

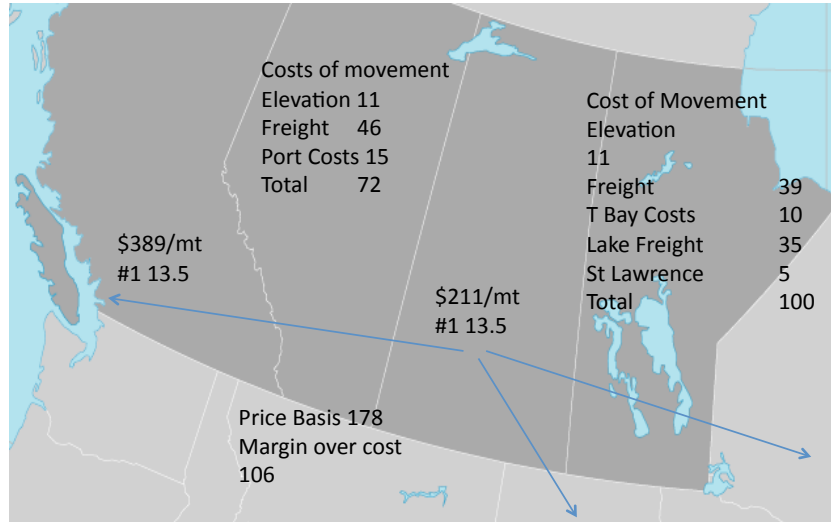
Grain Marketing and Transportation

Towards a Solution
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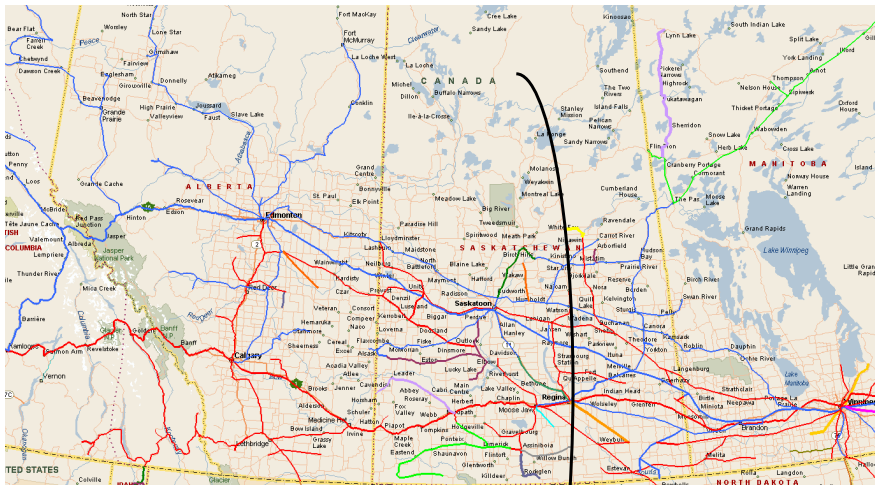
Objectives

- Define the problem
- Outline how the CWB would have dealt with the situation
- Propose ideas for moving toward a solution

Grain Movement Costs



GHTS Rail Network: 2014



CWB – key services

- Estimate and defend aggregate levels of service
- Build a sales and movement plan which assumed all non boards wanting to go west would
- Recommend a FAF
- Accept that portion of producer contracts which could move – balance off the market
- Allocate rail cars to companies based on produce sign up – trucking premiums
- Adjust as required

The problem

- Accountability for aggregate levels of service
- Inadequate total capacity for market solution
- Outrageous basis levels
- No planning for maximum west coast movement
- No marketing channel for the balance
- Perverse incentives – solution unlikely in current regulatory framework

Towards a Solution

- Revisit the GTA approach
- Ensure an aggregate service commitment
- Forward rail contracting
- Improve price transparency and discovery through mandatory price reporting
- Enhance position of non facility owners
- Rail competition
- Maintain revenue cap
- Improve west coast capacity(all capacity)

The GTA

- Introduced by conservatives in 1979 killed by the liberals in 1995
- Responsible for aggregate commitments and apportioning cars among competing users
- Provided a platform for planning
- Relatively small unit which developed a solid reputation

Aggregate Service for Farmers

- Currently no player has an interest in service on an aggregate basis
- All regulations are geared to shippers
- Shippers are currently making record profits
- To attain aggregate service we need to get a GTA like organization or change the standing eligibility with the Canadian Transportation Agency

Forward Rail Contracts

- Currently a car order simply places a shipper on a waiting list
- Companies need a method of matching rail to other components of the grain marketing channel
- Tricky to develop without a GTA or alternate oversight body(order of events)

Price transparency

- Markets require information to function
- West coast, Thunder Bay, and terminal market price reporting is required as there is no functioning futures market
- Information in itself will change flows

Enhance market competition

- Protect producer cars including guaranteed service levels
- Provide a final offer arbitration for service and price for non facility owners to deal with the big three terminal owners
- Ensure new CWB has competitive access to the system

Rail competition

- Shippers need access to regulators to push contracts closer to competitive market relationships
- Running rights have the potential to improve capacity if time limited unidirectional movement is directed
- US experience suggests increased competition encourages rail investment in capacity

Revenue Cap

- Very important to maintain
- Needs to be reviewed for level and perverse incentives

West Coast Capacity

- Improved west coast capacity
- Latent rail capacity probably exists with proper regulatory oversight
- Running rights will help
- Terminals will be the limit if rail improves somewhat
- Cannot build for the extremes so need to keep our eye on matching capacity to sales

Conclusion

- Current problem is not a “rail only” problem
- Canada has constraints and will continue to have constraints so a regulatory framework is required (there are a number of possible approaches – less draconian and more effective than the current OIC)
- additional research is required on west coast capacity, rail competition enhancements, and potential models for forward freight markets