



Third Quarter 2002-2003 Crop Year

1 Summary Report

Monitoring the Canadian Grain Handling and Transportation System



Submitted to:



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 nine-month period ended April 30, 2003. 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 2002-03 crop year.

The quarterly reports of the Monitor are issued in two volumes: the Summary Report (volume 1); and the Data Tables (volume 2). The former provides a general overview of the most noteworthy findings, trends or industry activity, and contains a series of abridged data tables that summarize the various indicators used in assessing GHTS performance. In the companion volume, Data Tables, can be found the more detailed indicator statistics that are the cornerstone of the GMP. Those interested in this latter volume are directed to the Monitor's website (www.quorumcorp.net), from which a copy may be directly downloaded.

This report constitutes the seventh in a series of quarterly and annual submissions prescribed by the GMP. Intended as part of a larger time series, the indicators that follow largely compare current year GHTS performance to that of the preceding 2001-02 crop year. Nevertheless, comparisons are also drawn to both the 1999-2000 and 2000-01 crop years whenever a broader contextual framework is deemed appropriate.

QUORUM CORPORATION

Edmonton, Alberta
August 2003

Table of Contents

Findings	1
1.0 Industry Overview	1
1.1 Grain Production and Supply	1
1.2 Country Elevator Infrastructure	1
1.3 Railway Infrastructure	2
1.4 Terminal Elevator Infrastructure	3
2.0 Commercial Relations	5
2.1 Tendering	5
2.2 Other Commercial Developments	6
3.0 System Efficiency and Service Reliability	13
3.1 Country Elevators	13
3.2 Railway Operations	13
3.3 Terminal Elevator and Port Performance	14
3.4 The Supply Chain	15
4.0 Producer Impact	19
4.1 Producer Netback	19
4.2 Producer Car Loading	20
Synopsis – Industry Overview	22
Synopsis – Commercial Relations	24
Synopsis – System Efficiency	26
Synopsis – Service Reliability	28
Synopsis – Producer Impact	30
Appendix 1: Program Background	33
Appendix 2: Acknowledgements	35

Findings

As related in the Monitor's previous quarterly reports, the 2002-03 crop year is proving to be another difficult year for many of the stakeholders in Canada's Grain Handling and Transportation System (GHTS). This stems directly from the widespread drought that has adversely impacted Western Canadian grain production for the second growing season in a row.

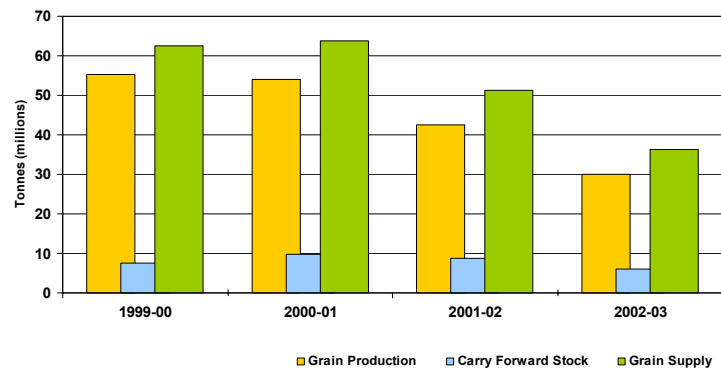
1.0 Industry Overview

1.1 Grain Production and Supply

Overall grain production for the 2002-03 crop year fell to 30.1 million tonnes – some 29.3% less than the year previous. Moreover, the severity of the drought that triggered this decline is reflected in a production level that stands at just over half of the 54.6-million-tonne average for the 1999-2000 and 2000-01 crop years.

Coupled with a decline of 30.6% in carry-forward stocks, the overall volume of grain available for movement during the 2002-03 crop year totalled 36.1 million tonnes – some 15.2 million tonnes (or 29.6%) less than in 2001-02 crop year. The magnitude of this decline is widely mirrored in workload statistics that show comparative year-to-date reductions approaching 40% for country elevator throughput, railway traffic volume, and terminal elevator handlings.

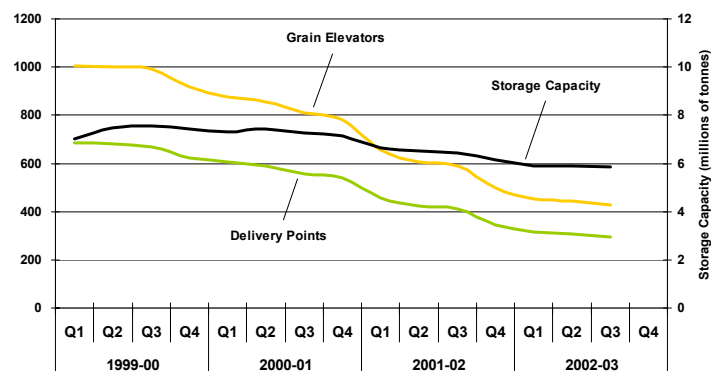
Figure 1: Western Canadian Grain Supply



1.2 Country Elevator Infrastructure

Against this backdrop, the grain companies have continued to rationalize their network of country elevators. During the first nine months of the 2002-03 crop year, a further 73 elevators (or 14.6%) were culled from the system. This leaves but 427 of the 1,004 elevators recorded as at August 1, 1999, still licensed. Similarly, the number of grain delivery points has dropped proportionately. As at April 30, 2003, the number of grain delivery points had fallen to 295 – a 14.5% reduction from the 345 observed at the end of the 2001-02 crop year, and a 56.9% reduction from the 684 seen at the beginning of the Grain Monitoring Program (GMP). Much of this reduction has centred on elevators located in Saskatchewan – which continues to account for slightly more than half of all such facilities in Western Canada.

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



At the same time, the associated storage capacity of the system has decreased by 4.4% since the beginning of the current crop year – falling to below 5.9 million tonnes. Despite this comparatively modest reduction, the 2002-03 crop year was the first to witness overall storage capacity reduced to a level below 6.0 million tonnes. Since the beginning of the GMP, a total of almost 1.2 million tonnes (or 16.7%) of net storage capacity has been removed from the GHTS as a whole. Unlike the decline in the number of country elevators, much of the observed reduction in storage capacity has occurred over the course of the past 21 months.

The differential between these rates of decline reflects the GHTS's continuing evolution into a network of fewer facilities, with comparatively higher storage capacities, and a wider ability to load railcars in larger block sizes. Whereas only 29.8% of the system's elevators were able to load 25 or more railcars at a time at the beginning of the GMP, that proportion has more than doubled – to 64.2% by the end of the third quarter of the 2002-03 crop year.

1.3 Railway Infrastructure

Although total railway infrastructure has remained unchanged at 18,908.8 route-miles since the end of the 2001-02 crop year, the industry's rationalization activities for the first nine months of the 2002-03 crop year have proven to be the most intensive of the past 24 months. These activities centre on the transfer by the Canadian National Railway (CN) of two branch line networks – encompassing about 260 route-miles of Saskatchewan infrastructure – to new shortline railways.

The first of these saw CN lease 46.2 route-miles of its Cudworth subdivision to the Wheatland Railway at the beginning of 2002-03 crop year.¹ Under the terms of the lease, the Wheatland Railway assumed responsibility for track maintenance, and the solicitation of traffic – widely expected to comprise producer-loaded grain cars. At the same time, CN became the sole provider of contracted railway services to the new venture under an arrangement that called for CN personnel and equipment to be used during off-peak periods.

The second transaction involved a 211.5-route-mile network made up of CN's Robinhood, Turtleford, and a portion of its Blaine Lake, subdivisions. These branch lines were leased to the Prairie Alliance for the Future (PAFF) in mid-January 2003 under arrangements similar to those respecting the Wheatland Railway

Figure 3: Western Canadian Railway Infrastructure (route-miles)

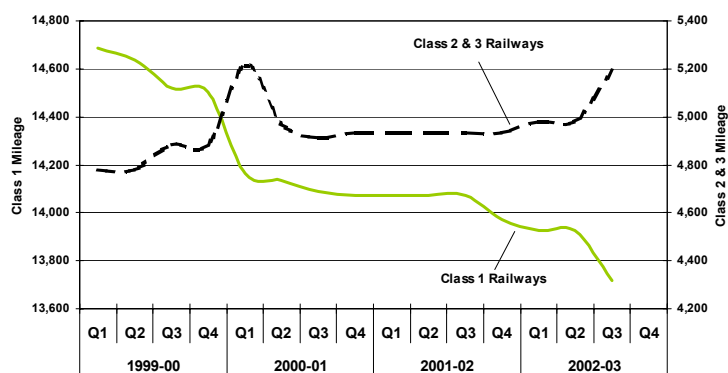
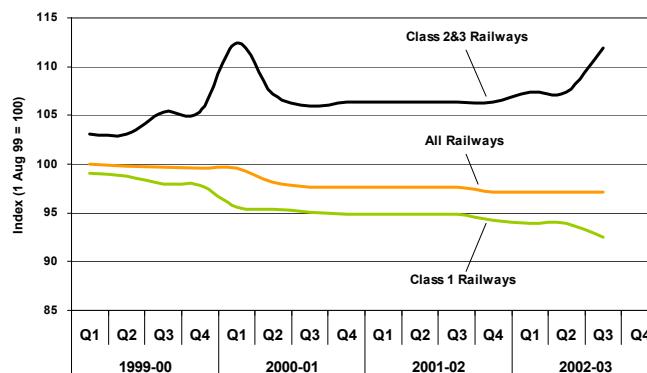


Figure 4: Relative Change in Railway Infrastructure



These business deals served to enlarge the amount of railway infrastructure operated by shortline carriers by 8.3% – to 3,348.6 route-miles as at April 30, 2003, from 3,090.9 route-miles at the end of the 2001-02 crop year. And while the span of shortline railway operations increased during the first nine months of the 2002-03 crop year, their overall grain volumes have waned significantly. Gauged against the larger Class 1 carriers –

¹ The Wheatland Railway is a commercial entity established by six Saskatchewan municipalities in an effort to preserve rail service to their communities.

whose year-to-date volume for movements in covered hopper cars fell by 38.3% to 7.6 million tonnes – these smaller carriers saw originated grain volume fall by 50.4% to 752,300 tonnes.

As mentioned in earlier editions of the Monitor's report, the decline in the volume of traffic originating on the lines of these smaller carriers presents a very real threat to their commercial viability. The point was underscored in May when the Southern Manitoba Railway (SMR) announced that it would abandon some 62 route-miles (or about 40%) of its current network later in 2003. Citing the trucking incentives used by the larger grain companies to draw grain into their own high-throughput facilities, along with the closure of the licensed elevators located along its lines, the SMR observed that their originated grain volume had fallen by a factor of one-half since the company assumed operation of the Miami and Hartney subdivisions from CN in 1999.

1.4 Terminal Elevator Infrastructure

No changes to the licensed terminal elevator network in Western Canada were recorded during the first nine months of the 2002-03 crop year. As at April 30, 2003, the network comprised some 17 facilities with an associated storage capacity of 2.7 million tonnes.

2.0 Commercial Relations

2.1 Tendering

In accordance with the Memorandum of Understanding (MOU) between the Canadian Wheat Board (CWB) and the Minister responsible for the CWB, the 2002-03 crop year saw the CWB adopt a higher minimum commitment in its tendering program. Effectively doubling the proportion pledged during the initial two years of the program, the CWB committed to move at least half of its overall grain shipments to the four western ports under tender during the 2002-03 crop year.

During the first nine months of the 2002-03 crop year, the CWB issued 282 tender calls for the movement of just under 3.8 million tonnes of grain. These were met by 1,772 bids offering to move an aggregated 8.5 million tonnes – more than twice the volume sought by the CWB. The scope of this response contrasts sharply with the pattern initially witnessed in the first quarter, where the volume bid roughly equalled the volume called. Moreover, the year-to-date result obscures the fact that during the second and third quarters, the volume bid exceeded the volume called by factors of almost 3-to-1 and 5-to-1 respectively. This denotes a significantly higher response rate than observed at any other point under the CWB's tendering program. Likewise, it also underscores the aggressive stance that appears to have been brought to tendering by the grain companies in the 2002-03 crop year.

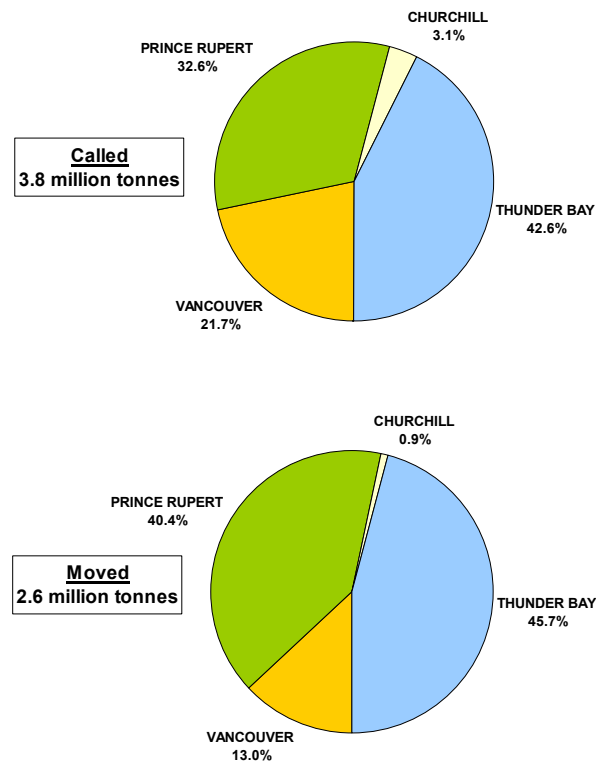
To some extent, this aggressiveness is reflected in a decline in the proportion of the call volumes that went unfilled in the second and third quarters – 11.8% and 5.8% respectively. These denote sharp reductions from the proportion that went unfilled in either the 2001-02 crop year or the first quarter – 30.0% and 42.2% respectively.

In contrast with the preceding crop year, where over half – 54.5% – of the CWB's tenders called for delivery in Vancouver, the principal destination cited thus far into the 2002-03 crop year has been Thunder Bay. With some 42.6% of the tonnage called during the first nine months of the 2002-03 crop year, Thunder Bay easily bypassed other Western Canadian ports as the destination of choice under the CWB's tendering program.

This change, however, does not reflect a fundamental shift in traditional shipping patterns. With the port of Vancouver closed for much of the first half of the 2002-03 crop year as a result of an ongoing labour dispute (see ensuing discussion), tendered grain destined to the west coast was largely directed to Prince Rupert instead. This effectively splintered movements to the west coast, and cast Thunder Bay under an apparently preferred light.

The same effect is given to Prince Rupert, which was cited as the destination for 32.6% of the tender calls issued by the CWB during the first nine months of the crop year. This proportion is significantly greater than the 14.5% allocated to it throughout the course of the entire 2001-02 crop year. Moreover, this redirection of traffic to Prince Rupert allowed the port to boost its year-to-date share of the CWB's actual tendered

Figure 5: Tendered Volume – Destination Port



movements by a factor of four – to 40.4% as at April 30, 2003, versus 9.7% for the preceding crop year as a whole.

The first nine months of the 2002-03 crop year saw the CWB award a total of 498 contracts for the movement of an aggregated 2.6 million tonnes of grain.² As was the case for tonnage called, the largest proportion of this actual movement volume – 45.7% – was delivered to Thunder Bay. This was followed by Prince Rupert with 40.4%, Vancouver with 13.0%, and Churchill with 0.9%.

As observed in previous reports of the Monitor, the vast majority of the grain moving under the CWB's tendering program does so in blocks of 25 or more railcars at a time. As at April 30, 2003, the cumulative proportion so moving stood at 92.9% – only marginally less than the 94.3% noted for the 2001-02 crop year as a whole. Similarly, the proportion originating at high-throughput elevators remained largely unchanged – 83.3% on a year-to-date basis, versus 83.6% for the 2001-02 crop year.

In aggregate, the volume tendered in the first three quarters of the 2002-03 crop year represented 50.0% of the CWB's overall movement to Western Canadian ports, and exactly equalled the commitment established under the MOU.³ This proportion would likely have been slightly higher had not a small number of CWB contracts been cancelled as a result of the disruption to Vancouver operations.

2.2 Other Commercial Developments

2.21 Replacing the Memorandum of Understanding

The CWB's tendering program was implemented in accordance with a Memorandum of Understanding (MOU) between it and the federal Minister responsible for the CWB, and took effect on August 1, 2000. This document – which pertained to the 2000-01 through 2002-03 crop years – effectively established a commitment by the CWB to tender a minimum of 25% of its overall volumes in the initial two crop years covered by the agreement, and a minimum of 50% in its last. With the MOU set to expire with the close of the 2002-03 crop year – July 31, 2003 – the CWB and its 28 agents have been trying to come to terms over a private agreement that would effectively replace the MOU altogether. Among the most fundamental of questions reportedly being addressed was: Should the tendering program continue; and if so, what should be the scope and substance of that program?

As related in the Monitor's annual report for the 2001-02 crop year, the CWB's tendering program has always been controversial, with the grain companies themselves divided over the matter of the program's impact and effectiveness. Some expressed qualified approval for the program, and supported increasing the proportion of CWB grain moving under tender to a level well beyond the 50% committed to in the 2002-03 crop year. Others claimed that the program had failed to meet its intended objectives, and that this benchmark should either be reduced or eliminated entirely. In a general sense, these differing perspectives appeared to be built around a fault line that pitted the larger, more fully integrated grain companies against their smaller, less integrated competitors.

At the same time, the "equitable" grain-sourcing objectives of the CWB appeared to be at odds with the private commercial interests that drive individual grain companies into competing against each other. For this reason, the CWB appears equally reticent in moving to a tendering commitment level above the 50% currently in effect. With both the CWB and the majority of its agents seemingly pushing for a reduced program, tendering appears likely to assume a less significant roll in the CWB's commercial activities – at least in as much as concerns the 2003-04 crop year. Should this occur, it appears equally likely that the financial savings that had been passed onto producers through the CWB's pool accounts by way of the grain companies' tender bids will also be reduced.

² The volumes cited as moving under the CWB's tendering program include malting barley – which is administered separately from those grains moving under the provisions of the MOU.

³ The 50% commitment established under the MOU relates to the relative volume of grain to be moved by the CWB under tender in the crop year. Quarterly variations – both above and below this objective – are generally expected in a dynamic operating environment.

2.22 Labour Dispute at the Port of Vancouver

Although Vancouver's Grain Workers Union (GWU) and the British Columbia Terminal Elevator Operators Association (BCTEOA) had been working towards a new collective agreement to replace that which had expired on December 31, 2000, they could not resolve their differences over the critical issues of seniority and work scheduling. Following the failure of the GWU to vote on what had been deemed a final offer, the BCTEOA locked out its GWU employees on August 25, 2002. Four days later, the GWU's membership formally rejected the offer that had been advanced by the BCTEOA. This set the stage for what proved to be a protracted labour dispute, and the virtual closure of Vancouver as the principal gateway for export grain on the west coast.

In the days that followed, the Vancouver Grain Exchange issued an "event of delay" notice to its membership (a group that encompasses a wide portion of the GHTS stakeholder community). As a result, the Canadian Wheat Board and the grain companies invoked the force majeure provisions found within their respective contracts to limit the financial obligations that could arise from any delay in the movement of grain brought on by the labour dispute. This was done largely to provide protection against the potentially heavy assessment of vessel demurrage.⁴

In an effort to minimize the dispute's impact on export programs, grain that had been destined to Vancouver was soon redirected to Prince Rupert. Although out of operation since May 2002 as a result of low grain volumes, Prince Rupert Grain (PRG) reopened and began to unload its first lot of redirected railcars on September 3, 2002. Both Vancouver Wharves and Neptune Terminals – non-BCTEOA-affiliated facilities located on the north shore of Burrard Inlet – were unaffected by the labour strife, and continued to handle non-CWB grains while Vancouver's principal terminal elevators were closed by the lock-out.

In response to the use of Prince Rupert, the GWU established a picket line at the terminal facilities of PRG on September 10. Although this action initially interrupted the flow of grain moving through the port, service resumed three days later when a court injunction granted to PRG ordered the removal of the picketers. The GWU subsequently applied to the Canada Industrial Relations Board to have the BCTEOA and PRG declared a common employer, claiming that the diversion of grain to Prince Rupert facilitated "business as usual" even though workers were locked out in Vancouver.⁵ Despite these actions, grain continued to move through PRG for the first half of the 2002-03 crop year without further interruption. A total of 25,010 railcars were unloaded by PRG during this period – slightly more than twice that of the entire 2001-02 crop year.

Although vessel-waiting times at Prince Rupert initially rose as a result of grain being redirected, the CWB reports that the needs of its sales program were met throughout the period. To a large extent, the reduced harvest brought on by the severity of the drought cited earlier, effectively relieved the pressure that might have otherwise been brought to bear on the GHTS during what is normally the heaviest shipping period of the year.

The labour dispute was resolved on December 14, 2002, when the BCTEOA and the GWU concluded a new collective agreement. Although a few issues remained outstanding, these were ultimately referred to binding arbitration for settlement. Although the movement of grain to Vancouver resumed shortly thereafter, a full return of shipping activity to Vancouver did not occur until late March.⁶

⁴ Invoking the provisions of force majeure did not protect exporters from further assessment of demurrage on vessels already delayed in port. However, no vessels were being assessed demurrage at the time of the lockout.

⁵ The grain companies forming the consortium that owns Prince Rupert Grain, also own the individual terminal elevator facilities in Vancouver that had locked out the GWU.

⁶ Resumption in the movement of grain traffic to Vancouver was not immediate. Tender contracts entered into during the labour disruption denoted delivery to be made at Prince Rupert. Although the conclusion of a new collective agreement saw new tender contracts specifying west coast delivery at Vancouver, existing contractual arrangements providing for delivery to Prince Rupert still remained in effect. As a result, the transition back to the use of Vancouver as the principal west coast gateway was more gradual.

2.23 Restructuring Grain Company Indebtedness

The financial difficulties faced by producers and business alike are widely known within the grain industry. The droughts that have plagued production, have also taken an increasingly heavier toll on the financial positions of all stakeholders. As the largest publicly-owned grain companies operating in Western Canada, the challenges confronting Agricore United and Saskatchewan Wheat Pool as they struggle with the realities of reduced grain volumes, depressed revenues, and increased losses, are among the most visible. The financial losses for these two firms during the first nine months of the 2002-03 crop year amounted to \$75.5 million and \$64.9 million respectively.⁷

Servicing their accumulated debts in the face of such losses has been a pressing issue for both of these companies. In October, Agricore United announced that it was working to restructure its existing indebtedness, and had received a commitment from its bankers to provide it with a secured \$500 million credit facility. This credit was intended to refinance the company's existing revolving credit, a portion of its long-term debt, and other general corporate needs.

Saskatchewan Wheat Pool (SWP) also moved to secure new financing in an effort to meet its ongoing operational requirements, and help in the rebuilding of its competitive position. In amending the credit arrangements it had with its banks, SWP secured needed operating credit to November 30, 2003, and an agreement to defer its principal repayments for 12 months.

At the same time, SWP indicated that it also intended to work with its senior debt holders, the banks, and the holders of \$300 million in medium-term notes, to restructure the company's debt by January 31, 2003. The proposal advanced by SWP, however, was met with substantial opposition – particularly from the medium-term note holders. Their opposition effectively threatened to push the company into receivership. Last-minute amendments to the restructuring plan ultimately secured the necessary support of these creditors, and allowed the company to remain solvent.

2.24 Government-Owned Hopper Cars

Between 1972 and 1986, the federal government spent approximately \$570M to purchase 13,000 covered hopper cars to be used in the movement of Western Canadian grain.⁸ These cars were provided to CN and CP under an operating agreement that allowed the cars to be used as part of their general fleets. In practice, both CN and CP supplement these cars with their own equipment in order to meet prevailing market demands.⁹

These cars continue to be critically important assets in the movement of grain through the GHTS. As a result, the efficient deployment of these assets in meeting prevailing market demand has always been a matter of stakeholder concern. Moreover, given their age and increasing obsolescence, a number of stakeholders have already begun to question what proportion of this fleet is nearing the end of its useful life, and whether age-related attrition will diminish the carrying capacity needed for the movement of grain in the near future.

In 1996, the federal government announced that it intended to sell its fleet of covered hopper cars. Under the operating agreement governing the use of these cars, however, the railways held the right of first refusal (ROFR) in any potential sale. With the expiry of the railways' ROFR on June 30, 2002, interest in the subject appears to have been revitalized.¹⁰

⁷ The losses cited here are drawn from the unaudited quarterly financial reports issued by Agricore United and Saskatchewan Wheat Pool. The losses reported here have been assembled to reflect those sustained during the first nine months of the 2002-03 crop year, and not necessarily the fiscal year of each company.

⁸ Another 5,750 cars owned or leased by the Canadian Wheat Board, as well as the governments of Alberta and Saskatchewan, complement the federal government's fleet. These 5,750 covered hopper cars are comprised of: 2,000 owned by the CWB; 1,750 administered by the CWB on leases paid by the federal government; and 2,000 owned by the governments of Alberta and Saskatchewan.

⁹ Throughout the 1990s, the effective annual size of the hopper fleet is estimated to have varied between 22,000 and 28,000 cars.

¹⁰ Exercising a five-year termination provision contained in the operating agreement, the federal Minister of Transport issued notice in 1996 that he was terminating the agreement as of December 31, 2001. The railways' right of first refusal expired six months later.

In recent months, the Farmer Rail Car Coalition (FRCC) – an organization representing farmers in the potential sale of the fleet – has been lobbying to garner support for a plan that would see ownership of the cars transferred to a non-profit, farmer-owned company for a nominal sum. The government, however, has yet to make a decision regarding the disposition of these cars. More importantly, the government's ownership of these cars was alleged by the United States to constitute an unfair subsidy under a trade complaint it brought against Canadian grain-trading practices (see ensuing discussion).

2.25 US Trade Complaint

In September 2002, the North Dakota Wheat Commission and the US Durum Growers Association filed petitions with the United States government seeking countervailing and anti-dumping duties on wheat and durum imports from Canada. The petitions alleged that the Government of Canada and the Canadian Wheat Board subsidized both of these products; that the CWB sold these products for less than full market value in the United States; and that American industry was being injured as a result of their importation. A month later, the US Department of Commerce (DOC) announced that it would proceed with an investigation into these allegations.¹¹

In March 2003, the DOC rendered a preliminary determination in its countervail investigations, and found that subsidies were being employed. As a result, a 3.94% duty on imports of Canadian wheat and durum was imposed – comprised of a 3.59% duty relating to government guarantees of CWB borrowings, and a 0.35% duty tied to the railways' use of government-owned hopper cars.¹²

In pronouncing that it had made the preliminary determination that dumping was also taking place, the DOC ordered duties of 6.12% on spring wheat and 8.15% on durum in May 2003. These were in addition to the 3.94% levy already applied under the countervailing duty action. Both the countervailing and anti-dumping duties are subject to a final determination by the DOC expected later in 2003. Either a US court or a bi-national panel established under the North American Free Trade Agreement can review these final determinations. The Canadian government is defending its policies, and those of the CWB, in both respects.

In a concurrent action, the United States also requested WTO consultations with Canada on matters concerning the operation of the CWB and the treatment accorded American grain imported into Canada. These consultations were held in late January 2003, with a WTO panel formed two months later. The panel will examine US allegations that the actions of the Canadian government and the CWB are inconsistent with the non-discriminatory and commercial principles governing state-owned trading enterprises under the General Agreement on Tariffs and Trade. As with the US domestic trade actions, the Canadian government is vigorously defending its policies against these allegations.¹³

¹¹ Such investigations denote a domestic trade action under the laws of the United States, and are conducted by the United States Department of Commerce, which renders both a preliminary and final determination based on its findings.

¹² A countervailing duty can only be applied if it has been established in an investigation that imported goods have been subsidized, and that such subsidized imports are either causing or are threatening to cause injury to US domestic industry. The countervailing investigation initially focused on several areas of alleged subsidy: Canadian government guarantees of CWB borrowings; export credits and initial payments; the free supply of government-owned hopper cars to the railways; the imposition of a revenue cap on major railways; and support for shortline and branchline railways. The DOC's preliminary determination dismissed all allegations of subsidy save those for which duties were applied: government guarantees of CWB borrowings; and the railways' use of government-owned hopper cars.

¹³ On June 25, 2003, the WTO ruled that the United States government had failed to provide sufficient detail concerning the Canadian laws and actions that were the subject of its trade complaint. This procedural ruling resulted in the complaint being dismissed on technical grounds. The United States government, however, refiled their complaint the following day.

2.26 Port of Churchill Suffers From a Sharp Decline in Volume

During the 2000-01 crop year, a total of 665,100 tonnes of grain were shipped through the port of Churchill. Since attaining that height, the volume of grain moving through the port has steadily declined – to 477,100 tonnes in the 2001-02 crop year, and to 279,200 tonnes thus far into the 2002-03 crop year.¹⁴ Of particular concern is the fact that these volumes are well below the 1.0-million-tonne threshold deemed necessary by the port's owner to ensure its long-term economic viability. To this end, the Port of Churchill Advisory Board – a body appointed by the Manitoba government last summer to help realize the port's commercial potential – warned that another year of low grain shipments might well prove ruinous. Many earnestly wondered whether the port would even open for the 2003 shipping season.

Although the port's owner – Denver based OmniTRAX, Inc. – has promoted Churchill as a competitive gateway in order to develop new business, the drought of the past two years has undermined these efforts.¹⁵ With the threat of a potential cessation of operations, both the Port of Churchill Advisory Board and OmniTRAX called upon the CWB to direct a greater amount of grain through Churchill during the 2003 shipping season. The CWB, however, largely resisted making any definitive commitment indicating that its primary obligation rested in maximizing the returns it generates for producers, and that market forces would ultimately determine shipping decisions.



(photo used with the permission of the Hudson Bay Port Company)

Figure 6: An aerial view of the grain-handling facilities belonging to the Hudson Bay Port Company at Churchill, Manitoba.

Considering Churchill to be of vital interest to the province's economy, the Manitoba government moved to provide the port with some measure of interim financial support. With additional funding supplied by the federal government, an aid package totalling \$2.2 million was advanced in an effort to help ensure a sustainable economic future for both the port and the Hudson Bay Railway.¹⁶ This assistance proved to be an important determinant in OmniTRAX's later decision to open the port for the 2003 shipping season.

The aid package, however, was met with stiff opposition from the Western Grain Elevator Association (WGEA) and the Inland Terminal Association (ITAC) who claimed that this assistance distorts the competitive dynamics of the marketplace, and merely adds to the \$50 million already spent by both levels of government on these two ventures over the past six years. They contend that such financial support has the potential to divert grain that would normally move through ports and facilities that do not receive such support.

¹⁴ Statistics relating to grain throughput at the port of Churchill are normally maintained on the basis of either the shipping season or the calendar year. The grain volumes cited here have been adjusted to provide greater consistency with other statistics maintained under the Grain Monitoring Program, and are reported on a crop year basis. In addition, these volumes relate only to the grain handled by OmniTRAX since it assumed control of the port in 1997. The actual record for throughput at the port of Churchill is 735,000 tonnes, and was attained during the course of the 1976 shipping season. Comprised primarily of wheat and durum, the volume of grain shipped through the port in the 2000 shipping season amounted to 693,800 tonnes, and accounted for over 95% of its total traffic tonnage – some 710,000 tonnes in all.

¹⁵ OmniTRAX's interests in the port of Churchill are two-fold: it owns the Hudson Bay Port Company, which oversees actual terminal and port operations; as well as the Hudson Bay Railway Company, which provides local railway service to the port and its facilities.

¹⁶ The joint federal-provincial aid package was announced on April 30, 2003, and included provisions of \$1.8 million for infrastructure improvements to the port and the Hudson Bay Railway, and \$0.4 million for enhanced marketing efforts.

Proponents of the Churchill gateway counter that these arguments ignore the public funds that were directed towards building, and operating, the St. Lawrence Seaway over much of the past 50 years. They also contend that the grain companies have long opposed shipping grain through Churchill, and have instead favoured the use of ports with terminal facilities that they either own or have a vested interest in.

Perhaps recognizing this shortcoming, OmniTRAX entered into an agreement with Louis Dreyfus – a grain company with international interests – to assume responsibility for the marketing and management of the port. Despite the scope of its international operations, the company's Canadian presence is limited to eleven licensed grain elevators in Western Canada, and one transfer elevator at Port Cartier, Quebec. At first glance the arrangement appears mutually beneficial since each seems to possess something the other lacks: a Western Canadian based terminal elevator in the case of Louis Dreyfus; and grain marketing expertise in the case of OmniTRAX. Acting in concert, their partnership might well present the best opportunity to unlock the potential that the port of Churchill's proponents have long championed.

2.27 License-Exempt Producer-Car Loading Facilities

In April 2002 the Canadian Grain Commission (CGC) announced that producer-car loading facilities would be exempted from the licensing provisions of the Canada Grain Act as long as certain minimum conditions were met. From the perspective of a number of producers in Western Canada, developing such facilities provided them with an effective means by which to address the closure of an elevator that had long served their communities.

During the course of the first nine months of the 2002-03 crop year, another 25 facilities joined the ranks of those having received licensing exemptions the year before – increasing from five to 30 in total. Twenty-six of these facilities – 86.7% – are situated in Saskatchewan, while the provinces of Manitoba and Alberta account for two apiece. The majority of these facilities – 17 in all – are tied to the operations of shortline railways, while another 13 are found along the rights-of-ways of the larger Class 1 carriers.

Noteworthy is the fact that a full one-third of these facilities are local to the lines of the Great Western Railway (GWR) – a shortline carrier operating in southwestern Saskatchewan. This comparatively high concentration of facilities reflects the effort of the GWR to promote the establishment of producer-loading sites. In fact, approximately one-fifth of all producer-cars loaded during the 2001-02 crop year originated from sites local to the GWR.

3.0 System Efficiency and Service Reliability

3.1 Country Elevators

Total country elevator throughput (measured as shipments from primary elevators) showed a marked decline during the first nine months of the 2002-03 crop year. Aggregate volume fell by 29.7% to 14.0 million tonnes from the 19.9 million tonnes recorded for the same period a year earlier. This decline in volume is also reflected in a comparatively lower capacity turnover ratio for the primary elevator system as a whole – which fell by 21.4% to 2.7 turns. To a large extent, the fall in this latter indicator was restrained by a 0.3-million-tonne reduction in primary elevator capacity.

With a weekly average of 2.7 million tonnes, grain held in storage by the primary elevator network during the third quarter remained essentially unchanged from that of the second, and only 4.7% less than that recorded for the same period a year earlier. On a year-to-date basis, the weekly average of 2.5 million tonnes stands 12.2% below that of a year ago.

And while average quarterly stock levels have proven consistently lower than those of the 2001-02 crop year, the average amount of time spent by grain in inventory has continued to rise – reaching a height of 59.9 days in the third quarter. The year-to-date average of 50.0 days is the highest recorded thus far under the GMP.

In addition to these indicators, there has also been an appreciable rise in the overall average weekly stock-to-shipment ratio. Climbing to 8.8 in the third quarter – and to 7.3 on a year-to-date basis – this movement underscores the relative decline in overall shipments from country elevators.

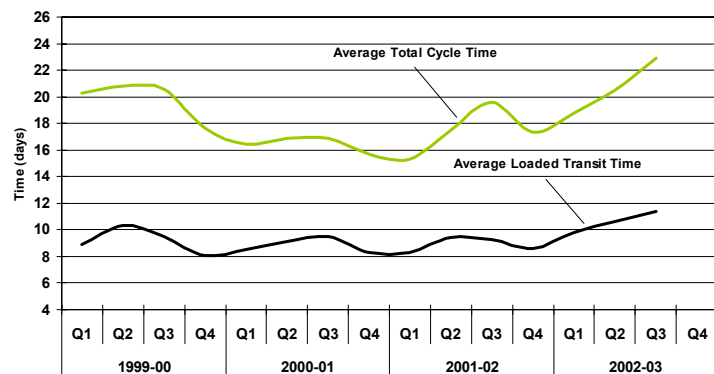
3.2 Railway Operations

The railways' average car cycle posted its third consecutive increase – reaching an overall height of 22.9 days in the third quarter. This is some 4.1 days (or 21.8%) more than the 18.8-day average recorded for the first quarter. Moreover, this increase propelled the year-to-date average up to 20.2 days – some 18.3% greater than the 17.1-day average recorded during the same period a year earlier.

Further, this increase is not restricted to the adverse performance of either the loaded or empty transit portions of the cycle. Each exhibits a similar upward trend, with both having achieved an average of 11.5 days in the third quarter.

As concerns loaded transit time, the third quarter's result denotes a 17.4% increase over the 9.8-day average observed in the first quarter. Correspondingly, the year-to-date average of 10.4 days is 17.2% greater than the previous crop year's nine-month average of 8.9 days. The corresponding gains in the empty transit portion of the cycle are somewhat sharper: 27.2% and 19.5% respectively. As reported previously by the Monitor, much of this performance appears tied to the relative inactivity of the railcar fleet in the face of reduced traffic volume. Nevertheless, a portion also seems attributable to an increase in the amount of time needed to move grain to west coast ports.¹⁷

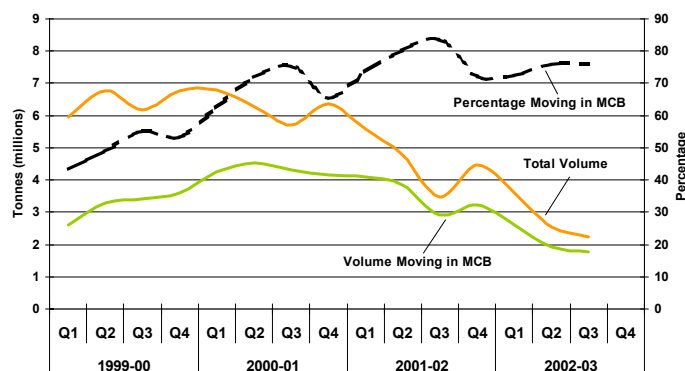
Figure 7: Railway Car Cycle



¹⁷ Increases in the average loaded transit time for movements to both Prince Rupert and Vancouver were noted during the first and second quarters of the 2002-03 crop year. Changes in these averages were undoubtedly affected by delays to traffic in the immediate aftermath of the GWU lockout in Vancouver, and in the subsequent redirection of traffic to Prince Rupert – a more distant port in most instances.

During the third quarter of the 2002-03 crop year, an estimated 1.8 million tonnes of grain moved to export positions in blocks of 25 or more cars. This is some 39.6% less than that observed during the same period a year earlier, and is in keeping with the general decline in overall grain volumes. On a year-to-date basis, the comparative decline proved slightly more – falling by 42.1% to 6.3 million tonnes. Even so, the proportion of the overall grain volume moving in multiple-car blocks during the first nine months of the 2002-03 crop year has fallen only marginally – to 75.2% versus 76.9% for the preceding crop year as a whole.

Figure 8: Railway Volume Moving in Multiple-Car Blocks (MCB)



Owing to the overall decline in volume, the value of the incentive discounts accruing to shippers moving grain in multiple-car blocks is estimated to have fallen by 51.9% in the third quarter – to \$7.1 million from \$12.3 million a year earlier. Comparative year-to-date discounts are estimated to have fallen by a lesser 42.6% – to \$25.4 million from \$44.2 million. The average discount received by this traffic fell to \$4.03 per tonne during the third quarter – 3.5% lower than the \$4.21 per tonne posted for the same period of the preceding crop year. On a year-to-date basis, the decline is less significant – having fallen a marginal 0.8% to \$4.05 per tonne.

3.3 Terminal Elevator and Port Performance

3.31 Terminal Elevators

As with other volume-related indicators, port throughput (measured as shipments from terminal elevators and bulk loading facilities) showed a marked decline during the first nine months of the 2002-03 crop year. Aggregate volume fell by 39.7% to 8.0 million tonnes from the 13.2 million tonnes recorded for the same period a year earlier.

The labour dispute that took place in Vancouver produced significant swings in the relative volumes handled through each of the western GHTS ports. On the west coast, Vancouver saw its nine-month volume plummet to 2.1 million tonnes – 73.3% less than that recorded for the same period a year earlier. Conversely, the volume directed through Prince Rupert pushed throughput there up by 94.8% to 2.1 million tonnes.

To the east, the port of Churchill was particularly hard-hit. Its volume for the first nine months of the crop year fell by 41.5% to 279,200 tonnes. At Thunder Bay, the year-to-date volume proved somewhat more resilient, and fell by a significantly lesser 9.2% to 3.5 million tonnes. To a large extent, Thunder Bay's comparatively minor decline stemmed from the prevailing market demand for domestic milling wheat and export durum.

Third quarter inventory levels at terminal elevators remained largely unchanged at an average of 1.0 million tonnes – falling by a mere 2.5% from the level posted for the same period a year earlier. A 10.2% decline in the comparative year-to-date values reflects the influence of a significantly higher average stock level in the first quarter of the 2001-02 crop year. The marginal reduction in the third quarter stock level is equally reflected in the use of licensed storage capacity, which fell to 38.2% from 39.2% for the same period the year before.

At the same time, the average amount of time spent by grain in terminal inventory during the third quarter increased 17.8% – to 27.7 days versus 23.5 days a year earlier.¹⁸ On a year-to-date basis, this has given rise to grain inventories that are an average of 0.9 days older than those on hand as at April 30, 2002 – 21.7 days

¹⁸ Direct comparisons of the overall average number of days-in-store at terminal elevators are distorted by the effects of the labour disruption at Vancouver. With Vancouver effectively closed, the calculated values for the 2002-03 crop year are heavily influenced by data pertaining to Prince Rupert and Thunder Bay. Caution is advised in drawing any conclusions from direct comparisons with values from the 2001-02 crop year.

versus 20.8 days the year before. Although much of this aging reflects the impact of a sharp drop-off in grain volume, it also points to the effects wrought by the labour disruption in Vancouver.

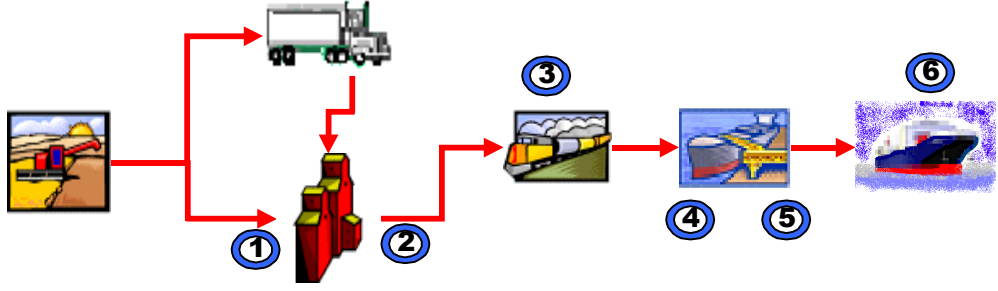
3.32 Port Performance

Some 361 vessels called at Western Canadian ports during the first nine months of the 2002-03 crop year. This marks a significantly lower rate of arrival than observed during the same period of the preceding crop year when 558 vessels arrived. This too reflects the sharp reduction in grain volumes previously discussed. The amount of time spent by these vessels in port has continued to show improvement, with the comparative year-to-date average having fallen by 19.0% to 4.4 days. Worth noting is the average of 3.9 days achieved in the second quarter – the lowest overall level thus far recorded under the GMP.

3.4 The Supply Chain

As outlined in earlier editions of the Monitor's quarterly and annual reports, the supply chain model provides a valuable framework in which to examine the workings of the GHTS as a whole. The Monitor's Annual Report for the 2001-02 crop year concluded that the amount of time being taken by grain in its movement through the supply chain averaged 67.4 days. Although marginally higher than the 64.6 days recorded for the 2000-01 crop year, it was still some 2.9% better than the 69.4-day average observed during the first year of the GMP.

Table 1: The GHTS Supply Chain



SUPPLY CHAIN ELEMENT	TABLE	1999-00	2000-01	2001-02	YTD 2002-03	SUPPLY CHAIN EFFECT	
<u>SPEED RELATED</u>							
2	Country Elevator – Average Days-in-Store	3B-4	41.7	38.3	38.0	50.0	▲
3	Average Railway Loaded Transit Time (days)	3C-4	9.1	8.8	8.8	10.4	▲
5	Terminal Elevator – Average Days-in-Store	3D-4	18.6	17.5	20.6	21.7	▲
Average Total Days in GHTS			69.4	64.6	67.4	82.1	▲
<u>SERVICE / ASSET RELATED</u>							
1	Average Country Elevator Capacity Turnover Ratio	3B-2	4.8	5.0	4.5	2.7	▼
4	Average Terminal Elevator Capacity Turnover Ratio	3D-2	9.1	8.9	6.6	n/a	–
3	Average Railway Car Cycle (days)	3C-4	19.9	16.4	17.1	20.2	▲
6	Average Vessel Time in Port (days)	3D-7	4.3	5.9	4.9	4.4	▼

Given an overall average of 65.4 days for the first quarter of the 2002-03 crop year, all of the indicators used to gauge the amount of time taken by grain in moving through the GHTS pointed towards a modest improvement over this record. The second quarter, however, saw this trend sharply reversed. With the quarterly average having increased from 65.4 days to 92.1 days in the second quarter, the year-to-date average moved to a markedly higher 76.4 days.¹⁹ Data from the third quarter reveals even further increases – the third quarter average having climbed to 99.1 days, and the year-to-date average to 82.1 days.

Indeed, the year-to-date average of 82.1 days reveals that grain moved through the GHTS at a distinctly slower pace than at any other point in the preceding three crop years. This 14.7-day (or 21.8%) increase over the 2001-02 average stems largely from a substantial rise in the amount of time spent by grain in storage in the primary elevator system – which climbed from an average of 38.0 days in the 2001-02 crop year to an average of 50.0 days for the first nine months of the 2002-03 crop year.

This was aggravated by a 1.6-day (or 18.2%) increase in the railways' average loaded transit time – which rose to an average of 10.4 days from the preceding crop year's 8.8-day average. In equal measure, the amount of time grain spent in inventory at terminal elevators also increased – the year-to-date average climbing by 1.1 days (or 5.3%) to 21.7 days versus an average of 20.6 days for the preceding crop year as a whole.

This deterioration in the effectiveness of the supply chain has undoubtedly been aggravated by a second consecutive year of sharp declines in the grain volumes handled by the country elevator, railway, and terminal elevator systems. With this decline having effectively rendered idle a significant proportion of the GHTS's handling capacity, caution must be urged in drawing any definitive conclusions regarding the relative change in GHTS efficiency. Moreover, the widespread drought in Western Canada makes it extremely difficult to distinguish between changes in efficiency brought on by these depressed volumes, and those that might have been prompted by governmental reform or other factors. Nevertheless, some specific elements should be highlighted respecting the supply chain's performance during the first nine months of the crop year.

Firstly, much of the deterioration in performance appears directly attributable to a sharp reduction in the sales programs for both CWB and non-CWB grains. Without a higher level of sales activity, country elevator inventories naturally grew – and aged – as producers continued to deliver their grain to local elevators. This build-up in inventory is perhaps best reflected by the reduction in the amount of available primary elevator space during the first quarter – which fell to about 25% of working capacity – and remained at about this level throughout much of the second and third quarters.

Secondly, much of the comparative increase in the amount of time grain spent

Figure 9: Average Days Spent by Grain in GHTS

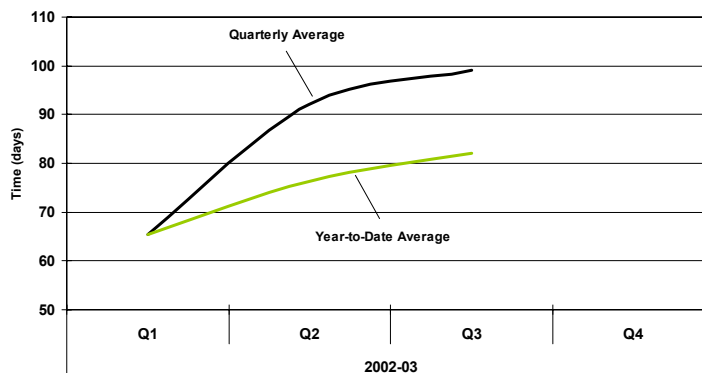
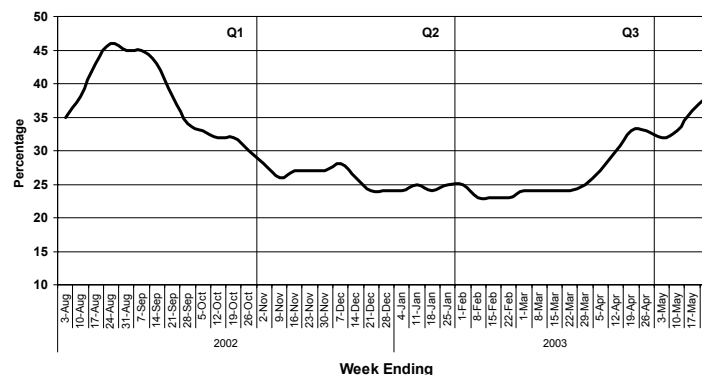


Figure 10: Available Primary Elevator Space



Source: Canadian Wheat Board

¹⁹ The values cited are quoted from the Monitor's reports for the first and second quarters of the 2002-03 crop year.

in storage at terminal elevators has been distorted by the disruption of terminal operations in Vancouver during the first half of the 2002-03 crop year. With the port largely closed down because of the lockout of the Grain Workers Union, westbound grain was redirected through Prince Rupert. Given the pent-up demand that was brought to bear on Prince Rupert initially, grain spent relatively little time in actual storage there – an average of 7.4 days in the first quarter.²⁰ Although this helped drive down the overall GHTS average in the first quarter, the clearing of this sales backlog soon gave way to normalized operations, including a rise in grain inventories, and in the average amount of time they spent in storage. Moreover, when service through the port of Vancouver was restored, stocks that had been aging in the port's terminal elevators since the onset of the dispute were suddenly made available for shipment. The inclusion of these older stocks had a correspondingly negative impact on GHTS averages in the third quarter.²¹

Thirdly, reduced volumes, and the generally greater distance involved in moving grain to Prince Rupert, were the chief factors underscoring a rise in the railways' loaded transit time – which increased from an average of 8.8 days in the 2001-02 crop year, to 10.4 days during the first nine months of the 2002-03 crop year.²² In addition, the rerouting of CP-originated grain to Prince Rupert compelled CP to interchange a significant portion of its westbound traffic to CN at Edmonton. This too contributed to an observed increase in the average loaded transit time.²³

Finally, the redirection of vessels to Prince Rupert for loading produced a backlog – particularly during the initial stages of the labour dispute – that resulted in a sharp increase in the amount of time these ships spent waiting in port. The average amount of time spent by vessels in Prince Rupert jumped to 10.0 days during the first quarter of the 2002-03 crop year – an increase of 78.6% over the 5.6-day average recorded for the preceding crop year as a whole. The elimination of this backlog saw waiting times reduced significantly in the second quarter, and helped draw down the GHTS average for time in port to a record low 3.9 days. Yet the full resumption of service to Vancouver also brought about a lengthening of average loading times at both Prince Rupert and Vancouver. As a result the GHTS average for time in port climbed to 5.1 days in the third quarter, and to 4.4 days on a year-to-date basis.

At the same time, the posted rates for many of the GHTS's component services continued to rise. The nominal input costs tied to country elevator handling, rail transportation, and terminal elevator handling, all increased at the beginning of the crop year. Increases for various country elevator handling activities ranged from lows around 1%, to highs in excess of 50%; posted single-car railway freight rates effectively increased by about 4.0%; and the rates for terminal elevator handling activities increased by 1% to 10%.

²⁰ The average number of days spent in store by wheat – the single largest grain handled by volume at Prince Rupert during this period – was 5.4 days.

²¹ To avoid distortions, grain stocks held in storage at licensed Vancouver terminal elevators were excluded from the calculation of average days in store for the duration of the labour dispute. Their inclusion afterwards resulted in the overall average for Vancouver increasing to 28.1 days in the third quarter, and to 24.8 days on a year-to-date basis – well above its traditional 15 day average. A similar impact was also had on the quarterly, and year-to-date, averages for the GHTS as a whole.

²² The comparative distances to Prince Rupert and Vancouver from a common westerly point on the CN network such as Edmonton, Alberta, are approximately 955 route-miles and 760 route-miles respectively. Given the wider catchment area traditionally associated with Vancouver, this implies that much of the traffic redirected to Prince Rupert was subject to a time-distance penalty of at least 195 route-miles.

²³ The calculation of car cycle times is dependent on completed trip records. The rerouting of grain to Prince Rupert resulted in a significant reduction in the relative number of acceptable west coast trip records used in this calculation. The decreased weighting accorded these movements effectively understates the true comparative average car cycle. Caution is advised in drawing any conclusions from direct comparisons with values from the 2001-02 crop year.

4.0 Producer Impact

4.1 Producer Netback

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.”

In its annual report for the 2001-02 crop year, the Monitor described how an improvement in the market prices of wheat, durum, canola, and yellow peas, along with changes in their respective export basis, had produced steadily greater per-tonne returns for grain producers over the course of the preceding three crop years.

Moreover, there can be no doubt that the single largest driver of improvements in the producer’s netback has been positive changes in the price of grain, which is inextricably tied to the actual volume of grain produced, and shipped. And while producers realized significantly higher returns than in previous years, the improvement was tempered by volumes that had decreased by a factor of 25% or more over the past three crop years.

The GMP provides for the calculation of these indicators at the end of the crop year. This arises chiefly because certain elements integral to the calculation are not available until after the close of the crop year itself. Despite this, the gathering of general price, and input-cost, data provides some insight into the broader financial impact that is likely to be experienced by the producer.

4.11 Initial Price Movements

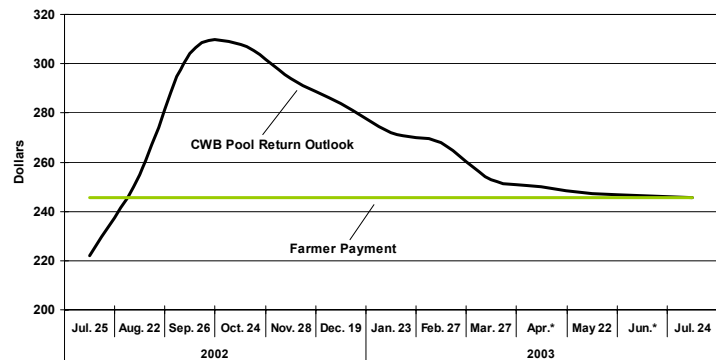
Throughout much of the first quarter of the 2002-03 crop year, movement in the per-tonne prices of wheat and canola proved generally positive. By the end of October 2002, the CWB’s Pool Return Outlook price for 1 CWRS wheat had reached \$308.00 per tonne – significantly higher than the \$211.54 reflected in its final realized price for the 2001-02 crop year.

Similarly, the average monthly Vancouver cash price for 1 Canada Canola had risen from \$355.67 per tonne for the 2001-02 crop year as a whole, to about \$450.00 by the end of the first quarter. Much of this movement stemmed from changes in global market conditions, and reflected the fact that the volume of grain available for sale around the world – and not just in Western Canada – had fallen.

4.12 Subsequent Price Changes

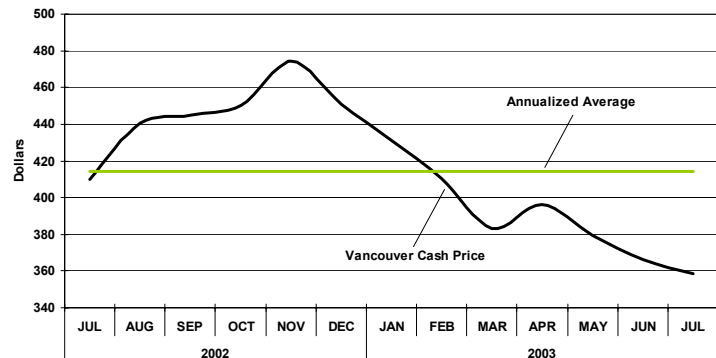
Since then, prices have abated sharply. By the end of January 2003, the CWB’s Pool Return Outlook price for 1 CWRS wheat had fallen 11.7% to \$272.00 per tonne. Further slippage in the second half of the crop year has placed the Pool Return Outlook price even with that of the farmer’s initial payment – \$245.50 per tonne.

Figure 11: Recent Price Changes – 1 CWRS Wheat (dollars per tonne)



* Note: No PRO published during April and June

Figure 12: Recent Price Changes – 1 Canada Canola (dollars per tonne)



In the case of canola, the Vancouver cash price for 1 Canada Canola fell by a comparatively more moderate 4.2% during the second quarter – to \$431.00 per tonne. Nevertheless, further worsening has since pushed the price below the \$400.00-per-tonne mark, and closer to the average received in the 2001-02 crop year. The annualized average Vancouver cash price now stands at \$414.50 per tonne.²⁴ In both cases, much of this lost ground appears to have been driven by expectations of comparatively better crop production in 2003, increased competition from non-traditional exporting nations, and a stronger Canadian dollar.

As mentioned previously, a number of the nominal input costs used to calculate the export basis – country elevator handling, rail transportation, and terminal elevator handling, being the most prevalent – have all increased during the 2002-03 crop year. These higher costs, coupled with the changes noted with respect to the price of wheat, suggests that producers are likely to witness a modest relative decline in their per-tonne returns (or netbacks) for the 2002-03 crop year. Conversely, the comparative increase in the annualized average Vancouver cash price suggests that returns for canola producers will prove somewhat higher than they were in the 2002-02 crop year.

4.2 Producer-Car Loading

As related in the Monitor's 2001-02 Annual Report, the aggregate number of producer-car loading sites had fallen from 706 to 513 over the course of the initial three years of the GMP. While much of this decline stemmed from a reduction in the number of sites local to the larger railways, those tied to shortline carriers effectively doubled – increasing from 63 to 127. At the same time, the number of producer cars shipped from these various sites increased by 91.3% – to 6,583 in the 2001-02 crop year.

In the first nine months of the 2002-03 crop year, seven new sites were added to those already operated by the major railways – boosting the overall total by 1.4% to 520. However, the number of producer cars shipped from these sites has fallen sharply. Compared to the previous crop year, the cumulative volume for the first nine months of the crop year has fallen by 52.6% – to 1,877 producer cars from 3,960. This reduction is in keeping with the overall decline in shortline-originated grain volumes noted previously.

²⁴ The value of \$414.50 per tonne cited here represents a simple average of the weekly Vancouver cash price for 1 Canada Canola. The value used by the Monitor in its determination of the producer netback for 1 Canada Canola differs in as much as it incorporates a weighted average based on monthly exports.

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 – Third Quarter 2002-2003 Crop Year

Grain Production and Supply

- Grain production declined by 29.3 % to 30.1 million tonnes due to a widespread prairie drought during the 2002 growing season.
- Second consecutive season of reduced production.
- Current production level slightly more than half of the average for the 1999-2000 and 2000-01 crop years.
- Carry forward stock decreased by 30.6% to 6.1 million tonnes.
- Overall grain supply declines by 29.6% to 36.1 million tonnes.

Railway Traffic

- Railway movements during the first nine months fell 38.8% to 8.7 million tonnes.
 - Reflects reduced volume of grain available for movement.
- Grain traffic to all Western Canadian ports declined.
 - Volume to Vancouver reduced by 67.1% to 3.0 million tonnes as a result of GWU lockout.
 - 2.1 million tonnes redirected to Prince Rupert.
 - Volume doubles that of the same period a year earlier.
 - Volume to Thunder Bay decreases by 8.9% to 3.4 million tonnes.
 - Overall share of traffic climbs to 39.3%.
 - Churchill volume falls by 50.6% to 0.2 million tonnes.

Country Elevator Infrastructure

- Rationalization efforts of the major grain companies continues.
 - Grain delivery points reduced by 14.5% to 295.
 - Number of country elevators fell by 14.6% to 427.
- Elevator storage capacity reduced by 4.4% to 5.9 million tonnes.
- Elevators capable of loading in multiple-car blocks falls 6.2% to 274.
 - Accounts for 64.2% of total GHTS elevators.
 - Share of GHTS primary storage capacity rises to 86.7%

Railway Infrastructure

- Western Canadian rail network remained unchanged at 18,909 route-miles.
- Shortline network increases by 8.3% to 3,349 route-miles as a result of two Saskatchewan line transfers by CN.
 - 46.2 route-miles to the Wheatland Railway.
 - 211.5 route-miles to the Prairie Alliance for the Future (PAFF).

Terminal Elevator Infrastructure

- Licensed GHTS terminal elevators remained unchanged at 17.
- Terminal elevator unloads for the first nine months fell by 44.4% to 84,138 railcars.

Indicator Series 1 – Industry Overview

Table	Indicator Description	Notes	2002-03			
			Q1	Q2	Q3	YTD (1)

Production and Supply [Subseries 1A]										
1A-1	Crop Production (000 tonnes)	(1)	55,141.7	54,072.6	42,541.4	30,062.6	-29.3%			
1A-2	Carry Forward Stock (000 tonnes)	(1)	7,418.2	9,775.6	8,750.6	6,070.8	-30.6%			
	Grain Supply (000 tonnes)	(1)	62,559.9	63,848.2	51,292.0	36,133.4	-29.6%			
Rail Traffic [Subseries 1B]										
1B-1	Railway Grain Volumes (000 tonnes) – Origin Province	(1)								
1B-2	Railway Grain Volumes (000 tonnes) – Primary Commodities	(1)	26,441.0	25,885.5	18,765.1	3,696.4	2,629.9	2,360.4	8,686.8	38.8%
1B-3	Railway Grain Volumes (000 tonnes) – Detailed Breakdown	(1)								
Country Elevator Infrastructure [Subseries 1C]										
1C-1	Grain Delivery Points (number)	(2)	623	540	345	314	307	295	295	-14.5%
1C-2	Grain Elevator Storage Capacity (000 tonnes)	(2)	7,443.9	7,137.0	6,125.2	5,901.5	5,913.4	5,855.2	5,855.2	-4.4%
1C-3	Grain Elevators (number) – Province	(2)								
1C-2	Grain Elevators (number) – Railway Class	(2)	917	781	500	452	446	427	427	-14.6%
1C-3	Grain Elevators (number) – Grain Company	(2)								
1C-4	Grain Elevators Capable of Incentive Loading (number) – Province	(2)								
1C-5	Grain Elevators Capable of Incentive Loading (number) – Railway Class	(2)	317	319	292	282	284	274	274	-6.2%
1C-6	Grain Elevators Capable of Incentive Loading (number) – Railway Line Class	(2)								
1C-7	Grain Elevator Openings (number) – Province	(2)								
1C-8	Grain Elevator Openings (number) – Railway Class	(2)	43	23	29	5	21	24	24	-17.2%
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	159	310	53	75	97	97	-68.7%
1C-12	Grain Elevator Closures (number) – Railway Line Class	(2)								
1C-13	Grain Delivery Points (number) – Accounting for 80% of Deliveries	(2)(3)	217	145	107	n/a	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	4,577.7	4,480.7	4,480.7	4,480.7	4,480.7	4,480.7	0.0%
1D-2	Railway Infrastructure (route-miles) – Non-Grain-Dependent Network	(2)	14,513.5	14,428.1	14,428.1	14,428.1	14,428.1	14,428.1	14,428.1	0.0%
1D-3	Railway Infrastructure (route-miles) – Total Network	(2)	19,390.1	19,005.8	18,908.8	18,908.8	18,908.8	18,908.8	18,908.8	0.0%
1D-2	Railway Grain Volumes (000 tonnes) – Grain-Dependent Network	(1)	8,683.6	8,407.3	6,228.7	1,091.7	739.4	691.8	2,522.9	-45.7%
1D-2	Railway Grain Volumes (000 tonnes) – Non-Grain-Dependent Network	(1)	16,976.0	16,749.6	12,048.0	2,496.7	1,791.8	1,528.5	5,816.0	-36.5%
1D-2	Railway Grain Volumes (000 tonnes) – Total Network	(1)	25,659.6	25,156.8	18,276.6	3,587.5	2,531.2	2,220.3	8,339.0	-39.6%
1D-3	Shortline Railway Infrastructure (route-miles)	(2)	3,043.0	3,090.9	3,090.9	3,137.1	3,137.1	3,348.6	3,348.6	8.3%
1D-3	Shortline Railway Grain Volumes (000 tonnes)	(1)	2,090.5	2,335.1	2,061.0	248.4	227.6	276.3	752.3	-50.4%
1D-5	Railway Grain Volumes (000 tonnes) – Class 1 Carriers	(1)	23,569.1	22,821.7	16,215.7	3,339.1	2,303.6	1,944.0	7,586.7	-38.3%
1D-5	Railway Grain Volumes (000 tonnes) – Class 2 and 3 Carriers	(1)	2,090.5	2,335.1	2,061.0	248.4	227.6	276.3	752.3	-50.4%
1D-6	Grain Elevators (number) – Grain-Dependent Network	(2)	371	309	179	156	153	145	145	-19.0%
1D-6	Grain Elevators (number) – Non-Grain-Dependent Network	(2)	513	440	305	281	278	267	267	-12.5%
1D-6	Grain Elevator Storage Capacity (000 tonnes) – Grain-Dependent Network	(2)	2,475.4	2,234.6	1,726.7	1,619.9	1,613.7	1,599.3	1,599.3	-7.4%
1D-6	Grain Elevator Storage Capacity (000 tonnes) – Non-Grain-Dependent Network	(2)	4,847.6	4,776.6	4,334.0	4,217.7	4,235.7	4,194.3	4,194.3	-3.2%
Terminal Elevator Infrastructure										
1E-1	Terminal Elevators (number)	(2)	15	16	17	17	17	17	17	0.0%
1E-1	Terminal Elevator Storage Capacity (000 tonnes)	(2)	2,678.6	2,703.6	2,733.6	2,733.6	2,733.6	2,733.6	2,733.6	0.0%
1E-2	Terminal Elevator Unloads (number) – Covered Hopper Cars	(1)	278,255	271,606	202,943	34,364	27,010	22,764	84,136	-44.4%

(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 as 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 as 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 2001-02 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 of these reforms is the introduction, and gradual expansion of tendering for Canadian Wheat Board (CWB) grain shipments to Western Canadian ports. By the 2002-03 crop year, the CWB is committed to tender at least half of its grain shipments to the ports of Vancouver, Prince Rupert, Thunder Bay and Churchill.

Yet 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 – Third Quarter 2002-2003 Crop Year

Tendering

- The Canadian Wheat Board's (CWB) minimum tendering commitment doubles to 50% of total volume effective August 1, 2002.
- 282 tender calls were issued by the CWB during the first nine months of the 2002-03 crop year.
 - Calls for the movement of 3.8 million tonnes to export positions in Western Canada.
 - Vancouver delivery – 54.5%; Thunder Bay delivery – 27.8%; Prince Rupert – 14.5%; and Churchill – 3.2%.
 - Distribution shifts reflect the impact of the labour disruption at the port of Vancouver.
- 1,772 bids were received from 26 grain companies; offered an aggregated 8.5 million tonnes.
 - Response rate during the second and third quarters was sharply higher than in the first quarter.
 - Denotes heightened aggressiveness of grain companies in the face of reduced volumes.
- 498 contracts concluded for the movement of 2.6 million tonnes.
 - Thunder Bay deliveries – 45.7%; Prince Rupert – 40.4%; Vancouver – 13.0%; and Churchill – 0.9%.
 - Distribution shifts reflect the impact of the labour disruption at the port of Vancouver.
 - Represents 50.0% of volume shipped by CWB to port positions in Western Canada.
 - Exactly equals its minimum 50% commitment thus far into the crop year.
- Tenders for 27.2% of the tonnage called – 1.0 million tonnes – either partially, or not at all, filled.
 - 396,400 tonnes – insufficient quantity bid.
 - 257,400 tonnes – no bid.
 - 228,800 tonnes – non-compliance with tender specifications.
 - 145,400 tonnes – unacceptable bid price.
 - Third quarter proportion to go unfilled fell to 5.8% – the lowest since CWB tendering program began.
- Proportion of volume moving in multiple car blocks falls slightly to 92.9%.
 - A marginally lower 65.0% moved in blocks of 50 or more cars.
- 83.3% of all tendered movements originated at high-throughput elevators.
 - Marginally lower than the 83.6% observed in 2001-02.
- CWB estimates overall transportation savings for the first nine months to have fallen by 27.9% to \$21.5 million.

Other Commercial Developments

- Vancouver's Grain Workers Union locked-out by the British Columbia Terminal Elevator Operators Association on August 25th.
 - West coast grain largely redirected to Prince Rupert until March 2003.
- Agricore United and Saskatchewan Wheat Pool initiate restructuring of their respective corporate debits.
- Expiry of the railways' right of first refusal in any sale of the government's fleet of 13,000 hopper renews interest of the Farmer Rail Car Coalition.
- United States launches trade complaint against the grain trading practices of Canada and the CWB.
 - Imposes preliminary countervailing and anti-dumping duties on imports of wheat and durum from Canada.
 - Final determinations by the US Department of Commerce expected later in 2003.
- Sharp decline in grain volume through Churchill threatens the port's long-term commercial viability.
 - Prompts a controversial \$2.2 million financial aid package from the governments of Canada and Manitoba.
 - Louis Dreyfus assumes responsibility for marketing and management of the port under an agreement with OmniTRAX.
- License-exempt producer-car loading facilities increase from 5 to 30 during the first nine months of the 2002-03 crop year.

Indicator Series 2 – Commercial Relations

Table		2002-03								
Indicator Description		Notes	1999-00	2000-01	2001-02	Q1	Q2	Q3	YTD (1)	% VAR
Tendering [Subseries 2A]										
2A-1	Tenders Called (000 tonnes) – Grain	(1)	n/a	4,888.0	4,961.4	2,089.6	791.1	904.2	3,784.9	-4.2%
2A-2	Tenders Called (000 tonnes) – Grade	(1)				1,981.9	2,308.1	4,215.1	8,505.1	-11.7%
2A-3	Tender Bids (000 tonnes) – Grain	(1)	n/a	1,629.2	11,400.8					
2A-4	Tender Bids (000 tonnes) – Grade	(1)								
2A-5	Total CWB Movements (000 tonnes)	(1)(2)	n/a	15,892.7	12,787.3	2,349.1	1,306.9	1,528.2	5,184.2	-44.0%
2A-5	Tendered Movements (%) – Proportion of Total CWB Movements	(1)(2)	n/a	5.4%	27.9%	46.9%	49.7%	61.4%	50.0%	63.9%
2A-5	Tendered Movements (000 tonnes) – Grain	(1)(2)	n/a	858.6	3,566.0	1,102.7	649.5	837.8	2,590.0	-8.1%
2A-5	Tendered Movements (000 tonnes) – Grade	(1)(2)								
2A-7	Unfilled Tender Volumes (000 tonnes)	(1)	n/a	4,312.4	1,487.3	882.2	93.3	52.4	1,027.9	-16.2%
2A-8	Tendered Movements (000 tonnes) – Not Awarded to Lowest Bidder	(1)	n/a	0.0	96.1	7.7	44.0	47.3	99.1	8.0%
2A-9	Tendered Movements (000 tonnes) – FOB	(1)(2)	n/a	280.8	71.3	0.0	0.0	0.0	0.0	0.0%
2A-9	Tendered Movements (000 tonnes) – In-Store	(1)	n/a	577.8	3,494.7	1,102.7	649.5	837.8	2,590.0	-8.1%
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)								

(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 as 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 minimum tendering commitment – which rose from 25% in the 2001-02 crop year to 50% in the 2002-03 crop year.

(2) – Includes tendered milling barley volumes.

(3) – Indicators 2A-10 through 2A-15 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 table in volume 2 of the quarterly report (Data Tables).

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 – Third Quarter 2002-2003 Crop Year

Trucking

- Composite Freight Rate Index for short-haul trucking remains unchanged at 100.0 during the first nine months of the crop year.

Country Elevators

- Throughput for the first nine months of the crop year fell by 29.7% to 14.0 million tonnes.
- The average elevator capacity turnover ratio declined by 21.4% to 2.7 turns.
 - Greater decline avoided as a result of a 0.3-million-tonne reduction in primary elevator storage capacity.
- Average number of days-in-store increased by 27.2% to 50.0 days for the first nine months of the crop year.
 - Reflects sharply reduced sales for CWB and non-CWB grains.
- Average weekly stock-to-shipment ratio climbs by 30.4% to 7.3 for the first nine months.
 - Indicates a build-up of inventories in the face of lower shipments.
- Posted tariff rates for elevator handling activities have increased since the last crop year.
 - Receiving, elevation and loading: 4% - 20%.
 - Cleaning: 1% - 25% for most commodities.
 - Storage: 15% - 50%.

Rail Operations

- Average car cycle increased by 18.3% to 20.2 days during the first nine months of the crop year.
 - Significant increase reflects reduced grain volumes, and effects of GWU lockout in Vancouver.
 - Average empty transit time increases 19.5% to 9.8 days.
 - Average loaded transit time increases 17.2% to 10.4 days.
- Proportion of grain traffic moving in multiple-car blocks in the first nine months falls marginally to 75.2%.
 - Use of 50-99 car block continues to prove most popular.
 - Railway incentive payments estimated at \$25.4 million – down 42.6% as a result of reduced volume.
- Posted railway freight rates increased by 4.0% in mid-August.

Terminal Elevators and Port Performance

- Terminal throughput fell by 39.7% to 8.0 million tonnes during the first nine months.
- Proportion directed to West Coast ports falls from almost two-thirds to 52.1%.
 - Vancouver throughput falls by 73.3% to 2.1 million tonnes.
 - Reflects effects of GWU lockout.
 - At 2.1 million tonnes, Prince Rupert's throughput surpasses that of the entire 2001-02 crop year.
 - Thunder Bay throughput declines by 9.2% to 3.5 million tonnes.
- 361 vessels loaded at Western Canadian ports during the first nine months of the crop year.
 - Average time in port fell by 19.0% to 4.4 days.
- Selective tariff increases for terminal elevator handling activities.
 - Receiving, elevation and loading: 2%-5% for most commodities at Vancouver and Thunder Bay.
 - Storage: 1%-3% at Vancouver
 - Tariff rates at Prince Rupert and Churchill effectively unchanged.

Indicator Series 3 – System Efficiency

Table	Indicator Description	Notes	1999-00	2000-01	2001-02	Q1	Q2	Q3	YTD (1)	% VAR
-------	-----------------------	-------	---------	---------	---------	----	----	----	---------	-------

Trucking [Subseries 3A]										
3A-1	Composite Freight Rate Index – Short-haul Trucking	(2)	100.0	102.5	100.0	100.0	100.0	100.0	100.0	0.0%
Country Elevators [Subseries 3B]										
3B-1	Grain Volume Throughput (000 tonnes)	(1)	32,493.9	33,281.9	25,923.8	5,777.2	4,124.7	4,086.6	13,988.5	-29.7%
3B-2	Average Elevator Capacity Turnover Ratio	(1)	4.8	5.0	4.5	1.1	0.8	0.8	2.7	-21.4%
3B-3	Average Weekly Elevator Stock Level (000 tonnes)	(1)	3,699.3	3,494.7	2,699.8	2,220.4	2,682.2	2,626.8	2,526.8	-12.2%
3B-4	Average Days-in-Store (days)	(1)	41.7	38.3	38.0	36.5	59.2	59.9	50.0	27.2%
3B-5	Average Weekly Stock-to-Shipment Ratio – Grain	(1)	6.2	5.4	5.4	5.0	8.3	8.8	7.3	30.4%
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)								
3C-3	Hopper Car Grain Volumes (000 tonnes) – Detailed Breakdown	(1)	25,659.6	25,156.8	18,276.6	3,587.5	2,531.2	2,220.3	8,339.0	-39.6%
3C-4	Railway Car Cycle (days) – Empty Transit Time	(1)	10.7	7.6	8.3	9.0	9.9	11.5	9.8	19.5%
3C-5	Railway Car Cycle (days) – Loaded Transit Time	(1)	9.2	8.8	8.8	9.8	10.6	11.5	10.4	17.2%
3C-6	Railway Car Cycle (days) – Total Transit Time	(1)	19.9	16.4	17.1	18.8	20.5	22.9	20.2	18.3%
3C-7	Hopper Car Grain Volumes (000 tonnes) – Non-Incentive	(1)	12,735.5	7,898.9	4,217.2	988.1	616.2	463.4	2,067.7	-30.5%
3C-8	Hopper Car Grain Volumes (000 tonnes) – Incentive	(1)	12,924.2	17,257.9	14,059.4	2,599.3	1,915.1	1,756.9	6,271.3	-42.1%
3C-9	Hopper Car Grain Volumes (\$ millions) – Incentive Discount Value	(1)	\$31.1	\$60.1	\$57.2	\$10.6	\$7.6	\$7.1	\$25.4	-42.6%
3C-10	Traffic Density (tonnes per route mile) – Grain-Dependent Network	(1)	442.3	451.4	342.0	243.6	165.0	154.4	187.7	-44.5%
3C-11	Traffic Density (tonnes per route mile) – Total Network	(1)	292.4	289.4	208.8	173.0	124.2	105.9	134.4	-36.5%
3C-12	Composite Freight Rates (\$ per tonne) – Rail	(2)(3)	330.3	328.8	240.7	189.7	133.9	117.4	147.0	-39.3%
3C-13	Multiple-Car Shipment Incentives (\$ per tonne) – Rail	(2)(3)								
3C-14	Effective Freight Rates (\$ per tonne) – CTA Revenue Cap	(2)(4)	n/a	\$25.83						n/a
Terminal Elevator and Port Performance [Subseries 3D]										
3D-1	Annual Port Throughput (000 tonnes) – Grain	(1)	23,555.5	23,941.3	18,004.6	3,310.3	2,494.1	2,150.1	7,954.5	-39.7%
3D-2	Average Terminal Elevator Capacity Turnover Ratio	(1)(5)	9.1	8.9	6.6	n/a	n/a	n/a	n/a	n/a
3D-3	Average Weekly Terminal Elevator Stock Level (000 tonnes)	(1)	1,216.2	1,192.7	1,113.6	970.4	1,093.6	1,045.1	1,034.9	-10.1%
3D-4	Average Days-in-Store – Operating Season (days)	(1)	18.6	17.5	20.6	19.2	22.2	27.7	21.7	4.1%
3D-5	Average Weekly Stock-to-Shipment Ratio – Grain	(1)(3)								
3D-6	Average Vessel Time in Port (days)	(1)(3)	4.3	5.9	4.9	4.5	3.9	5.1	4.4	-19.0%
3D-7	Distribution of Vessel Time in Port	(1)(3)								
3D-8	Distribution of Berths per Vessel	(1)(3)								
3D-9	Annual Demurrage Costs (\$millions)	(5)	\$7.6	\$16.1	\$2.9	n/a	n/a	n/a	n/a	n/a
3D-10	Annual Dispatch Earnings (\$millions)	(5)	\$14.5	\$13.3	\$7.0	n/a	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 as 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 as 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 table in volume 2 of the quarterly report (Data Tables).
 (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 2001-02 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 – Third Quarter 2002-2003 Crop Year

Port Performance

- Average weekly stock-to-vessel-requirements ratios show that sufficient grain inventories were on hand in both Vancouver and Thunder Bay to meet short-term demand.
 - Modest reductions in terminal inventory levels, along with an aging of that inventory in the face of a reduced demand for grain, produced generally higher year-to-date indicator values.
 - Vancouver
 - Wheat – 5.7 for the first nine months of the 2002-03 crop year; up by 142.0%.
 - Canola – 2.0; down 13.7%.
 - Thunder Bay
 - Wheat – 7.3 for the first nine months of the 2002-03 crop year; up by 33.6%.
 - Canola – 4.3; up 36.0%.
- Average stock-to-shipment ratios provide similar evidence of the ability of these ports to meet short-term demand through the first nine months of the 2002-03 crop year.
 - Modest reductions in terminal inventory levels, along with an aging of that inventory in the face of a reduced demand for grain, produced generally higher year-to-date indicator values.
 - Vancouver
 - CWB grains – 5.5 for the first nine months of the 2002-03 crop year; up by 67.3%.
 - Non-CWB grains – 4.3; up 7.2%.
 - Thunder Bay
 - CWB grains – 6.7 for the first nine months of the 2002-03 crop year; up by 1.1%.
 - Non-CWB grains – 4.7; up 72.0%.

Indicator Series 4 – Service Reliability

Table	Indicator Description	Notes	2002-03				
			1999-00	2000-01	2001-02	Q1	Q2

Port Performance [Subseries 4A]										
4A-1	Avg. Weekly Stock-to-Vessel Requirements Ratio – VCR – Wheat	(1)(2)	3.1	2.5	2.3	0.0	0.0	5.7	5.7	142.0%
4A-1	Avg. Weekly Stock-to-Vessel Requirements Ratio – VCR – Canola	(1)(2)	2.5	1.9	3.3	0.0	0.0	2.9	2.9	-13.7%
4A-1	Avg. Weekly Stock-to-Vessel Requirements Ratio – TBY – Wheat	(1)	5.6	5.3	4.3	7.5	6.7	7.6	7.3	33.6%
4A-1	Avg. Weekly Stock-to-Vessel Requirements Ratio – TBY – Canola	(1)	2.8	1.9	2.6	3.6	4.2	6.7	4.3	36.0%
4A-2	Avg. Weekly Stock-to-Vessel Requirements Ratio – Grade	(1)(3)								
4A-3	Avg. Weekly Stock-to-Shipment Ratio – VCR – CWB Grains	(1)(2)	3.5	2.9	3.1	0.0	0.0	5.5	5.5	67.3%
4A-3	Avg. Weekly Stock-to-Shipment Ratio – VCR – Non-CWB Grains	(1)(2)	4.6	2.6	4.1	0.0	0.0	4.3	4.3	7.2%
4A-3	Avg. Weekly Stock-to-Shipment Ratio – TBY – CWB Grains	(1)	4.6	5.2	5.5	6.8	7.1	5.5	6.7	1.1%
4A-3	Avg. Weekly Stock-to-Shipment Ratio – TBY – Non-CWB Grains	(1)	3.3	2.8	2.9	3.5	5.2	6.5	4.7	72.0%
4A-4	Terminal Handling Revenue (\$millions) – Vancouver	(1)(4)	\$192.7	\$198.9	\$139.7	n/a	n/a	n/a	n/a	n/a
4A-4	CWB Carrying Costs (\$millions) – Thunder Bay	(1)(4)	\$63.1	\$75.5	\$64.2	n/a	n/a	n/a	n/a	n/a
4A-4	CWB Carrying Costs (\$millions) – Pacific Seaboard	(1)(4)	\$63.3	\$48.2	\$49.1	n/a	n/a	n/a	n/a	n/a
4A-4	CWB Carrying Costs (\$millions) – Thunder Bay	(1)(4)	\$31.3	\$34.4	\$34.4	n/a	n/a	n/a	n/a	n/a

- (1) – Year-To-Date values are reported for volume-related indicators only (i.e., Average Weekly Stock-to-Vessel Requirements Ratio). The accompanying percentage variance denotes the relative change in the current YTD value as compared to the same period a year earlier.
- (2) – The lock-out of the CWU in Vancouver effectively prevented grain from being moved through the port's licensed terminal elevators for much of the first half of the 2002-03 crop year. Owing to the limited availability of reliable data during this period, the indicator's value for both the first and second quarter is deemed to be zero.
- (3) – Changes in the indicator cited cannot be depicted within the summary framework presented here. The reader is encouraged to consult the corresponding table in volume 2 of the quarterly report (Data Tables).
- (4) – 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 – Third Quarter 2002-2003 Crop Year

Export Basis and Producer Netback – CWB Grains

- Average price for CWB grains increased sharply between the 1999-2000 and 2001-02 crop years:
 - Wheat – increased by 26.2% to \$211.54 per tonne; durum – increased by 27.5% to \$263.74 per tonne.
 - Recent changes in the CWB’s Pool Return Outlook price for 1 CWRS wheat:
 - Climbs to a height of about \$308.00 per tonne during first quarter.
 - Falls back to about \$250.00 per tonne by the end of the third quarter.
 - Further slippage sees the PRO price match the farmer’s initial payment of \$245.50 per tonne.
 - Reductions largely fuelled by expectations of better crop production in 2003; increased international competition; and a stronger Canadian dollar.
- Average Western Canada export basis for CWB grains decreased modestly between the 1999-2000 and 2001-02 crop years.
 - Wheat – decreased 7.7% to \$50.39 per tonne; durum – decreased 6.8% to \$63.05 per tonne.
 - Recent changes in input costs:
 - Country elevator handling – up by 1%-50% depending on activity and commodity.
 - Rail transportation – up by 4%.
 - Terminal elevator handling – up by 1%-10%.
- Changes in the PRO price of 1 CWRS wheat, and input costs to the export basis, suggests a modest reduction in the producer’s netback for CWB grains in the 2002-03 crop year.
 - Per-tonne financial returns still tempered by sharply reduced grain volumes.

Export Basis and Producer Netback – Non-CWB Commodities

- Average prices for non-CWB commodities increased sharply between the 1999-2000 and 2001-02 crop years
 - Canola – increased by 22.0% to \$355.67 per tonne; large yellow peas – increased by 38.2% to \$279.85 per tonne.
 - Recent changes in the price for 1 Canada canola:
 - Average Vancouver cash price climbs to a height of \$477.90 per tonne at the beginning of the second quarter.
 - Falls below \$400.00 per tonne by the end of the third quarter.
 - Reflects expectations of improved crop production; increased competition; and a stronger dollar.
- Average Western Canada export basis for non-CWB commodities showed marked differences between the 1999-2000 and 2001-02 crop years:
 - Canola – decreased by 20.0% to \$42.01 per tonne; large yellow Peas – increased by 29.6% to \$70.97 per tonne.
 - Recent changes in input costs:
 - Country elevator handling – up by 1%-50% depending on activity and commodity.
 - Rail transportation – up by 4%.
 - Terminal elevator handling – up by 1%-10%.
- Changes in the price of 1 Canada canola, and input costs to the export basis, suggests somewhat higher returns to the producers of non-CWB commodities in the 2002-03 crop year.
 - Per-tonne financial returns still tempered by sharply reduced grain volumes.

Producer-Car Loading

- Number of producer-car-loading sites increase by 1.4% to 520 by the end of the third quarter.
- Producer-car shipments fell by 52.6% to 1,877 railcars in the first nine months.

Indicator Series 5 – Producer Impact

Table	Indicator Description	Notes	1999-00	2000-01	2001-02	Q1	Q2	Q3	2002-03	YTD (1)	% VAR
-------	-----------------------	-------	---------	---------	---------	----	----	----	---------	---------	-------

Export Basis

	Western Canada										
5A-10	1 CWRS Wheat (\$ per tonne)	(1)(3)	\$54.58	\$52.29	\$50.39						
5A-10	1 CWA Durum (\$ per tonne)	(1)(3)	\$67.63	\$68.71	\$63.05						
5A-10	1 Canada Canada (\$ per tonne)	(1)(3)	\$52.51	\$49.11	\$42.01						
5A-10	Canadian Large Yellow Peas – No. 2 or Better (\$ per tonne)	(1)(3)	\$54.76	\$72.72	\$70.97						

Producer-Car Loading

5B-1	Producer-Car Loading Sites (number) – Class 1 Carriers	(2)	415	381	386	386	392	393	393		1.8%
5B-1	Producer-Car Loading Sites (number) – Class 2 and 3 Carriers	(2)	120	122	127	127	127	127	127		0.0%
5B-1	Producer-Car Loading Sites (number) – All Carriers	(2)	535	503	513	513	519	520	520		1.4%
5B-2	Producer-Car Shipments (number) – Covered Hopper Cars	(1)	3,441	4,724	6,583	318	657	902	1,877		-52.6%

(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 as 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 as 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.

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 two-and-a-half-year mandate, Quorum Corporation is to provide the federal government with a series of 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: 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	Mid-Sask Terminal Ltd.
Agricultural Producers Association of Saskatchewan	Mission Terminal Inc.
Agriculture and Agri-Food Canada	National Farmers Union
Alberta Agriculture, Food and Rural Development	North East Terminal Ltd.
Alberta Transportation	North West Terminal Ltd.
Alberta RailNet	OmniTRAX Canada, Inc.
British Columbia Railways	Parrish & Heimbecker Ltd.
Canadian Canola Growers Association	N.M. Paterson & Sons Limited
Canadian Grain Commission	Port of Churchill
Canadian Maritime Chamber of Commerce	Port of Prince Rupert
Canadian National Railway	Port of Thunder Bay
Canadian Pacific Railway	Port of Vancouver
Canadian Ports Clearance Association	Prairie West Terminal
Canadian Ship Owners Association	Prince Rupert Grain Ltd.
Canadian Special Crops Association	Rail America
Canadian Transportation Agency	Red Coat Road and Rail
Canadian Wheat Board	Saskatchewan Agriculture and Food
Cando Contracting Ltd.	Saskatchewan Highways and Transportation
Cargill Limited	Saskatchewan Association of Rural Municipalities
CMI Terminal	Saskatchewan Wheat Pool
ConAgra Grain, Canada	South West Terminal
Gardiner Dam Terminal	Statistics Canada
Government of BC	Terminal 22 Inc
Grain Growers of Canada	Transport Canada
Great Sandhills Terminal	Vancouver Wharves Ltd. (BCR Marine)
Great Western Rail	Western Barley Growers Association
Inland Terminal Association of Canada	Western Canadian Wheat Growers Association
James Richardson International Ltd. (Pioneer Grain)	Western Grain By-Products Storage Ltd.
Keystone Agricultural Producers	Western Grain Elevator Association
Louis Dreyfus Canada Ltd.	Weyburn Inland Terminal Ltd.
Mainline Terminal Ltd.	Wild Rose Agricultural Producers
Manitoba Agriculture	Winnipeg Commodity Exchange
Manitoba Transportation and Government Services	

Members of the Quorum Corporation Advisory Board (as of August 31, 2003)

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
Souhey, 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

Hongliang (Bill) Zhuang

Senior Developer

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.