

KEEPING UP WITH CONSUMERS: UNDERSTANDING THE POLICY IMPLICATIONS OF A CHANGING LANDSCAPE

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CINQUIÈME CONFÉRENCE ANNUELLE SUR LES POLITIQUES AGRICOLES CANADIENNES

ÉVOLUER AU MÊME RYTHME QUE LES CONSOMMATEURS: COMPRENDRE LES EFFETS D'UN ENVIRONNEMENT EN ÉVOLUTION SUR LES POLITIQUES

Grain Marketing and Transportation

Elements of a Solution
in a post Wheat Board Market
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Slide 2

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Owner, 1/28/2015

GHTS learning from 2013/4

- **What** are the problems
- **Why** do we have these problems
- **How** can a new market and regulatory system incorporate producer interests in a post CWB era

The Problem – A Farm Perspective

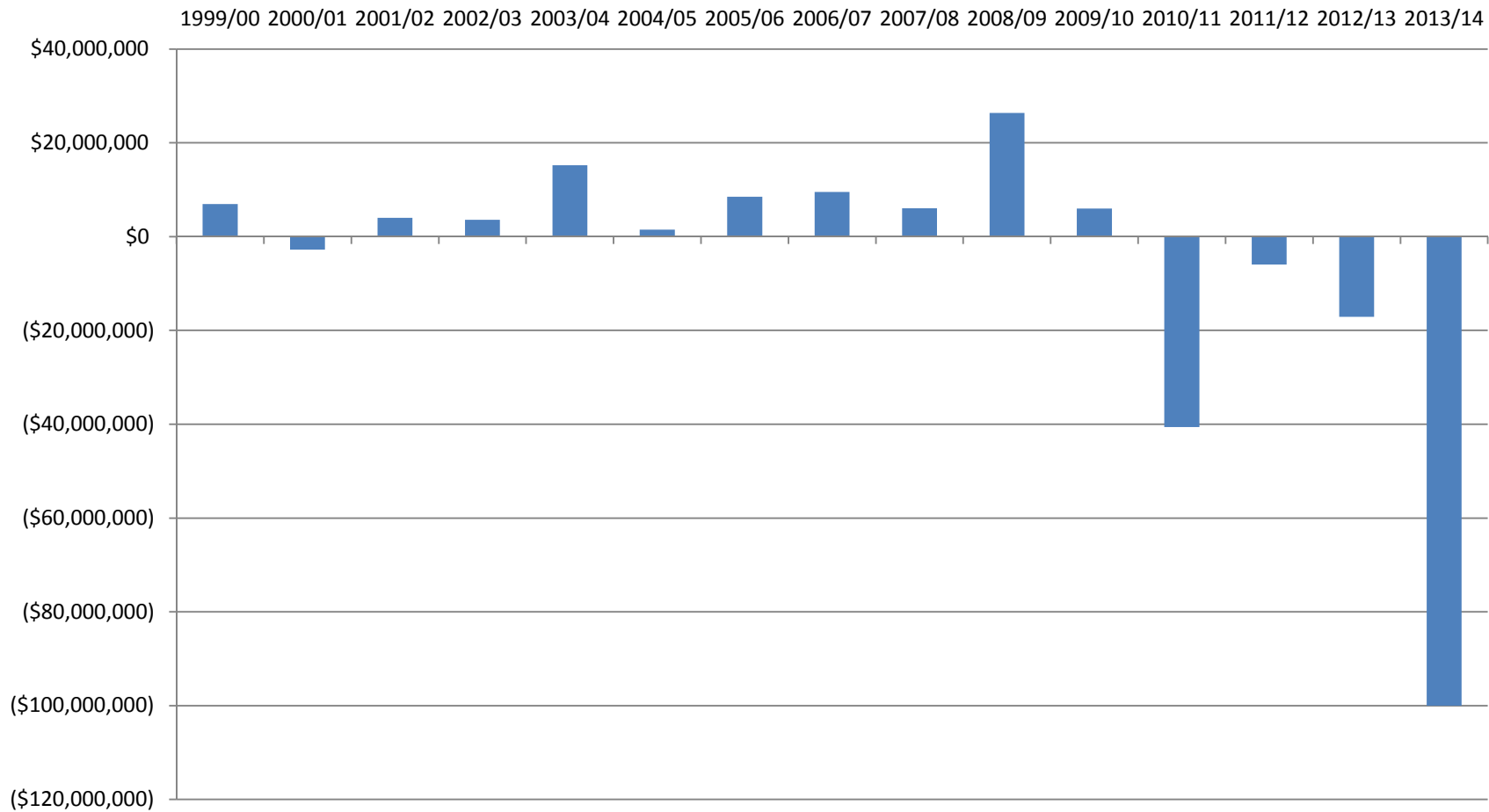
- Basis was horrible
- Customer service was unacceptable
- Marketing opportunities were limited in a falling market
- Burden of failure placed heavily on some crops and some regions(inequity)

Basis

February 2014 West Coast Basis	208/mt
Competitive Basis	72.50/mt
Net Loss to Farmers	135.50/mt*

*Dr. Richard Gray – Producer submission to the CTA review panel

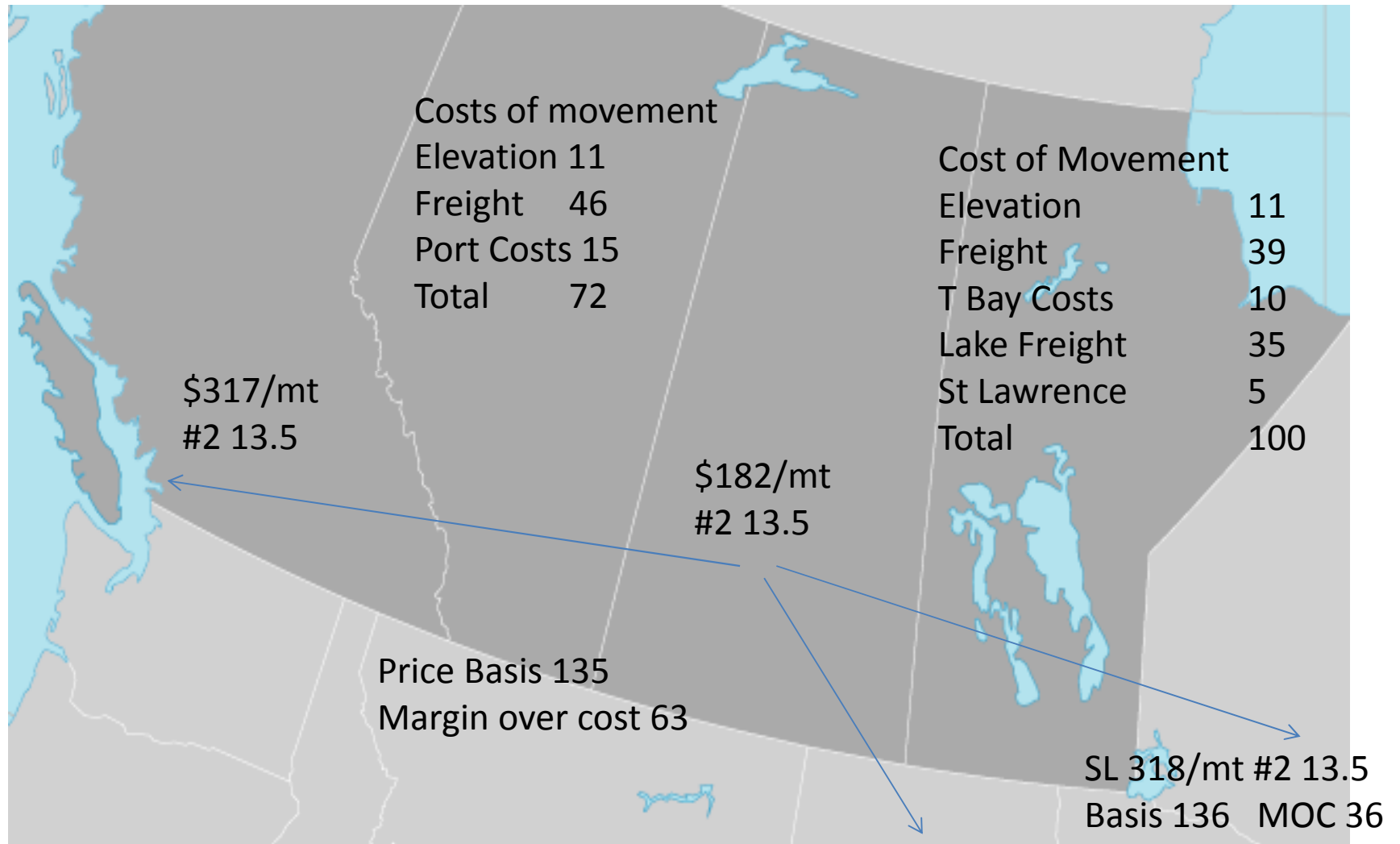
Net Demurrage



Why

- Constrained export corridors
- Different costs between corridors
- No understanding of the role of the CWB nor planning for an alternative with the decision to end the CWB
- Elements necessary for market solution not in place – open order system
- No farmer access to regulator
- OIC created perverse incentives and discouraged some crops, shippers and regions

Grain Movement Costs



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

GHTS Rail Network: 2014



Towards a Solution

- Revisit the GTA like approach – access to regulator
- Ensure an aggregate service commitment
- Forward rail capacity commitments
- 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
- Need a mechanism to receive/negotiate a car supply for planning/market signals
- Needed to ensure apportionment of capacity includes all shippers

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 Capacity commitments

- 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 and railways (GTA could play this roll)
- Ensure all non west coast facility owners have access to the system

Rail competition

- Shippers, farmers, and GTA 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 (costing review) 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
- Best regulatory approach pushes commercial players toward a “competitive solution”
- Farmers need a body to get access to regulatory protection
- additional research is required on west coast capacity, rail competition enhancements, and potential models for forward freight markets