CP regained its position as the largest handler of tendered grain in the first half. With 55.3% of the volume, the carrier easily outdistanced CN's 44.7% share. CP's share for the period was also considerably better than the 48.3% it had secured for the 2005-06 crop year as a whole, which had been affected by an unusually large movement of tendered barley.[21]

In aggregate, 17.2% of the CWB's total grain shipments moved under tender to western Canadian ports in the first six months of the 2006-07 crop year. Although the 1.3 million tonnes of tendered grain handled during this period was about half of what it had been in the same period a year earlier, the CWB's reported Transportation Savings increased by 19.4%, to $16.6 million from $13.9 million.[22] Much of this improvement can be attributed to an increase in the discounts advanced by grain companies in their tender bids.

2.2 Advance Car Awards Program

With the beginning of the 2006-07 crop year, the CWB's advance car awards program entered its fourth year of operation. A total of just under 1.1 million tonnes of grain moved under this program in the first half. This constituted 14.6% of the total grain volume shipped by the CWB to western Canadian ports during the period. When considered alongside the 1.3 million tonnes moved under the CWB's tendering program, this accounted for 31.8%, of the CWB's total grain shipments.

Figure 7: Western Canadian CWB Grain Volumes



The composition of the grain shipped under the CWB's advance car awards program in the first half differed from that moved under its tendering program in several respects. The first of these related to the fact that very little barley, just 2,700 tonnes, was shipped under the advance car awards program. As a result, wheat and durum took significantly larger shares of the movement. Wheat, which constituted the most dominant grain handled, accounted for 0.9 million tonnes and 84.6% of the program's overall volume. Another 14.9% was tied to the movement of 0.2 million

[20] Although the 2000-01 crop year saw 90.3% of the tendered grain volume moved from high-throughput facilities, the limited activity recorded during the initial year of the CWB's tendering program makes any comparison unfair. Since that time, the proportion drawn from high-throughput facilities has ranged from a low of 83.0% in the 2002-03 crop year to a high of 86.2% in the 2003-04 crop year.

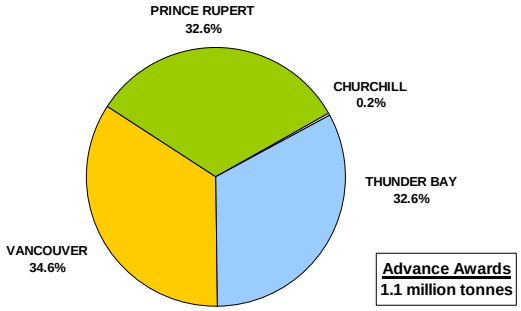
[21] Comparatively, CN originated almost twice as much barley – whether tendered or non-tendered – as did CP in the 2005-06 crop year. This extended somewhat naturally from the more northerly latitudes in which barley is grown, and in which CN operates.

[22] The CWB defines its Transportation Savings as the savings in transportation costs it realizes from the discounts advanced by the successful bidders under the tender program, all freight and terminal rebates, and any financial penalties it may assess for non-performance.

tonnes of durum, while just 0.5% was given over to the movement of barley.

Shipments to Vancouver under the advance car awards program were also substantially less, accounting for 34.6% of the overall volume compared to the tendering program's 50.8% share. However, this disparity did not work to the benefit of Prince Rupert, where the share accorded to it under the advance car awards program proved only marginally less than that secured under the tendering program, 32.6% versus 34.6% respectively. Rather, the principal beneficiary was Thunder Bay, whose 32.6% share under the advance car awards program more than doubled its 14.6% share on tendered grain movements. Churchill, with a 0.2% share of the total volume, followed in turn.

Figure 8: Advance Car Awards – Destination Port



As with tendered grain shipments, the vast majority of the grain that moved under the advance car awards program originated at high-throughput elevators, 80.7%. This, however, was somewhat below the 85.4% share cited earlier for tendered grain shipments. Similarly, CP also handled the majority of the grain that moved under the advance car awards program, 51.0% compared to a 55.3% share for tendered grain.

When compared to tendered shipments, a significantly lesser volume of the grain shipped under the advance car awards program moved in blocks of 25 or more cars. This is because the cars allocated to shippers under the advance car awards program are often integrated with those obtained through the tendering program as a means of optimizing individual block or train movements. As such, this practice effectively dilutes the values that are obtained for the aggregate volume moved under the two programs. By way of example, 83.4% of this total volume moved in blocks of 25 or more railcars compared to 90.2% for tendered grain alone. Similarly, the average overall size of these blocks amounted to 50.9 cars versus an average of 61.2 cars for tendered grain.

2.3 Other Commercial Developments

2.31 Government Moves Forward With Marketing Choice

As one of the planks in its 2006 election platform, the federal Conservative Party had promised to provide western Canadian farmers with greater choice in the marketing of their grain. In general terms, this pledge suggested that the CWB would no longer have exclusive jurisdiction over the sale of wheat, durum and barley grown in western Canada for export as well as domestic human consumption. In fact, the term "marketing choice" was widely touted to mean that farmers would be given the ability to sell the wheat and barley they grew to any domestic or foreign buyer they chose to, including a transformed CWB.

From its earliest history, the debate surrounding the role to be played by the CWB in selling western Canadian grain has always been politically charged. Strong opinions, both for and against the maintenance of the CWB's legislated monopoly, re-emerged towards the end of the 2005-06 crop year as the newly-elected Conservative government signalled that it was preparing to act on its pledge to introduce marketing choice.

As one of the first formal steps in this process, Chuck Strahl, the Minister of Agriculture and Agri-Food and Minister Responsible for the Canadian Wheat Board, announced the creation in mid September 2006 of an eight-person task force to examine the options open to the government in this regard.[23] Over the course of the next month, the task force considered the technical and transitional issues that would be manifest in making this changeover. The task force's report to the Minister, which was submitted on 25 October 2006, recommended a four-stage transition period extending over several years.

[23] As originally constituted, the task force was to include a representative to be named by the CWB. However, the CWB declined to name one, which reduced the size of the task force to a seven-member panel. Notwithstanding this, the CWB responded to the questions directly put before it by the task force.

The first of these stages would deal with the legislative changes required to repeal the Canadian Wheat Board Act and provide authorization for the new commercial entity that would replace it, dubbed CWB II. The second would address the actual formation of this new entity, and the introduction of choice to the marketing of barley. The extension of choice to the marketing of wheat and durum would signal the beginning of a third stage, where governmental financial supports for CWB II would be gradually withdrawn. By July 2013, when the task force envisioned the transitional process being complete, CWB II would emerge as a fully self-sufficient commercial entity operating in a completely open market environment.

Within days of receiving these recommendations the Minister announced that the government planned to move forward in the matter of initially extending marketing choice to barley. Specifically, the government outlined its intention to hold a farmer plebiscite on the issue early in the coming year. By the end of January 2007 the question to be voted upon had been crafted, and the eligibility requirements of the voters established.

2.32 Grain Industry Seeks Redress on Railway Service Issues

Stakeholder concerns over railway service and car allocation have continued to escalate in recent years. Of particular concern has been a perceived decline in the consistency and reliability with which that service has been delivered. Grain shippers have frequently cited costly instances where railcars have not been spotted in a timely manner at country elevators for loading, or at destination terminals for unloading. The general car allocation process – always a contentious matter – has also come under increasing fire from shippers who argue that they are being shortchanged by the preference given to unit trains ordered through the railways' advance booking products.

Moreover, grain shippers have become increasingly incensed over what they claim to be the railways' lack of accountability. Arguing that regulatory change provides the only practical means of rectifying these perceived failings, they have joined forces with shippers of other commodities in raising their complaints to the federal government for attention. In response, the railways contend that such a remedy is not necessary and that most problems can be satisfactorily addressed as they arise through private commercial dispute resolution mechanisms.

Even so, the shipping community continued to press for legislative change, allying themselves in a broader governmental lobbying effort. In May 2006, Transport Canada advised shippers that the government intended to deal with their complaints about poor service through an amendment to the Canada Transportation Act. By the end of the second quarter, however, an amending bill had yet to be introduced in the House of Commons. With the onset of winter producing a perceived further degradation in service, the matter continued to remain a priority for many grain shippers.

2.33 Port of Prince Rupert Experiences Unprecedented Growth

With 2.3 million tonnes of grain directed to Prince Rupert in the first half of the 2006-07 crop year, the port posted a 17.5% increase for the period. Moreover, this constituted the largest volume directed to Prince Rupert in the first six months of any crop year since the GMP was initiated. And while CWB grains normally account for almost all of the port's handlings, there was also a sizable gain in the amount of canola shipped to it during the period, almost 214,000 tonnes.

Much of the growth experienced by Prince Rupert can be traced to the commercial inducements in recent CN rate reductions. In the first year of the GMP, the rate for single car movements to Prince Rupert generally exceeded those for Vancouver by a factor of 13%. This gap was gradually reduced over the next several years, falling to 7% in the 2000-01 crop year, and finally done away with towards the end of the 2004-05 crop year. Although these reductions appeared to have prompted a modest increase in the volume of grain moving to Prince Rupert, it was not until this differential had been eliminated entirely that the impact started to become appreciable.

Between the 1999-2000 and 2004-05 crop years, Prince Rupert's share of the total grain volume seldom exceeded 14%.[24] By the 2005-06 crop year – the first in which the rate differential between Vancouver and

[24] An exception was noted in the 2002-03 crop year when a labour disruption at the port of Vancouver resulted in 16.7% of the overall grain volume being directed to Prince Rupert.

Prince Rupert had been eliminated – Prince Rupert's share increased to a noticeably greater 16.6%. This share climbed to 18.3% in the first half of the 2006-07 crop year following CN's decision to also allocate more cars to the movement of grain destined to Prince Rupert. To an extent, these actions reflect part of a larger CN strategy to promote the port and to increase the volume of traffic moving over its infrastructure in northern British Columbia.[25]

These actions in turn influenced the CWB's own programming decisions, which resulted in 29.6% of its total movements for the period being directed to the port. Interestingly, although the major grain companies have an ownership interest in Prince Rupert Grain Ltd., there is a monetary benefit for them in moving grain through their standalone terminals in Vancouver. This preference has often been reflected in their tender bids, and accounts – to some degree – for their somewhat lesser share of the grain handled into Prince Rupert.

2.34 USFDA Grants Canola Health Claim Labelling

The Canadian canola industry was bolstered by an announcement from the US Food and Drug Administration on 6 October 2006 stating that products made from canola oil could carry labels that included a qualified claim of health benefits. Owing to its unsaturated fat content, canola oil's claim to reduce the risk of cardiovascular disease can now be used in the promotion of consumer products in the US marketplace.

With the increased desire on the part of many North Americans – and in some jurisdictions, the legally mandated obligation – to see trans fats reduced or eliminated from their diets, this health claim is expected to contribute significantly to the use of canola as the preferred alternative to other mass-market oils. In addition, this ever-increasing demand has been supplemented by the growing use of canola as a feedstock in the production of biodiesel. These forces have helped increase domestic canola production to levels beyond the industry's own expectations, with an average of over nine million tonnes having been harvested in the last two years.

With the demand for both export and domestic crushing continuing to grow, commercial optimism has led to increased industry investment in infrastructure. Some of the more recent indications of this came in September 2006 when both James Richardson International and Louis Dreyfus Canada announced that they intended to build new canola-crushing plants in Yorkton, Saskatchewan. When completed, these facilities are expected to add another 50%, or 1.7 million tonnes, of crushing capacity to that currently in place. When combined with previously stated plans for the expansion of other crushing facilities, along with the expectation of more such investments, these announcements highlight the increasing prominence that is being given to canola's place in western Canadian agriculture.

2.35 Review of CGC and Canada Grain Act

On 18 September 2006, the federal government tabled a report completed by Compas Inc., a Toronto-based research firm, which had been selected to lead an independent statutory review of the Canadian Grain Commission (CGC) and the Canada Grain Act. Initiated in February 2006, this review built on the company's consultations with hundreds of stakeholders over the next six months.

In its review, Compas advanced nearly 100 recommendations that included changes to: the CGC's mandate and governance structure; licensing and security provisions; funding for infrastructure and research (including the Grain Research Laboratory); quality and quality assurance; weighing and inspections services; liability; and dispute resolution. Many of these recommendations have a bearing on the future operation of the GHTS.

Some, such as the recommendation proposing that inward weighing and inspection services at terminal elevators be made optional, imply a significant degree of change in the way the GHTS works today. In this instance, even though the CGC might no longer perform such services in parallel with the grain company

[25] Much of this renewed emphasis dates from CN's purchase of BC Rail, which was completed in July 2004. In addition to integrating the operations of this carrier, CN moved to promote the Port of Prince Rupert as a major gateway for the movement of bulk export products as well as containers. In 2005 CN announced that, in conjunction with Maher Terminals of Canada Corporation and the Prince Rupert Port Authority, it would be investing in the multi-phased development of a major new container terminal at the port. The new facility, which will have an initial twenty-foot equivalent container capacity of 500,000, is slated for opening in the fall of 2007.

operating the elevator, it would still be obligated to ensure that producer car shippers – or any other small shipper – desiring an independent third-party verification of unload weights and grades could still access such services.

Of particular importance, however, were the implications arising from the report's recommendation regarding quality assurance, and the possible changing of a grading system that has long been based solely on Kernel Visual Distinguishability (KVD). While avoiding the complexities inherent in moving away from the existing system, it recommended that the CGC somehow "balance the interest of those who would priorize [sic] protection of export brands with the interests of those who favour new varieties for feed and feedstock." In addition, it was recommended that the CGC initiate annual consultations with stakeholders to assess the effectiveness of whatever grading and quality-assurance procedures are adopted.

The Compas report was referred to the House of Commons Standing Committee on Agriculture and Agri-Food for further consideration. The committee's report to the House of Commons, tabled on 5 December 2006, contained 12 recommendations. In addition to proposing that the CGC's governance structure be altered, the committee recommended that farmers maintain their access to producer-car loading, and that inward inspection services be made optional. The committee also suggested that KVD be abandoned, and replaced with a system of farmer declarations supported by science-based mechanisms of quality control. To ensure compliance, it was proposed that a series of monetary penalties accompany these declarations.

At the end of January, the subject remained under review by the Government.

2.36 Saskatchewan Wheat Pool Launches Bid for Agricore United

Early in November 2006, Saskatchewan Wheat Pool Inc. (SWP) announced that it was launching a bid to acquire Agricore United (AU). Although many observers had argued that more consolidation within the industry was to be expected, few anticipated that it would involve the country's two largest grain companies, let alone that the smaller of the two would attempt an outright purchase of its larger rival.

As advanced, the SWP offer largely entailed a stock swap, with each limited voting common share in AU to be exchanged for 1.35 common shares of SWP; each $1,000 in convertible debentures to be traded in for 180 common shares of SWP; and each convertible preferred share to be acquired for $24.00 in cash. Worth an estimated $1.0 billion, the SWP offer provided a premium of about 13% over the prevailing value of AU shares, but was contingent upon at least 75% of AU's common shares being tendered by 24 January 2007 as well as the regulatory approval being received from the Canadian Competition Bureau.

If successful, the SWP proposal envisioned the country's two leading agricultural companies combining to form an entity with a 50% market share and annual revenues in the area of $4.3 billion. Moreover, it was believed that the new entity could better position itself to compete with the multinational grain companies that already dominated the international movement of grain. To this end, SWP believed that it could finally address what it maintained was a chronic problem of over-capacity, bring new efficiencies to western Canadian agriculture, and realize some $60 million in annual cost savings.

Although many financial analysts appeared to react positively to the prospect of a stronger company with greater earnings potential, a number of other stakeholders questioned what seemed to be a significant reduction in competition. Regardless, after striking a special committee to evaluate the SWP offer, AU's Board of Directors unanimously recommended in December 2006 that its shareholders reject what it deemed a hostile takeover bid. To a large extent, this was founded on the view that the SWP offer was financially inadequate, and subject to potentially significant commercial and regulatory risks. This view was echoed by Archer Daniels Midland Co. (ADM), which held a 28% interest in AU, and which indicated that it could not support the deal as then structured.[26] More importantly, the AU board signalled that ADM was supporting its efforts to solicit a better offer for the company's shareholders, whether be it from SWP or another potential bidder.

In light of this, and in addition to the Canadian Competition Bureau's continuing investigation into the consequences of the proposed merger, SWP extended the deadline on its offer to 7 March 2007. At the same

[26] With the SWP offer having been conditional on 75% of AU's common shares being surrendered, ADM's decision not to tender its 28% interest in the company effectively blocked the SWP's takeover bid.

time, SWP also enhanced its original offer to include a cash component.[27] Under the terms of the revised offer, AU's common shareholders could now elect to receive either $11.33 in cash, 1.3601 SWP shares for every AU share they held, or any combination thereof.[28] This financial enhancement was underwritten by two subscription rights offerings totalling $225 million.

With the end of the second quarter, SWP appeared far from discouraged in its efforts to acquire AU. Despite the apparent acrimony exhibited between the parties, SWP claimed that its plan was progressing largely as expected, and that it had even been encouraged by AU's apparent willingness to consider other offers.

[27] The stock exchange offer originally put forward by SWP excluded any cash payout to holders of AU common shares and convertible debentures. This was cited by the AU's Board of Directors as one of the offer's major failings, and one that contributed to the significant undervaluing of the company's securities.

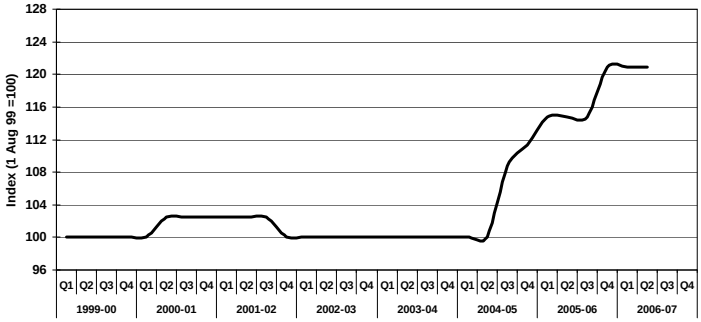
[28] On 10 January 2007, AU redeemed all of its outstanding convertible debentures for limited voting common shares in the company. As a result, the portion of the SWP offer stipulating that each $1,000 in outstanding AU convertible debentures would be exchanged for 180 common shares of SWP stock was not extended.

3.0 System Efficiency and Service Reliability

3.1 Trucking

Commercial trucking rates remained unchanged in the first six months of the 2006-07 crop year, after having risen by 20.9% over the course of the preceding eighteen-month period. To a large extent, this increase reflected the pressures from a variety of rising input costs, most notably fuel. Increased grain shipments also contributed to a heightened demand for carrying capacity, which gave service providers a greater degree of latitude in passing these costs onto their customers.

Figure 9: Composite Index – Short-Haul Trucking



Although pump prices have proven volatile, crude oil prices have been on the decline since the end of the 2005-06 crop year. By mid January 2007 the price of West Texas Intermediate crude oil had fallen to about $47 US per barrel, well below the $75 US per-barrel level witnessed six months earlier.[29] This served to contain some of the inflationary pressure, leaving the composite price index for short-haul trucking unchanged at 120.9 with the close of the first quarter.

3.2 Country Elevators

Total country elevator throughput, as measured by shipments from primary elevator facilities, increased by 11.6% in the first six months of the 2006-07 crop year, rising to 17.3 million tonnes from 15.5 million tonnes in the same period a year earlier. This constituted the largest throughput volume recorded for the first half under the GMP.[30] The increase in tonnage was also reflected in a higher capacity turnover ratio for the primary elevator system as a whole, which climbed by 13.3% to 3.4 turns for the first half. To an extent, this higher turnover ratio was also bolstered by a 39,600-tonne reduction in associated storage capacity over the course of the preceding twelve months. In fact, an accumulated 1.2-million-tonne net reduction in storage capacity has helped improve the turnover ratio substantially, and indicates that the primary elevator network is handling comparatively more grain than at any other point in the history of the GMP.[31]

The amount of grain maintained in inventory increased by 3.2% in the first half, climbing to a weekly average of 3.0 million tonnes compared to 2.9 million tonnes a year earlier. Much of this gain appears to be tied to the overall increase in throughput, with the average standing only marginally above the longer-term GMP average of 2.9 million tonnes, and well below the higher values posted in the program's first two years.[32] Despite the build up in stocks, the amount of time that grain spent in inventory declined by 3.6% in the first half, falling to an average of 32.3 days compared to 33.5 days twelve months before.

[29] The per-barrel price of West Texas Intermediate crude oil began to rise after reaching this low, and closed out the month of January 2007 at about $55 US per barrel.

[30] The 2000-01 crop year produced a variety of high-water marks for country elevator throughput, including the first half's previous record of 16.9 million tonnes. Throughput in the first half of the 2006-07 crop year exceeded this value by 2.2%.

[31] Comparatively, the annualized equivalent of the volume of grain that was shipped from the primary elevator system in the first half would have yielded a capacity turnover ratio of 6.8. This ratio far exceeds those recorded in the first seven years of the GMP, and easily surpasses the 6.2 realized as a previous best a year earlier.

[32] Country elevator stocks have generally been falling in conjunction with the overall reduction in the system's storage capacity. Despite fluctuations in the average's quarterly values, it remains well below the record-setting 4.1-million-tonne average of the 1999-2000 crop year's second quarter.

Notwithstanding the increase in grain inventories, the overall average weekly stock-to-shipment ratio for the period decreased moderately. The first half's average of 4.6 represented a 2.1% reduction from the 4.7 scored in the same period a year earlier. This value affirms that grain inventories were more than sufficient to meet the prevailing demand, and that shippers faced few challenges in sourcing product during this period.

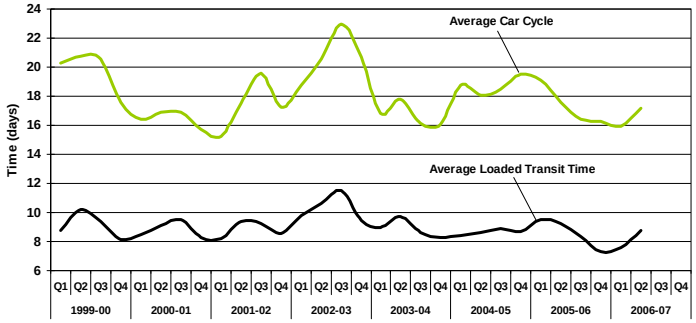
3.3 Railway Operations

The volume of grain moved in covered hopper cars during the first half increased by 2.7%, climbing to 12.4 million tonnes from 12.1 million tonnes a year earlier. With originations of 11.7 million tonnes, the Class 1 carriers posted a gain in volume of 0.6 million tonnes, or 5.6%, for the period. This represented a share of 94.5%, which denoted a modest gain over the 92.0% share these carriers held twelve months earlier. Shortline-originated volumes, which amounted to almost 0.7 million tonnes in the first half, fell by 30.0%. Although these contrasting results were largely attributable to the absorption of several shortline operations by CN, they also underscored the broader trends that have increasingly disfavoured shipments from the grain-dependent network.[33] The volume originated by the grain-dependent network in the first six months of the 2006-07 crop year declined by almost 0.1 million tonnes, or 2.0%, while those forwarded from points along the non-grain-dependent network increased by 0.4 million tonnes, or 4.9%.

3.31 Car Cycles

Inclement winter weather adversely impacted railway car cycles in the second quarter, which rose to an average of 17.2 days from the first quarter's 15.9-day average. Even so, the year-to-date average for the first six months of the 2006-07 crop year still declined by 9.9% from that of the same period a year earlier, to 16.5 days from 18.3 days. Without exception, improvements were noted in each of the operating corridors. The Thunder Bay corridor posted the largest of these, a decrease of 12.5%, which pushed the average down to 16.0 days from 18.3 days a year earlier. The Vancouver corridor posted the next largest reduction, with its overall average falling by 7.9% to 17.8 days. A 6.4% improvement in the Prince Rupert corridor resulted in a 15.3-day average versus that of 16.3 days twelve months before.

Figure 10: Average Railway Car Cycle



These improvements extended equally to the average car cycle's loaded and empty transit time components. In the case of the former, the average loaded transit time for the first half fell by 13.2%, to an average of 8.1 days from 9.4 days a year earlier. As for the average empty transit time, the betterment amounted to 6.4%, with the average having fallen to 8.4 days from 9.0 days.

Underpinning these gains were improvements in the car cycles of both CN and CP, which fell by 10.7% and 6.9% respectively. Moreover, both carriers posted improvements in their loaded and empty transit times. The most marked improvement was reflected in a 11.6% reduction in the average loaded transit time posted by CN while the CP average fell by 8.8%. The two railways showed similar reductions in their average empty transit times, 9.6% and 5.4% respectively.

Almost every autumn the demand for railway transportation strains the capacity of the GHTS. Moreover, the larger the size of the crop, the more intense those strains become, particularly as the demand for carrying capacity increases. With a record grain movement under the GMP in the first half, added pressure was undoubtedly put on the system's railway resources. This was reflected in average loaded transit times that steadily lengthened in comparison to the preceding crop year's fourth quarter value, a pattern that has often

[33] Traffic originated by the four shortlines acquired by CN in 2006 has been reclassified as Class-1 originations. The volume comparisons made here reflect the impact of this change.

been observed under the GMP. Compounding this, however, was the added burden of the service disruptions that were brought on by heavy rains in British Columbia. Even so, the quarterly averages posted thus far into the 2006-07 crop year continue to rival the best values yet recorded under the GMP. CN in particular has made significant strides in narrowing the performance gap that it had opened with CP almost two years before.[34] Although a greater emphasis on unit train operations in the Vancouver and Thunder Bay corridors has been instrumental in this, the increased volume of grain being shipped to Prince Rupert – and which now consistently post some of the lowest corridor averages – has had an equally important effect on improving overall efficiency.

3.32 Railway Freight Rates

As outlined in the Monitor's previous reports, CN and CP broke with the practice of advancing largely parallel rate adjustments at the beginning of the 2003-04 crop year. At the same time, they also made the first substantive changes to the incentive discounts that they had been offering for movements in multiple-car blocks. Over the next three crop years, a new process involving the setting of new rates at the beginning of the crop year followed by at least one other rate adjustment in the second half was noted. To a large extent, this new process aims at maximizing the revenues that the carriers were entitled to receive under the revenue cap. Moreover, given the comparative narrowness by which these targets were missed, it is evident that both CN and CP have become quite skilful at managing their revenues within this regulatory framework.

For the 2006-07 crop year, both railways established rate increases that were largely consistent with the 6.6% escalation factor approved by the Canadian Transportation Agency's Volume-Related Composite Price Index.[35] Although CN applied an across-the-board increase of 7.0% to all corridors, it restricted the increases applicable on certain high-throughput elevators moving grain to Prince Rupert to about 3.8%.[36] In addition CN also took an initial step towards its stated goal of publishing these rates as per car, rather than per tonne, charges. Although per-tonne rates were maintained for the movement of CWB grains, the rates applicable on all other commodities were converted to per-car charges.[37] In comparison, CP maintained its existing per-tonne rate structure, increasing its rates in the Vancouver and Thunder Bay corridors by about 6.0% and 6.5% respectively.

Through to the end of the second quarter, the overall increase in rates since the beginning of the GMP has been in the order of 13.5% for movements in the Vancouver corridor, and 13.1% for movements in the Thunder Bay corridor. Although similar for both CN and CP, the increases posted by CN have marginally exceeded those put forth by CP over the entire span of the GMP.[38]

Of particular interest is the fact that CN has gradually reduced its rates to Prince Rupert. At the outset of the GMP, these rates generally exceeded those applicable on the movement of grain to Vancouver by a factor of 13%. In some circles, this differential was considered discriminatory, and prejudicial to the movement of grain to Prince Rupert. Beginning in the 2000-01 crop year, CN began to lower its rates in this corridor. By the end of the 2004-05 crop year CN had effectively equalized its rates on movements to Prince Rupert and Vancouver.

[34] Following CN's return to the practice of using grain to fill-out its manifest trains early in the 2004-05 crop year, there was a significant elongation in its loaded and empty transit times. This ultimately manifested itself in a measurable performance advantage for CP, which continued to focus on unit train operations. Since dispensing with this approach early in the 2005-06 crop year, CN has managed to steadily narrow the gap in comparative performance.

[35] The revenue cap is adjusted annually for inflation by the Canadian Transportation Agency. For the 2006-07 crop year, the Agency determined that the Volume-Related Composite Price Index used to accomplish this was to be increased by 6.6%. See Canadian Transportation Agency Decision Number 253-R-2006 dated 28 April 2006.

[36] By restricting the escalation at these strategic points, CN was able to give specified movements to Prince Rupert a financial advantage of at least $1.00 per tonne over those for Vancouver.

[37] In adopting per-car rates, CN grouped these rates according to the average loading weights for commodities having similar densities. As a result, the per-car rates published for a given group differ from those published for another.

[38] The Thunder Bay and Vancouver corridors are deemed the most competitive since both CN and CP offer direct rail services to these ports. Notwithstanding minor differences, the rate increases noted here reflect the general pricing actions of both carriers in these two corridors. With only one serving carrier at the ports of Churchill and Prince Rupert, inter-carrier comparisons of rate changes are not possible. An examination of CN's published rates to these ports shows net increases of about 14.0% for Churchill, and 0.6% for Prince Rupert, over the same period of time.

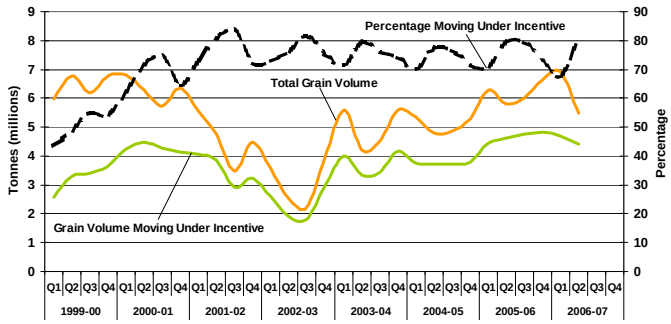
To an extent, this gradual reduction appears to have helped stimulate the shipment of grain to this more northerly port. Although larger grain supplies undoubtedly also had a bearing, Prince Rupert's share of the total rail movement continued to gain ground against that of Vancouver.

CN's selective rate increases along with the allocation of more cars to the corridor appears to have had an even more pronounced effect in the first half of the 2006-07 crop year, where hopper car shipments to Prince Rupert climbed by 17.4%, to 2.3 million tonnes from 2.0 million tonnes a year earlier. Moreover, the port's share of west coast movements climbed to a record 26.9% under the GMP.

There were also some changes to the incentive programs offered by the railways. In the case of CP, although the carrier chose to maintain the $4.00-per-tonne discount that it had been offering on movements in blocks of 50-111 cars, it increased the minimum threshold for these movements to 56 cars.[39] No changes were noted with respect to the $7.50-per-tonne maximum CP had been offering on shipments in blocks of 112 cars.[40] In comparison, CN opted to reduce its discounts on movements in blocks of 50-99 cars from $4.00 per tonne to $3.00 per tonne, while maintaining the discount for block movements of 100 or more cars at $7.00 per tonne. Both carriers, however, added further emphasis to the advance booking options that they had been promoting in recent years.[41]

Owing largely to CP's elimination of its discounts on movements of 25-55 cars, there appears to have been a marginal reduction in the relative volume of grain that moved under the railways' incentive programs in the first half, 73.5% compared to 75.1% a year earlier. Moreover, with this change, only movements in the largest block sizes (a minimum of 50 in the case of CN, and 56 in the case of CP) remain eligible.

Figure 11: Railway Volume Moving Under Incentive



Notwithstanding this comparatively marginal decline in relative volume, the actual quantity of grain moved under the railways' incentive programs during the first half remained largely unchanged, increasing by just 0.6% to 9.1 million tonnes. There was, however, a more substantive 14.3% increase in the value of the discounts earned by shippers, which rose to a total of $48.7 million from $42.6 million a year earlier. As a result of the fact that only the larger car blocks were now entitled to receive these discounts, the average-earned discount rose by 13.7%, to $5.34 per tonne from $4.70 per tonne previously.

3.4 Terminal Elevator and Port Performance

3.41 Terminal Elevators

A total of 12.0 million tonnes of grain passed through the terminal elevators of Canada's four western ports in the first six months of the 2006-07 crop year. This marked a 5.3% increase over the 11.4 million tonnes handled in the same period a year earlier. Accounting for almost half of this was Vancouver, where total shipments increased by 2.4%, rising to 5.9 million tonnes from 5.8 million tonnes a year earlier. With a 22.0% gain for the period, Prince Rupert's throughput increased to a record-setting 2.3 million tonnes. For the most

[39] The $4.00 per tonne discount cited here was actually reduced temporarily by CP to $3.75 per tonne in mid June 2006, and reinstated at the beginning of the 2006-07 crop year.

[40] To earn the maximum discount of $7.50 per tonne, a shipper must load the 112 cars in a 10-hour window. Shippers unable to do so can instead earn the $7.00-per-tonne discount that is available for cars loaded in a 24-hour window.

[41] These programs, which are supported by a diverse series of financial rewards and penalties, allow shippers to contract with the railways for unit train movements over an extended period of time.

part, this gain reflected a structural shift in the economics of moving grain through the port, which was precipitated in large part by reduced railway freight rates and a preferential car allocation.

The results for the eastern gateways of Churchill and Thunder Bay were somewhat mixed. With 0.5 million tonnes of terminal throughput, Churchill posted a 10.8% increase in volume. Although durum and pea sales were observed to have decreased, these losses were more than offset by additional wheat and canola exports. In comparison, there was little difference in the volume of grain passing through Thunder Bay. The port's total throughput for the first half remained effectively unchanged at 3.2 million tonnes, declining by just 0.1%. Increased shipments of wheat, oats and flaxseed effectively negated the declines posted by other commodities.

As was the case with country elevator inventories, a larger grain movement led to an 8.2% build-up in terminal stocks for the first half, which rose to an average of 1.4 million tonnes from 1.3 million tonnes a year earlier. Churchill and Thunder Bay proved to be the key drivers in this result, having posted increases of 30.0% and 20.7% in their respective averages. The situation proved different for Vancouver and Prince Rupert, which despite higher throughputs, reported reductions of 6.4% and 8.6% respectively. The build-up in inventory resulted in the averages for both the first and second quarters climbing to record-setting levels under the GMP.[42] Even so, the amount of time spent by grain in inventory remained unchanged in the first half, averaging 20.0 days. Reductions in storage times at west coast terminals were instrumental in containing the effects of increases for the ports of Churchill and Thunder Bay.

The increase in terminal elevator stocks also helped escalate a number of stock-to-shipment ratios. This was particularly true of canola, where total inventories increased by a factor of 30.8%. The converse was true for durum, where a sharp increase in west coast shipments prompted a drawdown in terminal stocks, and the coverage they provided.

With few exceptions, the majority of these ratios all registered averages that were well above 1.0.[43] Despite these indications of ample supply, it should not be inferred that shortages were fully avoided. Shortages were noted most frequently in the ratios produced by the ports of Vancouver and Prince Rupert, where much of the additional throughput was reported. By the same token, the ports of Thunder Bay and Churchill showed far less frequent occurrences.

3.42 Port Performance

Some 390 vessels called at western Canadian ports during the first six months of the 2006-07 crop year. This was virtually unchanged from the 389 vessels that called during the same period a year earlier. However, the amount of time spent by these vessels in port fell by 3.8%, to an average of 5.0 days from 5.2 days. Despite the year-over-year improvement, this value remained well above the 4.7-day average of the preceding seven crop years.[44]

When examining the amount of time spent by vessels at individual ports, only those calling at Vancouver and Prince Rupert were observed to have posted overall improvements. The average stay in Vancouver declined by 7.8% in the first half, falling to 7.1 days from 7.7 days a year earlier. With a modest reduction of 1.4%, the average stay in Prince Rupert fell to 7.3 from 7.4 days. The duration of vessel layovers at Thunder Bay remained unchanged for the period, averaging 1.9 days overall. Running counter to these was Churchill, where a 26.7% increase pushed the average stay up to 5.7 days from 4.5 days.

On the whole, much of the overall reduction was attributable to a general decline in vessel loading time, which fell by 9.7%, or 0.3 days, to an average of 2.8 days. Waiting times in the first half posted an increase of 4.8%, rising to an average of 2.2 days from 2.1 days.

[42] Terminal stocks rose to a record average of 1,390,100 tonnes in the first quarter, only to be surpassed in the second quarter by an average of 1,425,400 tonnes.

[43] A stock-to-shipment ratio in excess of a value of 1.0 implies that a terminal's existing stocks were sufficient to fill the demand posed by vessels loading in the coming week.

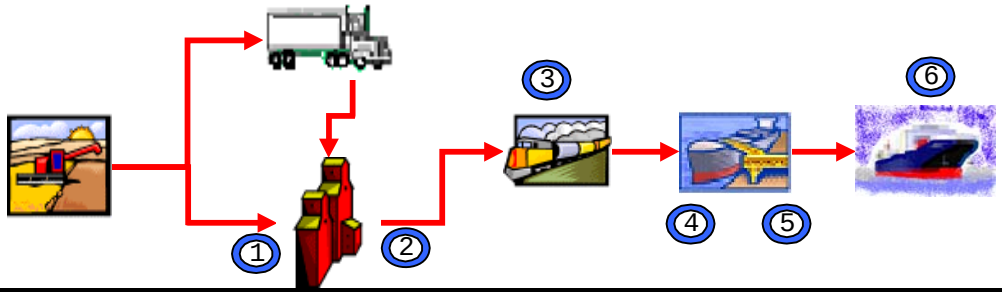
[44] There have been instances under the GMP where the amount of time spent in port easily exceeded the 4.7-day average cited here. The most significant deviation came in the 2004-05 crop year, when the third quarter's average reached 6.1 days.

3.5 The Supply Chain

As outlined in earlier editions of the Monitor's quarterly and annual reports, the supply chain model provides a useful framework by which to examine the speed with which grain moves through the GHTS. In this regard, the Monitor's annual report for the 2005-06 crop year concluded that the amount of time taken by grain as it moved through the supply chain had fallen to a record low under the GMP of 56.6 days.

This result was driven largely by a two-day reduction in the amount of time spent by grain in storage in the terminal elevator system, which fell to a record low of 17.9 days. This was also supported by some of the lowest values recorded for time spent in country elevator storage and loaded railway transit, which amounted to 30.1 days and 8.6 days respectively.

Table 1: The GHTS Supply Chain



	SUPPLY CHAIN ELEMENT	TABLE	1999-00	2002-03	2003-04	2004-05	2005-06	YTD 2006-07	SUPPLY CHAIN EFFECT
	SPEED RELATED								
2	Country Elevator – Average Days-in-Store	3B-4	41.7	47.9	34.4	29.5	30.1	32.3	▲
3	Average Railway Loaded Transit Time (days)	3C-4	9.2	10.1	8.9	8.7	8.6	8.1	▼
5	Terminal Elevator – Average Days-in-Store	3D-4	18.6	21.7	19.0	19.9	17.9	20.0	▲
	Average Total Days in GHTS		69.4	79.7	62.3	58.1	56.6	60.4	▲
	SERVICE / ASSET RELATED								
1	Average Country Elevator Capacity Turnover Ratio	3B-2	4.8	3.7	5.6	5.6	6.2	6.8 *	▲
4	Average Terminal Elevator Capacity Turnover Ratio	3D-2	9.1	5.0	7.0	7.5	8.7	n/a	–
3	Average Railway Car Cycle (days)	3C-4	19.9	20.4	16.7	18.7	17.3	16.5	▼
6	Average Vessel Time in Port (days)	3D-7	4.3	4.3	4.0	4.9	4.8	5.0	▲

* For comparative purposes, the value of 6.8 presented here represents an annualized equivalent for the 3.4 actually recorded as the country elevator's capacity turnover ratio in the first six months of the 2006-07 crop year.

Although the railways' average loaded transit time was reduced by another 0.5 days in the first half, it was not enough to counteract the net increases in both country and terminal elevator storage times, which rose by a combined 4.3 days. As a result, grain took an average of 60.4 days to move through the supply chain during the first six months of the 2006-07 crop year. Although this proved to be 3.8 days more than the 2005-06 crop year's average, it remains among the better quarterly values recorded under the GMP.

A few general observations concerning the supply chain's performance during the first six months of the 2006-07 crop year are warranted:

- Firstly, despite a 7.5% reduction in the grain supply, which totalled 61.8 million tonnes compared to the previous crop year's 66.8 million tonnes, it proved one of the largest made available for movement under the GMP. Moreover, the 12.0 million tonnes of grain that passed through western Canadian ports during the first six months of the 2006-07 crop year proved to be the third largest throughput volume for the period under the GMP.[45] As a result, the pressures brought to bear on the GHTS in the first half can be deemed comparable to some of the heaviest experienced during the course of the GMP.

- Secondly, the quality of the grain that moved through the GHTS in the first half was superior to that moved in each of the last two crop years. At such, the mix of grains and grades passing through the system more closely resembled those depicted at the beginning of the GMP. Even so, changes in both the international marketplace as well as the competitive environment – perhaps best exemplified by the increasing demand for canola along with CN's efforts to sway more traffic to Prince Rupert – are working to alter these traditional traffic flows.

- Finally, there is evidence to suggest that grain is moving through the supply chain at a noticeably faster pace than it was eight years before. Much of this improvement is tied to a reduction in the amount of time spent by grain as inventory in the country elevator network. Although this has clearly been driven by the rationalization of these same facilities, improvement is now also being observed in the loaded transit times posted by the railways. Although the 8.1-day average noted for the first half rivals some of the best yet recorded under the GMP, problems with car supply continued to be a concern for many GHTS stakeholders.

[45] Terminal throughput for the first half reached a record 12.3 million tonnes in the 2000-01 crop year.

4.0 Producer Impact

4.1 Producer Netback

One of the GMP's key objectives is to determine the impact on producers arising from changes in the GHTS. The principal measure in this regard is the *producer netback,* an estimation of the per-tonne financial return to producers after the various logistics costs, collectively known as the export basis, are deducted from the actual price realized in a grain sale.[46]

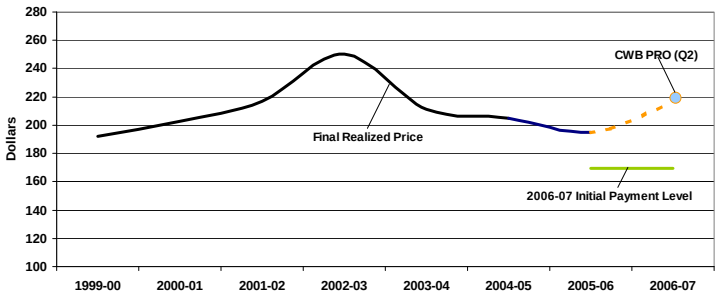
In its earlier reports, the Monitor described how increased commodity prices had largely been responsible for the improvement in the per-tonne returns accruing to producers of wheat, durum, canola, and yellow peas in the first four crop years of the GMP. During this same period, the export basis also fell marginally, thereby adding to the gains that improved grain prices had already generated. When prices moved lower between the 2003-04 and 2005-06 crop years, these per-tonne gains were significantly eroded.

The GMP only includes these indicators in the Monitor's annual reports since certain elements integral to the calculation are not available until after the close of the crop year itself. Nevertheless, current price and input-cost data is collected for both wheat and canola as a means of providing some insight into their probable impact on the per-tonne financial return arising to producers. Some of the changes observed during the first half of the 2006-07 crop year are summarized below.

4.11 CWB Grains

The GMP uses the CWB's Pool Return Outlook (PRO) for 1 CWRS wheat (13.5% protein) as the principal barometer of changing CWB grain prices. Throughout much of the first quarter of the 2006-07 crop year, the CWB's PRO for 1 CWRS wheat moved steadily upwards from the 2005-06 crop year's final realized price of $195.14 per tonne. By the end of November, the PRO had risen to a height of $218.00 per tonne, before then pulling back slightly. As of the end of the second quarter the PRO stood at $216.00 per tonne, and exceeded the $169.65 per tonne that had been set as the farmer's initial payment for the 2006-07 crop year by 27.3%.

Figure 12: Recent Price Changes – 1 CWRS Wheat (dollars per tonne)



Notwithstanding better than expected yields of higher-grade wheat in North America, wheat prices rallied in the first half as a result of an anticipated drought-induced reduction in Australian production. The strong export demand exhibited in the face of tighter world wheat supplies coupled to bolster prices and increase the PRO accordingly. These forces seemed to suggest that the 2006-07 crop year was likely to provide producers with better financial returns.

4.12 Non-CWB Grains

The Vancouver cash price for 1 Canada Canola rose by 24.9% in the first half of the 2006-07 crop year, to an average of $345.29 per tonne from the $276.38-per-tonne average of the previous crop year. Notwithstanding 8.5 million tonnes in domestic production and a large carry-forward stock from the preceding crop year, much of this price gain was attributable to the wider expectations of the global oilseed market. A severe drought in

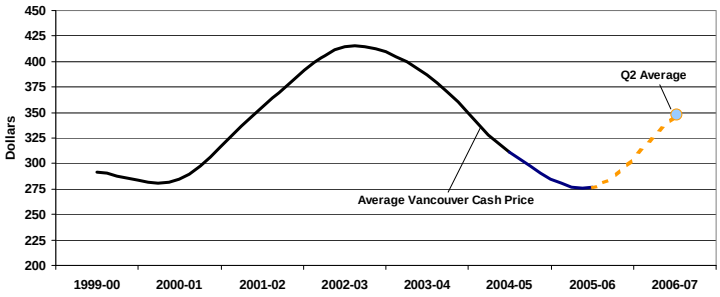
[46] Among other elements, the export basis includes the cost of trucking, elevator handling and railway movement. It also includes where applicable, the CWB's pooling costs, and other incidental charges. Similarly, it also includes a deduction for any of the financial benefits accruing to producers as a result of the receipt of trucking or any similar premiums, as well as the CWB's transportation savings.

Australia, which dramatically reduced production there, essentially removed that country as an export competitor. In equal measure, the demand for canola was also stimulated by the growing need for feedstock in US and European biodiesel production.

The scope of the increase in price for 1 Canada canola strongly suggests that there will be a beneficial impact on the per-tonne financial returns of western Canadian grain producers in the 2006-07 crop year. Owing to the relatively greater rise in canola prices during the first half, the producer netback for non-CWB grains will likely improve comparatively more than it will for CWB grains.

However, rising input costs seemed likely to contain these potential gains. Among the most pronounced of these were the increases tied to the movement of grain by rail, which climbed by about 6.5% from those in place at the end of the previous crop year. Similarly, the charges associated with a variety of country and terminal elevator activities also posted increases in the first half. In the case of the former, these increases ranged from a low of 2.0% on elevation to a high of 2.9% on cleaning. Similarly, the escalation on the tariff rates tied to terminal elevation and storage activities amounted to about 1.8% and 3.3% respectively.

Figure 13: Recent Price Changes – 1 Canada Canola (dollars per tonne)



4.2 Producer-Car Loading

As related in the Monitor's 2005-06 annual report, the aggregate number of producer-car loading sites had fallen from 709 to 483 over the course of the last seven crop years. This net decline stemmed largely from a reduction of 290 sites local to both CN and CP. Shortline carriers assumed operation of a portion of these, which resulted in their count rising from 65 to 129 in the same period. Although there was no change in the total number of these sites during the first half of the 2006-07 crop year, CN's acquisition of the Savage Alberta Railway resulted in the transfer of 15 of these. As a result, by the end of January 2007, the Class 1 carriers provided rail service to 369 producer-car loading sites, more than three-fourths of the GHTS total. Correspondingly, those served by shortline railways fell to the lowest level recorded since the 1999-2000 crop year, 114.

Producer-car shipments during the first half of the 2006-07 crop year increased by 29.8% from that of the same period a year earlier, from 3,853 to 5,002. In relation to the volume of grain shipped in covered hoppers, producer-car loadings accounted for 3.6% of the total. This share increases to 5.9% when gauged against CWB grains alone, which constitute the majority of producer car movements.

Synopsis – Industry Overview

The purpose of the Industry Overview series of indicators is to track changes in grain production, the structure of the industry itself and the infrastructure comprising the GHTS. Changes in these areas can have a significant influence on the efficiency, effectiveness and competitiveness of the GHTS as a whole. Moreover, they may also be catalysts that shift traditional traffic patterns, the demand for particular services, and the utilization of assets.

Highlights – Second Quarter 2006-07 Crop Year

Grain Production and Supply

- *Grain production decreased by 12.0% to 49.3 million tonnes.*
  - *Significant improvement in overall grain quality.*
- *Carry forward stocks increased by 16.2% to 12.5 million tonnes.*
  - *Largest level recorded under the GMP.*
- *Overall grain supply decreased by 7.5% to 61.8 million tonnes.*

Railway Traffic

- *Railway tonnage during the first half increased 2.8% from the same period a year earlier to 12.7 million tonnes.*
  - *Reflected general upturn in grain shipments.*
- *Traffic to most western Canadian ports increased in the first half.*
  - *Vancouver – down by 3.1% to 6.6 million tonnes.*
  - *Thunder Bay – up by 5.5% to 3.3 million tonnes.*
  - *Prince Rupert – up by 17.5% to 2.3 million tonnes.*
    - *Showed substantive increase in volume as a result of CN inducements.*
  - *Churchill – up by 11.5% to 0.4 million tonnes.*

Country Elevator Infrastructure

- *Minimal changes recorded during the first half.*
  - *Grain delivery points decreased by one to 274.*
  - *Number of country elevators remained unchanged at 374.*
- *Elevator storage capacity decreased by 0.2% to 5.9 million tonnes.*
- *Elevators capable of loading in blocks of 25 or more cars fell by 0.8% to 248.*
  - *Accounted for 66.3% of total GHTS elevators.*
  - *Share of GHTS storage capacity rose to 89.2%.*
- *Elevators capable of loading in blocks of 50 or more cars increased by 0.6% to 176.*
  - *Accounted for 47.1% of total GHTS elevators.*
  - *Share of GHTS storage capacity rose to 78.1%.*

Railway Infrastructure

- *Western Canadian rail network reduced by 0.1% to 18,579.2 route-miles.*
  - *CP abandoned 15.8 route-miles of track in British Columbia.*
- *Discontinuance plans for over 1,200 route-miles of CN and CP infrastructure remain.*
  - *Approval for abandonment of Southern Manitoba Railway granted in late January 2007.*
- *CN reacquires Savage Alberta Railway in December 2006 for $25 million.*

Terminal Elevator Infrastructure

- *Licensed GHTS terminal elevators remained unchanged at 16.*
  - *Licensed storage capacity remained unchanged at 2.6 million tonnes.*
- *Terminal elevator unloads for the first six months increased by 4.1% to 138,177 carloads.*

Indicator Series 1 – Industry Overview

Table	Indicator Description	Notes	1999-00	2003-04	2004-05	2005-06	2006-07 Q1	Q2	Q3	YTD (1)	% VAR	
	Production and Supply [Subseries 1A]											
1A-1	Crop Production (000 tonnes)	(1)	55,141.7	47,655.3	53,401.3	56,002.7	49,264.6	-	-	49,264.6	-12.0%	▼
1A-2	Carry Forward Stock (000 tonnes)	(1)	7,418.2	5,488.9	6,647.5	10,768.0	12,514.7	-	-	12,514.7	16.2%	▲
	Grain Supply (000 tonnes)	(1)	62,559.9	53,144.2	60,048.8	66,770.7	61,779.3	-	-	61,779.3	-7.5%	▼
1A-3	Crop Production (000 tonnes) – Special Crops	(1)	3,930.2	3,539.1	5,093.9	5,159.7	3,938.1	-	-	3,938.1	-23.8%	▼
	Rail Traffic [Subseries 1B]											
1B-1	Railway Grain Volumes (000 tonnes) – Origin Province	(1)										
1B-2	Railway Grain Volumes (000 tonnes) – Primary Commodities	(1)	26,440.8	20,659.2	20,832.5	25,304.7	7,063.3	5,646.5	-	12,709.8	2.8%	▲
1B-3	Railway Grain Volumes (000 tonnes) – Detailed Breakdown	(1)										
1B-4	Railway Grain Volumes (000 tonnes) – Special Crops	(1)	2,103.4	1,632.4	2,210.6	2,608.2	918.6	503.4	-	1,442.1	-3.9%	▼
	Country Elevator Infrastructure [Subseries 1C]											
1C-1	Grain Delivery Points (number)	(2)	626	288	282	275	273	274	-		-0.4%	–
1C-1	Grain Elevator Storage Capacity (000 tonnes)	(2)	7,443.9	5,688.6	5,845.6	5,870.8	5,863.3	5,861.7	-		-0.2%	–
1C-1	Grain Elevators (number) – Province	(2)										
1C-2	Grain Elevators (number) – Railway Class	(2)	917	404	385	374	371	374	-		0.0%	–
1C-3	Grain Elevators (number) – Grain Company	(2)										
1C-4	Grain Elevators Capable of Multiple Car Loading (number) – Province	(2)										
1C-5	Grain Elevators Capable of Multiple Car Loading (number) – Railway Class	(2)	317	263	256	250	249	248	-		-0.8%	–
1C-6	Grain Elevators Capable of Multiple Car Loading (number) – Railway Line Class	(2)										
1C-7	Grain Elevator Openings (number) – Province	(2)										
1C-8	Grain Elevator Openings (number) – Railway Class	(2)	43	9	18	10	3	10	-		0.0%	–
1C-9	Grain Elevator Openings (number) – Railway Line Class	(2)										
1C-10	Grain Elevator Closures (number) – Province	(2)										
1C-11	Grain Elevator Closures (number) – Railway Class	(2)	130	21	37	21	6	10	-		0.0%	–
1C-12	Grain Elevator Closures (number) – Railway Line Class	(2)										
1C-13	Grain Delivery Points (number) – Accounting for 80% of Deliveries	(2)(3)	217	95	94	90	n/a	n/a	n/a		n/a	–
	Railway Infrastructure [Subseries 1D]											
1D-1	Railway Infrastructure (route-miles) – Grain-Dependent Network	(2)	4,876.6	4,406.1	4,390.3	4,221.6	4,221.6	4,221.6	-		0.0%	–
1D-1	Railway Infrastructure (route-miles) – Non-Grain-Dependent Network	(2)	14,513.5	14,416.6	14,373.4	14,373.4	14,373.4	14,357.6	-		-0.1%	–
1D-1	Railway Infrastructure (route-miles) – Total Network	(2)	19,390.1	18,822.7	18,763.7	18,595.0	18,595.0	18,579.2	-		-0.1%	–
1D-2	Railway Grain Volumes (000 tonnes) – Grain-Dependent Network	(1)	8,686.5	6,359.3	5,936.7	7,601.2	2,089.5	1,659.5	-	3,749.0	-2.0%	▼
1D-2	Railway Grain Volumes (000 tonnes) – Non-Grain-Dependent Network	(1)	16,975.8	13,564.3	14,323.2	17,119.6	4,839.5	3,814.2	-	8,653.7	4.9%	▲
1D-2	Railway Grain Volumes (000 tonnes) – Total Network	(1)	25,662.3	19,923.6	20,259.9	24,720.8	6,929.0	5,473.8	-	12,402.7	2.7%	▲
1D-3	Shortline Railway Infrastructure (route-miles)	(2)	3,043.0	3,299.7	3,088.2	2,445.6	2,445.6	2,101.8	-		-14.1%	▼
1D-3	Shortline Railway Grain Volumes (000 tonnes)	(1)	2,090.5	2,001.4	1,676.3	1,709.2	412.7	267.1	-	679.8	-30.0%	▼
1D-5	Railway Grain Volumes (000 tonnes) – Class 1 Carriers	(1)	23,571.8	17,922.2	18,583.6	23,011.6	6,516.3	5,206.7	-	11,723.0	5.6%	▲
1D-5	Railway Grain Volumes (000 tonnes) – Class 2 and 3 Carriers	(1)	2,090.5	2,001.4	1,676.3	1,709.2	412.7	267.1	-	679.8	-30.0%	▼
1D-6	Grain Elevators (number) – Grain-Dependent Network	(2)	371	135	132	127	126	125	-		-1.6%	▼
1D-6	Grain Elevators (number) – Non-Grain-Dependent Network	(2)	513	255	239	233	233	237	-		1.7%	▲
1D-6	Grain Elevator Storage Capacity (000 tonnes) – Grain-Dependent Network	(2)	2,475.4	1,543.1	1,659.2	1,628.8	1,621.2	1,604.0	-		-1.5%	▼
1D-6	Grain Elevator Storage Capacity (000 tonnes) – Non-Grain-Dependent Network	(2)	4,847.6	4,093.4	4,133.4	4,188.9	4,195.7	4,211.3	-		0.5%	–
	Terminal Elevator Infrastructure											
1E-1	Terminal Elevators (number)	(2)	15	16	16	16	16	16	-		0.0%	–
1E-1	Terminal Elevator Storage Capacity (000 tonnes)	(2)	2,678.6	2,642.6	2,642.6	2,642.6	2,642.6	2,642.6	-		0.0%	–
1E-2	Terminal Elevator Unloads (number) – Covered Hopper Cars	(1)	278,255	218,447	217,666	271,714	73,620	64,557	-	138,177	4.1%	▲

(1) – Year-To-Date values are reported for volume-related indicators only (i.e., Railway Grain Volumes). The accompanying percentage variance denotes the relative change in the current YTD value compared to the same period a year earlier.
(2) – Quarterly values for non-volume-related indicators (i.e., Grain Delivery Points) are "as at" the end of the reporting period. The accompanying percentage variance denotes the relative change in the value of the most recent reporting period compared to that at the end of the preceding crop year.
(3) – Statistics relating to grain deliveries by station, as produced by the Canadian Grain Commission, are generally produced a full six months after the close of the crop year. The most recent statistics available are those from the 2005-06 crop year.

Synopsis – Commercial Relations

One of the objectives of the government's regulatory reforms was to provide the GHTS with a more commercial orientation. To this end, a cornerstone element in the reforms was the introduction, and gradual expansion of tendering for Canadian Wheat Board (CWB) grain shipments to Western Canadian ports. For the 2006-07 crop year, the CWB has once again committed itself to moving 40% of its grain shipments under a new program that combines tendering as well as advance car awards.

The government also expects that industry stakeholders will forge new commercial processes that will ultimately lead to improved accountability. The purpose of this monitoring element is twofold: to track and assess the impact of the CWB's tendering practices as well as the accompanying changes in the commercial relations existing between the various stakeholders within the grain industry.

Highlights – Second Quarter 2006-07 Crop Year

Tendering Program

- *111 tender calls were issued by the CWB during the first six months of the 2006-07 crop year.*
  - *Calls for the movement of 1.8 million tonnes to export positions in western Canada.*
    - *Prince Rupert delivery – 50.8%; Vancouver – 37.8%; Thunder Bay – 11.4%; and Churchill – 0.0%.*
- *464 bids received; offered an aggregated 3.4 million tonnes.*
  - *Response rates significantly greater than in either of the two preceding crop years.*
    - *Reflects improved availability of high-quality grains for export.*
- *167 contracts concluded for the movement of 1.3 million tonnes.*
    - *Vancouver deliveries – 50.8%; Prince Rupert – 34.6%; Thunder Bay – 14.6%; and Churchill – 0.0%.*
  - *Represented 17.2% of volume shipped by CWB to port positions in Western Canada.*
    - *Fell below maximum 20% target.*
- *Tenders for 38.6% of the tonnage called either partially, or not at all, filled.*
  - *Sharp reduction from the 54.7% recorded for the 2005-06 crop year.*
    - *233,300 tonnes – insufficient quantity bid.*
    - *221,100 tonnes – no bid.*
    - *217,800 tonnes – unacceptable bid price.*
    - *21,600 tonnes – non-compliance with bid specifications.*
- *Proportion of tendered grain volume moving in multiple car blocks increased to 90.2%.*
  - *Proportion moving in blocks of 50 or more cars increased to 71.8% from 59.7% in the 2005-06 crop year.*
- *85.4% of all tendered movements originated at high-throughput elevators.*
  - *Marginally lower than 86.0% observed in the 2005-06 crop year.*
- *CWB estimated that the overall transportation savings for the first half increased by 19.4% to $16.6 million.*
  - *Underscored effects of increased discounts in tender bids.*

Other Commercial Developments

- *Federal government moved forward with its election promise to introduce marketing choice.*
  - *Created an eight-person task force to examine options available.*
    - *Proposed a four-stage transition period extending over several years.*
  - *Announced plan to hold a plebiscite on marketing choice for barley in 2007.*
- *Grain shippers sought government assistance in addressing perceived problems with railway service.*
- *Port of Prince Rupert experienced an unprecedented surge in grain traffic.*
  - *Spurred by recent changes in CN rates and car allocation practices.*
- *USFDA granted products made from canola the right to carry labels including qualified claims of health benefits.*
  - *Expected to further stimulate demand for Canadian canola exports.*
- *Federal government tabled a report recommending changes to the Canadian Grain Commission and the Canada Grain Act.*
- *Saskatchewan Wheat Pool launched bid to acquire Agricore United (AU) in November 2006.*
  - *AU's Board of Directors unanimously recommended rejection of the SWP bid in December 2006.*
  - *SWP increased its bid in January 2007; extended offer until March 2007.*

Indicator Series 2 – Commercial Relations

Table	Indicator Description	Notes	1999-00	2003-04	2004-05	2005-06	2006-07 Q1	Q2	Q3	YTD (1)	% VAR	
	Tendering Program [Subseries 2A]											
2A-1	Tenders Called (000 tonnes) – Grain	(1)	n/a	2,971.3	6,218.5	5,325.7	1,198.7	600.1	-	1,798.8	-29.7%	▼
2A-2	Tenders Called (000 tonnes) – Grade	(1)										
2A-3	Tender Bids (000 tonnes) – Grain	(1)	n/a	10,288.5	5,722.9	7,131.0	2,092.0	1,332.7	-	3,424.7	-31.4%	▼
2A-4	Tender Bids (000 tonnes) – Grade	(1)										
2A-5	Total CWB Movements (000 tonnes)	(1)(2)	n/a	13,617.3	13,281.2	15,132.6	4,013.2	3,362.3	-	7,375.5	7.0%	▲
2A-5	Tendered Movements (%) – Proportion of Total CWB Movements	(1)(2)	n/a	18.1%	18.0%	16.2%	17.3%	17.1%	-	17.2%	-30.1%	▼
2A-5	Tendered Movements (000 tonnes) – Grain	(1)(2)	n/a	2,469.9	2,387.7	2,447.5	694.5	574.9	-	1,269.4	-26.1%	▼
2A-6	Tendered Movements (000 tonnes) – Grade	(1)(2)										
2A-7	Unfilled Tender Volumes (000 tonnes)	(1)	n/a	467.4	3,651.2	2,913.9	577.2	116.6	-	693.8	-22.6%	▼
2A-8	Tendered Movements (000 tonnes) – Not Awarded to Lowest Bidder	(1)	n/a	72.2	65.9	130.5	27.6	2.5	-	30.1	-66.6%	▼
2A-9	Tendered Movements (000 tonnes) – FOB	(1)(2)	n/a	0.0	43.2	155.6	69.9	83.0	-	152.8	-1.8%	▼
2A-9	Tendered Movements (000 tonnes) – In-Store	(1)	n/a	2,469.9	2,344.5	2,291.9	624.6	492.0	-	1,116.5	-28.6%	▼
2A-10	Distribution of Tendered Movements – Port	(3)										
2A-11	Distribution of Tendered Movements – Railway	(3)										
2A-12	Distribution of Tendered Movements – Multiple-Car Blocks	(3)										
2A-13	Distribution of Tendered Movements – Penalties	(3)										
2A-14	Distribution of Tendered Movements – Province / Elevator Class	(3)										
2A-15	Distribution of Tendered Movements – Month	(3)										
2A-16	Distribution of Tender Delivery Points (number) – Contracted Cars	(3)										
2A-17	Average Tendered Multiple-Car Block Size (railcars) – Port		n/a	58.7	55.5	54.4	63.3	58.6	-	61.2	15.0%	▲
2A-18	Railway Car Cycle (days) – Tendered Grain		n/a	14.7	16.9	15.7	13.2	14.8	-	13.9	-15.8%	▼
2A-18	Railway Car Cycle (days) – Non-Tendered Grain		n/a	16.1	17.5	16.8	16.1	16.7	-	16.3	-10.4%	▼
2A-19	Maximum Accepted Tender Bid ($ per tonne) – Wheat		n/a	-$23.04	-$21.86	-$18.58	-$23.12	-$24.51	-	-$24.51	31.9%	▲
2A-19	Maximum Accepted Tender Bid ($ per tonne) – Durum		n/a	-$24.07	-$19.03	-$18.05	-$21.03	-$21.56	-	-$21.56	19.4%	▲
2A-20	Market Share (%) – CWB Grains – Major Grain Companies		n/a	73.1%	77.2%	76.1%	78.2%	75.0%	-	76.7%	-1.7%	▼
2A-20	Market Share (%) – CWB Grains – Non-Major Grain Companies		n/a	26.9%	22.8%	23.9%	21.8%	25.0%	-	23.3%	5.9%	▲
	Advance Car Awards Program [Subseries 2B]											
2B-1	Advance Award Movements (%) – Proportion of Total CWB Movements		n/a	13.9%	15.8%	15.6%	12.5%	17.1%	-	14.6%	16.8%	▲
2B-1	Advance Award Movements (000 tonnes) – Grain		n/a	1,888.0	2,100.7	2,365.1	507.1	566.8	-	1,073.8	24.3%	▲
2B-2	Distribution of Advance Award Movements – Port	(4)										
2B-3	Distribution of Advance Award Movements – Railway	(4)										
2B-4	Distribution of Advance Award Movements – Province / Elevator Class	(4)										
2B-5	Distribution of Advance Award Movements – Month	(4)										
2B-6	Railway Car Cycle (days) – Advance Award Grain		n/a	15.0	17.3	15.6	14.9	14.9	-	14.9	-13.7%	▼
2B-7	Distribution of Advance Award Movements – Multiple-Car Blocks	(4)										
2B-8	Weighted Average Tendered and Advance Award Multiple-Car Block Size (railcars) – Port		n/a	49.9	47.3	46.0	52.4	49.2	-	50.9	8.1%	▲

(1) – Year-To-Date values are reported for volume-related indicators only (i.e., Tenders Called). The accompanying percentage variance denotes the relative change in the current YTD value compared to the same period a year earlier. Significant variances may be observed as a result of a change in the Canadian Wheat Board's tendering commitment.
(2) – Includes tendered malting barley volumes.
(3) – Indicators 2A-10 through 2A-16 examine tendered movements along a series of different dimensions. This examination is intended to provide greater insight into the movements themselves, and cannot be depicted within the summary framework presented here. The reader is encouraged to consult the corresponding data table directly.
(4) – Indicators 2B-2 through 2B-5, as well as 2B-7, examine advance car awards movements along a series of different dimensions. This examination is intended to provide greater insight into the movements themselves, and cannot be depicted within the summary framework presented here. The reader is encouraged to consult the corresponding data table directly.

Synopsis – System Efficiency

One of the chief aims in the government's decision to move the GHTS towards a more commercial orientation was to improve overall system efficiency. This stems from the belief that a more efficient system will ultimately enhance the competitiveness of Canadian grain in international markets to the benefit of all stakeholders.

The indicators presented here are intended to examine the relative change in the efficiency of the GHTS. A preceding chapter – Industry Overview – addressed changes observed in the basic components of the GHTS (country elevators, railways, and terminal elevators). In comparison, the following series of indicators largely concentrates on how these assets are utilized, and the overall time it takes grain to move through the system.

Highlights – Second Quarter 2006-07 Crop Year

Trucking

- *Composite Freight Rate Index for short-haul trucking remained unchanged at 120.9 in the first half.*

Country Elevators

- *Throughput increased by 11.6% to 17.3 million tonnes.*
  - *Largest volume recorded for the first half under the GMP.*
- *The average elevator capacity turnover ratio increased 13.3% to 3.4 turns.*
  - *Reflected combined effects of increased throughput and lower storage capacity.*
  - *Largest value recorded for the first half under the GMP.*
- *Average inventory level rose by 3.2% to 3.0 million tonnes.*
- *Average number of days-in-store decreased by 3.6% to 32.3 days.*
- *Average weekly stock-to-shipment ratio decreased by 2.1% to 4.6 for the first half.*
- *Average posted tariff rates for elevation, cleaning and storage increased by up to 2.9% in the first half.*

Rail Operations

- *Average car cycle decreased by 9.8% to 16.5 days during the first half of the crop year.*
  - *Significant improvement in underlying empty and loaded transit time averages.*
    - *Average empty transit time decreased 6.4% to 8.4 days.*
    - *Average loaded transit time decreased 13.2% to 8.1 days.*
- *Proportion of grain moving under incentive programs decreases to 73.5% from 75.6% in the 2005-06 crop year.*
  - *Reflected structural changes in railway incentive programs.*
    - *CP eliminated discount on blocks of 25-49 cars (June 2006).*
    - *CP increased minimum threshold from 50 cars to 56 cars on larger block movements.*
- *Railway incentive payments estimated to have increased by 14.3% to $48.7 million in the first half.*
  - *Reflected increase in tonnage and applicable discounts.*
  - *Incentives now applicable on movements in blocks of 50 or more cars only.*
    - *CN reduced per-tonne discount on blocks of 50-99 cars from $4.00 to $3.00.*
- *Single car freight rates increased at the beginning of the 2006-07 crop year.*
  - *CP raised rates by a minimum of 6.0%.*
  - *CN restructures tariffs and converts rates on non-CWB commodities to per-car charges, raised rates by about 7.0%.*
    - *Increases of about 3.8% applied on select movements to Prince Rupert.*
    - *Creates preferential pricing on shipments of grain to Prince Rupert.*

Terminal Elevators and Port Performance

- *Terminal throughput increased by 5.3% to 12.0 million tonnes during the first half.*
- *390 vessels loaded at western Canadian ports during the first six months of the crop year.*
  - *Average time in port fell by 3.8% to 5.0 days.*
- *Average posted tariff rates for elevator handling and storage increased by up to 3.3% in the first half.*

Indicator Series 3 – System Efficiency

Table	Indicator Description	Notes	1999-00	2003-04	2004-05	2005-06	2006-07 Q1	2006-07 Q2	2006-07 Q3	2006-07 YTD (1)	% VAR	
	Trucking [Subseries 3A]											
3A-1	Composite Freight Rate Index – Short-haul Trucking	(2)	100.0	100.0	111.3	120.9	120.9	120.9	-		0.0%	–
	Primary Country Elevators [Subseries 3B]											
3B-1	Grain Volume Throughput (000 tonnes)	(1)	32,493.9	28,526.9	28,593.5	32,105.2	8,602.4	8,712.6	-	17,315.0	11.6%	▲
3B-2	Average Elevator Capacity Turnover Ratio	(1)	4.8	5.6	5.6	6.2	1.7	1.7	-	3.4	13.3%	▲
3B-3	Average Weekly Elevator Stock Level (000 tonnes)	(1)	3,699.3	2,691.9	2,314.3	2,651.2	2,974.5	2,929.2	-	2,951.8	3.2%	▲
3B-4	Average Days-in-Store (days)	(1)	41.7	34.4	29.5	30.1	31.5	33.1	-	32.3	-3.6%	▼
3B-5	Average Weekly Stock-to-Shipment Ratio – Grain	(1)	6.2	5.0	4.1	4.3	4.7	4.6	-	4.6	-2.1%	▼
3B-6	Average Handling Charges – Country Delivery Points	(3)										
	Rail Operations [Subseries 3C]											
3C-1	Hopper Car Grain Volumes (000 tonnes) – Province	(1)										
3C-2	Hopper Car Grain Volumes (000 tonnes) – Primary Commodities	(1)	25,662.3	19,923.6	20,259.9	24,720.8	6,929.0	5,473.8	-	12,402.7	2.7%	▲
3C-3	Hopper Car Grain Volumes (000 tonnes) – Detailed Breakdown	(1)										
3C-4	Railway Car Cycle (days) – Empty Transit Time	(1)	10.7	7.8	10.1	8.8	8.3	8.4	-	8.4	-6.4%	▼
3C-4	Railway Car Cycle (days) – Loaded Transit Time	(1)	9.2	8.9	8.7	8.6	7.6	8.7	-	8.1	-13.2%	▼
3C-4	Railway Car Cycle (days) – Total Transit Time	(1)	19.9	16.7	18.7	17.3	15.9	17.2	-	16.5	-9.8%	▼
3C-5	Railway Car Cycle (days) – Non-Special Crops	(1)	19.3	16.5	18.6	17.2	15.9	17.0	-	16.4	-9.6%	▼
3C-6	Railway Car Cycle (days) – Special Crops	(1)	25.8	20.4	20.6	19.5	16.2	21.4	-	18.0	-7.8%	▼
3C-7	Railway Car Connections (days)	(1)(3)										
3C-8	Hopper Car Grain Volumes (000 tonnes) – Non-Incentive	(1)	12,716.9	4,957.3	5,294.3	6,037.9	2,234.7	1,049.9	-	3,284.6	9.2%	▲
3C-8	Hopper Car Grain Volumes (000 tonnes) – Incentive	(1)	12,945.5	14,966.3	14,965.6	18,682.9	4,694.3	4,423.9	-	9,118.1	0.6%	–
3C-9	Hopper Car Grain Volumes ($ millions) – Incentive Discount Value	(1)	$31.1	$67.9	$67.7	$89.9	$24.5	$24.2	-	$48.7	14.3%	▲
3C-10	Traffic Density (tonnes per route mile) – Grain-Dependent Network	(1)	442.5	356.7	337.1	439.0	494.9	393.1	-	444.0	1.5%	▲
3C-10	Traffic Density (tonnes per route mile) – Non-Grain-Dependent Network	(1)	292.4	235.1	249.1	297.8	336.7	265.7	-	301.2	5.0%	▲
3C-10	Traffic Density (tonnes per route mile) – Total Network	(1)	330.3	263.8	269.8	330.5	372.6	294.6	-	333.6	3.6%	▲
3C-11	Composite Freight Rates ($ per tonne) – Rail	(2)(3)										
3C-12	Multiple-Car Shipment Incentives ($ per tonne) – Rail	(2)(3)										
3C-13	Effective Freight Rates ($ per tonne) – CTA Revenue Cap	(2)(4)	n/a	$25.72	$25.87	$28.00	n/a	n/a	n/a		n/a	–
	Terminal Elevator and Port Performance [Subseries 3D]											
3D-1	Annual Port Throughput (000 tonnes) – Grain	(1)	23,555.5	18,962.0	18,943.5	23,722.7	6,026.0	5,928.5	-	11,954.5	5.3%	▲
3D-2	Average Terminal Elevator Capacity Turnover Ratio	(1)(5)	9.1	7.0	7.5	8.7	n/a	n/a	n/a		n/a	–
3D-3	Average Weekly Terminal Elevator Stock Level (000 tonnes)	(1)	1,216.2	1,069.2	1,127.5	1,281.7	1,390.1	1,425.4	-	1,407.8	8.2%	▲
3D-4	Average Days-in-Store – Operating Season (days)	(1)	18.6	19.0	19.9	17.9	21.3	19.0	-	20.0	0.0%	–
3D-5	Average Weekly Stock-to-Shipment Ratio – Grain	(1)(3)										
3D-6	Average Weekly Stock-to-Shipment Ratio – Grade	(1)(3)										
3D-7	Average Vessel Time in Port (days)	(1)	4.3	4.0	4.9	4.8	4.5	5.7	-	5.0	-3.8%	▼
3D-8	Distribution of Vessel Time in Port	(1)(3)										
3D-9	Distribution of Berths per Vessel	(1)(3)										
3D-10	Annual Demurrage Costs ($millions)	(5)	$7.6	$4.7	$16.0	$6.7	n/a	n/a	n/a		n/a	–
3D-10	Annual Dispatch Earnings ($millions)	(5)	$14.5	$20.0	$17.5	$15.2	n/a	n/a	n/a		n/a	–
3D-11	Average Handling Charges – Terminal Elevators	(2)(3)										

(1) – Year-To-Date values are reported for volume-related indicators only (i.e., Grain Volume Throughput). The accompanying percentage variance denotes the relative change in the current YTD value compared to the same period a year earlier.
(2) – Quarterly values for non-volume-related indicators (i.e., Composite Freight Rate Index) are "as at" the end of the reporting period. The accompanying percentage variance denotes the relative change in the value of the most recent reporting period compared to that at the end of the preceding crop year.
(3) – Changes in the indicator cited cannot be depicted within the summary framework presented here. The reader is encouraged to consult the corresponding data table directly.
(4) – Statistics relating to effective railway freight rates, as determined by the Canadian Transportation Agency, are generally produced about six months after the close of the crop year. The most recent statistics available are those from the 2005-06 crop year.
(5) – The GMP provides for the calculation of this indicator on an annual basis. Quarterly values are not available.

Synopsis – Service Reliability

The true test of any logistics chain is its ability to provide for the timely delivery of product, as it is needed – whether it is raw materials, semi-processed goods, component parts, or finished products. This applies in equal measure to both industrial and consumer products, and is summarized by a widely used colloquialism within the logistics industry: "to deliver the right product, to the right customer, at the right time." The indicators that follow are largely used to determine whether grain is indeed moving through the system in a timely manner, and whether the right grain is in stock at port when a vessel calls for loading.

Highlights – Second Quarter 2006-07 Crop Year

Port Performance

- *Average weekly stock-to-vessel-requirements ratios posted mixed results for the first half of the 2006-07 crop year.*
  - *Vancouver*
    - *Wheat – 3.4 for the first six months of the 2006-07 crop year, down by 25.8%.*
    - *Canola – 2.3, up by 1.4%.*
  - *Thunder Bay*
    - *Wheat – 7.0 for the first six months of the 2006-07 crop year, down by 13.7%.*
    - *Canola – 6.3, up by 51.9%.*
  - *Indicates that grain inventories were generally sufficient to meet short-term demand.*
    - *Most shortages related to movements from Vancouver.*
- *Average stock-to-shipment ratios provide similar evidence of the ability of these ports to meet short-term demand.*
  - *Vancouver*
    - *CWB grains – 2.8 for the first six months of the 2006-07 crop year, down by 10.7%.*
    - *Non-CWB grains – 4.2, up by 29.9%.*
  - *Thunder Bay*
    - *CWB grains – 6.3 for the first six months of the 2006-07 crop year; down by 22.9%.*
    - *Non-CWB grains – 4.6; up by 29.0%.*

Indicator Series 4 – Service Reliability

Table	Indicator Description	Notes	1999-00	2003-04	2004-05	2005-06	2006-07 Q1	2006-07 Q2	2006-07 Q3	2006-07 YTD (1)	% VAR	
	Port Performance [Subseries 4A]											
4A-1	Avg. Weekly Stock-to-Vessel Requirements Ratio – VCR – Wheat	(1)	3.1	3.5	2.7	3.4	3.8	2.9	-	3.4	-25.8%	▼
4A-1	Avg. Weekly Stock-to-Vessel Requirements Ratio – VCR – Canola	(1)	2.5	3.6	2.8	2.3	1.9	2.5	-	2.3	1.4%	▲
4A-1	Avg. Weekly Stock-to-Vessel Requirements Ratio – TBY – Wheat	(1)	5.6	4.8	6.0	6.6	7.0	7.1	-	7.0	-13.7%	▼
4A-1	Avg. Weekly Stock-to-Vessel Requirements Ratio – TBY – Canola	(1)	2.8	3.0	2.2	4.4	6.4	6.1	-	6.3	51.9%	▲
4A-2	Avg. Weekly Stock-to-Vessel Requirements Ratio – Grade	(1)(2)										
4A-3	Avg. Weekly Stock-to-Shipment Ratio – VCR – CWB Grains	(1)	3.5	3.3	3.2	3.2	3.0	2.7	-	2.8	-10.7%	▼
4A-3	Avg. Weekly Stock-to-Shipment Ratio – VCR – Non-CWB Grains	(1)	3.6	3.7	3.6	3.2	4.1	4.3	-	4.2	29.9%	▲
4A-3	Avg. Weekly Stock-to-Shipment Ratio – TBY – CWB Grains	(1)	4.6	6.0	7.2	6.8	6.4	6.2	-	6.3	-22.9%	▼
4A-3	Avg. Weekly Stock-to-Shipment Ratio – TBY – Non-CWB Grains	(1)	3.3	3.1	3.6	3.6	4.4	4.9	-	4.6	29.0%	▲
4A-4	Terminal Handling Revenue ($millions) – Vancouver	(1)(3)	$192.7	$134.9	$150.9	$150.9	n/a	n/a	n/a		n/a	–
4A-4	Terminal Handling Revenue ($millions) – Thunder Bay	(1)(3)	$82.1	$61.7	$68.4	$68.4	n/a	n/a	n/a		n/a	–
4A-4	CWB Carrying Costs ($millions) – Pacific Seaboard	(1)(3)	$63.3	$52.5	$73.8	$73.8	n/a	n/a	n/a		n/a	–
4A-4	CWB Carrying Costs ($millions) – Thunder Bay	(1)(3)	$31.3	$40.9	$36.1	$36.1	n/a	n/a	n/a		n/a	–

(1) – Year-To-Date values are reported for volume-related indicators only (i.e., Average Weely Stock-to-Vessel Requirements Ratio). The accompanying percentage variance denotes the relative change in the current YTD value compared to the same period a year earlier.
(2) – Changes in the indicator cited cannot be depicted within the summary framework presented here. The reader is encouraged to consult the corresponding data table directly.
(3) – The GMP provides for the calculation of this indicator on an annual basis. Quarterly values are not available.

Synopsis – Producer Impact

One of the key objectives of the GMP rests in determining the producer impacts that stem from changes in the GHTS. The principal measure in this regard is the producer netback – an estimation of the financial return to producers after deduction of the "export basis." The methodology employed in calculating these measures was developed following an extensive study conducted as a Supplemental Work Item under the GMP, and approved for incorporation into the mainstream indicators of the GMP by Transport Canada and Agriculture and Agri-Food Canada.

Highlights – Second Quarter 2006-07 Crop Year

Export Basis and Producer Netback – CWB Grains

- *Changes in the CWB's Pool Return Outlook (PRO) for 1 CWRS wheat:*
  - *Farmer's initial payment set at $169.65 per tonne.*
    - *Represented a 13.1% reduction from the final realized price for the 2005-06 crop year of $195.14 per tonne.*
  - *PRO increased to $216.00 per tonne by the end of the second quarter.*
    - *Represented a 27.3% premium to the farmer's initial payment.*
    - *Price escalation largely fuelled by the expectation of decreased global production in 2006.*
- *Recent changes in input costs:*
  - *Country elevator handling – up by a minimum of 2.0% for elevation.*
    - *Cleaning charges increased by an average 2.9%.*
  - *Rail transportation – up by at about 6.5% from most origins.*
  - *Terminal elevator handling – up by as much as 3.3% for storage.*
- *Changes in the PRO for 1 CWRS wheat, and input costs to the export basis, suggests an improvement in the producer's per-tonne netback for CWB grains in the 2006-07 crop year.*

Export Basis and Producer Netback – Non-CWB Commodities

- *Changes in Vancouver cash price for 1 Canada canola:*
  - *Price rose to an average of $345.29 per tonne for the first half of the 2006-07 crop year.*
    - *Represented a 24.9% increase from the 2005-06 crop year's monthly average of $276.38 per tonne.*
    - *Price increase largely fuelled by larger global oilseed demand.*
- *Recent changes in input costs:*
  - *Country elevator handling – up by a minimum of 2.0% for elevation.*
    - *Cleaning charges increased by an average 2.9%.*
  - *Rail transportation – up by at about 6.5% from most origins.*
  - *Terminal elevator handling – up by as much as 3.3% for storage.*
- *Changes in the price of 1 Canada canola, and input costs to the export basis, suggests an improvement in the producer's per-tonne netback for non-CWB commodities in the 2006-07 crop year.*

Producer-Car Loading

- *Number of producer-car-loading sites unchanged at 483.*
  - *Acquisition of Savage Alberta Railway by CN reduced the number served by shortline carriers to 114.*
    - *Represented the lowest level reached under the GMP.*
- *Producer-car shipments increased by 29.8% to 5,002 railcars in the first half.*
  - *Represented 3.6% of total covered hopper car movements, and 5.9% of CWB grain movements.*

Indicator Series 5 – Producer Impact

Table	Indicator Description	Notes	1999-00	2003-04	2004-05	2005-06	2006-07 Q1	Q2	Q3	YTD (1)	% VAR	
	Export Basis											
	Western Canada											
5A-10	CWRS Wheat ($ per tonne)	(1)(3)	$54.58	$55.51	$57.77	$61.81						
5A-10	CWA Durum ($ per tonne)	(1)(3)	$67.63	$64.72	$70.73	$72.61						
5A-10	1 Canada Canola ($ per tonne)	(1)(3)	$52.51	$42.51	$40.97	$41.51						
5A-10	Canadian Large Yellow Peas – No. 2 or Better ($ per tonne)	(1)(3)	$54.76	$67.75	$67.98	$52.94						
	Producer-Car Loading											
5B-1	Producer-Car-Loading Sites (number) – Class 1 Carriers	(2)	415	348	329	354	354	369	-		4.2%	▲
5B-1	Producer-Car-Loading Sites (number) – Class 2 and 3 Carriers	(2)	122	166	155	129	129	114	-		-11.6%	▼
5B-1	Producer-Car-Loading Sites (number) – All Carriers	(2)	537	514	484	483	483	483	-		0.0%	–
5B-2	Producer-Car Shipments (number) – Covered Hopper Cars	(1)	3,441	9,399	8,061	11,345	1,474	3,528	-	5,002	29.8%	▲

(1) – Year-To-Date values are reported for volume-related indicators only (i.e., Producer-Car Shipments). The accompanying percentage variance denotes the relative change in the current YTD value compared to the same period a year earlier.
(2) – Quarterly values for non-volume-related indicators (i.e., Producer-Car-Loading Sites) are "as at" the end of the reporting period. The accompanying percentage variance denotes the relative change in the value of the most recent reporting period compared to that at the end of the preceding crop year.
(3) – The GMP provides for the calculation of this indicator on an annual basis. Quarterly values are not available.

Members of the Quorum Corporation Advisory Board

Mark A. Hemmes
Chairman of the Advisory Board
President, Quorum Corporation
Edmonton, Alberta

J. Marcel Beaulieu
Director – Research and Analysis, Quorum Corporation
Sherwood Park, Alberta

Richard B. Boyd
Senior Vice President, Canadian National Railway Company (retired)
Edmonton, Alberta

A. Bruce McFadden
Director – Research and Analysis, Quorum Corporation
Edmonton, Alberta

Shelley J. Thompson
President, SJT Solutions
Southey, Saskatchewan

Members of the Quorum Corporation Grain Monitoring Team

Mark Hemmes	President
Marcel Beaulieu	Director – Research and Analysis
Bruce McFadden	Director – Research and Analysis
Vincent Roy	Senior Technical Officer
Greg Henke	Systems Analyst

Corporate Offices

Quorum Corporation
Suite 701, 9707–110 Street
Edmonton, Alberta
T5K 2L9

Telephone: 780 / 447-2111
Fax: 780 / 447-2630

Website: www.quorumcorp.net
Email: info@quorumcorp.net

Additional copies of this report are available for downloading directly from the company's website.

Appendix 1: Program Background

On June 19, 2001, the Government of Canada announced that Quorum Corporation had been selected to serve as the Monitor of Canada's Grain Handling and Transportation System (GHTS). Under its mandate, Quorum Corporation provides the federal government with quarterly and annual reports aimed at measuring the system's performance, as well as assessing the effects arising from the government's two principal reforms, namely:

- The introduction, and gradual expansion of tendered grain movements by the Canadian Wheat Board; and

- The replacement of the maximum rate scale for rail shipments with a cap on the annual revenues that railways can earn from the movement of regulated grain.

In a larger sense, these reforms are expected to alter the commercial relations that have traditionally existed between the primary participants in the GHTS: producers; the Canadian Wheat Board; grain companies; railway companies; and port terminal operators. Using a series of indicators, the government's Grain Monitoring Program (GMP) aims to measure the performance of both the system as a whole, and its constituent parts, as this evolution unfolds. With this in mind, the GMP is designed to reveal whether the movement of grain from the farm gate to lake- and sea-going vessels (i.e., the supply chain) is being done more efficiently and reliably than before.

To this end, the GMP provides for a number of specific performance indicators grouped under five broad series, namely:

- *Series 1 – Industry Overview*
  Measurements relating to annual grain production, traffic flows and changes in the GHTS infrastructure (country and terminal elevators as well as railway lines).

- *Series 2 – Commercial Relations*
  Measurements focusing on the tendering activities of the Canadian Wheat Board as it moves towards a more commercial orientation as well as changes in operating policies and practices related to grain logistics

- *Series 3 – System Efficiency*
  Measurements aimed at gauging the operational efficiency with which grain moves through the logistics chain.

- *Series 4 – Service Reliability*
  Measurements focusing on whether the GHTS provides for the timely delivery of grain to port in response to prevailing market demands.

- *Series 5 – Producer Impact*
  Measurements designed to capture the value to producers from changes in the GHTS, and is focused largely on the calculation of "producer netback."

Appendix 2: Producer Netback Calculator

A prime issue with many stakeholders is the impact that the shrinking GHTS network has had on the length of truck haul from farm gate to elevator. While all evidence suggests that truck hauls are increasing because of the reduced number of delivery points, the exact – or even approximate – amount of this increase is unknown. Following discussions with stakeholders and the government, a methodology that would allow the Monitor to gather the data necessary to enhance the quality and reliability of this component of the export basis has been developed.[47] The Producer Netback Calculator (PNC) was designed to provide a cost-effective and non-intrusive means of gathering this data.

At the same time, and in response to producers' requests, the Monitor will provide access to data on the costs associated with moving grain from farm-specific locations to export position (the export basis). These costs are the same ones reflected as deductions on cash tickets. The PNC has been designed to assist farmers in determining the delivery options that may provide the best returns for their wheat, durum and feed barley. When these costs are subtracted from the most recent CWB Pool Return Outlook (PRO), the resulting calculation of producer netback provides the best possible estimate of the real returns to be had for their grain.

To gain access to the PNC, producers are provided with their own personal log-in identification and password. Once they have logged into the system, all communication will be secured through 128 bit encryption technology, identical to that used by major banks to allow customers access to their accounts over the internet. This ensures that all information is communicated and held with the strictest confidentiality, while allowing the Monitor to classify data according to the demographics of the specific producer. Producers can be assured that no data specific to any individual will be published, or shared, by Quorum Corporation.

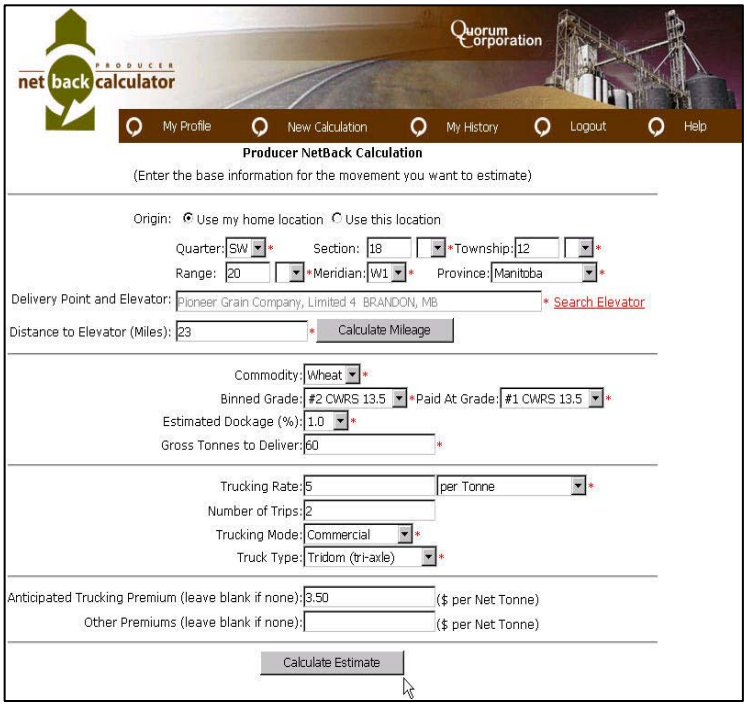


Figure A1: An image of the input screen for Quorum Corporation's Netback Calculator.

Calculation of a producer's estimated export basis and netback is based on the entry of movement-specific information (i.e., delivery point, grain company, grain, grade, etc.). After entering this basic information, the producer can then run a calculation that will return a tabular accounting of the export basis and producer netback based on the PRO. The producer also has the option of "recalculating" these estimates by returning to a previous screen, and changing any of the parameters used in the calculation (i.e., destination station, grain company, etc.).

[47] The GMP currently incorporates trucking costs based on the commercial short-haul trucking rates for an average haul of 40 miles, as presented in Table 3A-1.

Every estimate will be recorded and accessible to the producer through a "history" listing. It is through this screen that producers are given the ability to create comparative reports that can present these estimates – or those they wish to see – in summary or detail. These reports can also be printed or presented as a computer spreadsheet. This is also the section of the system where the producer identifies estimates that subsequently resulted in actual grain movements.

The Grain Monitoring Program will gain valuable data on grain logistics by retaining a record of the individual transactions that pertain to actual deliveries. In specific terms, this data will assist in analyzing the average length of haul to elevators, modal utilization, and other farm gate to elevator delivery issues. This information will be incorporated into the calculation of producer netback in future reports of the Monitor.

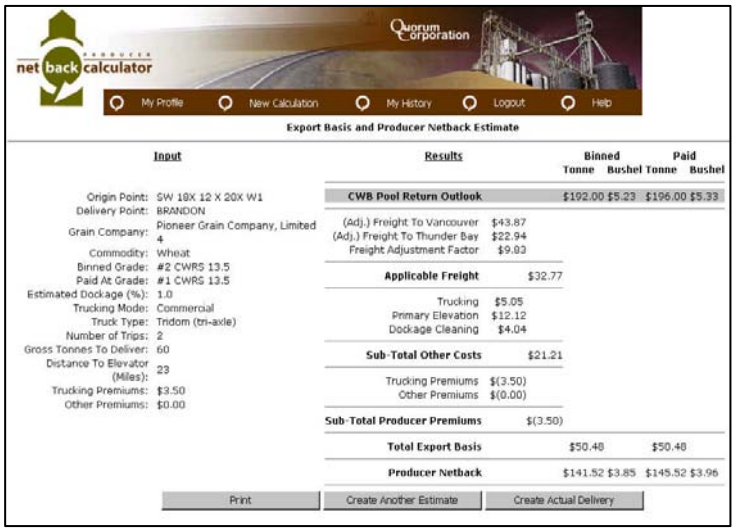


Figure A2: An image of the output screen for Quorum Corporation's Netback Calculator.

Appendix 3: Acknowledgements

The scope of this review is far-reaching and could not have been completed without the assistance of the various stakeholders that submitted views on the detailed monitoring design and provided the data in support of the Grain Monitoring Program (GMP). Quorum Corporation would like to thank the following organizations, and more particularly the individuals within them, for the cooperation they have extended in our efforts to implement the GMP. We have come to appreciate not only their cooperation as suppliers of data under the program, but to value their assistance in helping to improve the quality of the program as a whole. We look forward to their continued input and cooperation throughout the duration of the program.

Agricore United
Agricultural Producers Association of Saskatchewan
Agriculture and Agri-Food Canada
Alberta Agriculture, Food and Rural Development
Alberta Infrastructure and Transportation
Canadian Canola Growers Association
Canadian Grain Commission
Canadian Maritime Chamber of Commerce
Canadian National Railway
Canadian Pacific Railway
Canadian Ports Clearance Association
Canadian Ship Owners Association
Canadian Special Crops Association
Canadian Transportation Agency
Canadian Wheat Board
Cando Contracting Ltd.
Cargill Limited
CMI Terminal
Gardiner Dam Terminal
Government of British Columbia
Grain Growers of Canada
Great Sandhills Terminal
Great Western Railway Ltd.
Inland Terminal Association of Canada
James Richardson International Ltd. (Pioneer Grain)
Keystone Agricultural Producers
Louis Dreyfus Canada Ltd.
Manitoba Agriculture, Food and Rural Initiatives
Manitoba Infrastructure and Transportation
Mid-Sask Terminal Ltd.
Mission Terminal Inc.
National Farmers Union
North East Terminal Ltd.
North West Terminal Ltd.
OmniTRAX Canada, Inc.
Parrish & Heimbecker Ltd.
Paterson Grain
Port of Churchill
Port of Prince Rupert
Port of Thunder Bay
Port of Vancouver
Prairie West Terminal
Prince Rupert Grain Ltd.
Red Coat Road and Rail Ltd.
Saskatchewan Agriculture and Food
Saskatchewan Highways and Transportation
Saskatchewan Association of Rural Municipalities
Saskatchewan Wheat Pool
South West Terminal
Statistics Canada
Transport Canada
Vancouver Wharves Ltd.
West Central Road and Rail Ltd.
Western Barley Growers Association
Western Canadian Wheat Growers Association
Western Grain By-Products Storage Ltd.
Western Grain Elevator Association
Weyburn Inland Terminal Ltd.
Wild Rose Agricultural Producers
Winnipeg Commodity Exchange