

# Monitoring the Canadian Grain Handling and Transportation System

## Third Quarter 2003-2004 Crop Year

# 1 Summary Report



Government of Canada  
Gouvernement du Canada

Quorum  
Corporation



## **Foreword**

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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 30 April 2004. 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 2003-04 crop year.

This report constitutes the eleventh in a series of quarterly and annual submissions prescribed under the GMP. Although the indicators that follow largely compare the GHTS's current-year performance with that of the preceding 2002-03 crop year, they are also intended to form part of a time series that extends forward from the 1999-2000 crop year. As such, comparisons to earlier crop years are also made whenever a broader contextual framework is deemed appropriate.

This report is comprised of two parts: the Summary Report, which provides a general overview of the most noteworthy findings, trends or industry activity; and the Data Tables, which contain the detailed indicator measures that are the cornerstone of the GMP. The Summary Report includes a section that provides a synopsis and summary of each of the five Indicator Series. In the interest of brevity, where the "Synopsis" section recognizes all measures changes, the "Findings" narrative will focus on specific measures changes that are noted as being significant or relative to issues raised in this quarters report.

In addition to the printed version, both parts of the report can be downloaded from the Monitor's website ([www.quorumcorp.net](http://www.quorumcorp.net)).

### **QUORUM CORPORATION**

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# Findings

Following two difficult growing seasons characterized by widespread drought, the 2003-04 crop year brought the first upturn in commercial activity for many of the stakeholders in Canada's Grain Handling and Transportation System (GHTS). This was evident in virtually every sector of the system, and is broadly reflected in improved quarterly and year-to-date values for the various measures used under the Grain Monitoring Program (GMP).

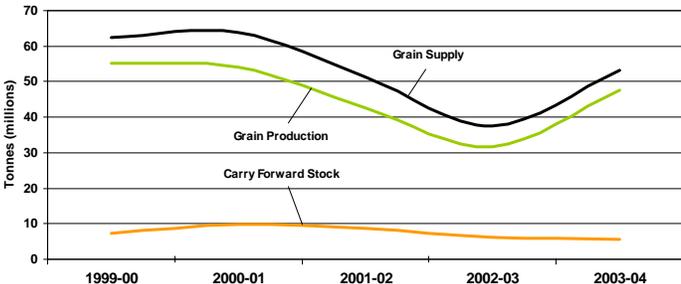
## 1.0 Industry Overview

### 1.1 Grain Supply and Railway Traffic

Overall grain production for the 2003-04 crop year climbed to 47.7 million tonnes – a gain of 51.1% over the 2002-03 crop year. Representing about 90% of the 54.6-million-tonne average for the 1999-2000 and 2000-01 crop years, this rebound marked the first time in three years that Western Canadian grain production approached a near-normal level.

In conjunction with 5.5 million tonnes in carry-forward stocks, the overall volume of grain available for movement during the 2003-04 crop year totalled 53.1 million tonnes – 15.5 million tonnes (or 41.3%) more than in the 2002-03 crop year. The magnitude of this improvement in the grain supply was widely mirrored in GMP statistics that showed significantly elevated levels of country elevator throughput, railway traffic volume, and terminal elevator handlings during the first nine months of the 2003-04 crop year.

Figure 1: Western Canadian Grain Supply



Total railway grain volumes for the first nine months increased by 71.7% to 14.9 million tonnes. Shortline railways, whose operations had been particularly hard hit in the last two years, saw their volumes virtually double during the period to 1.4 million tonnes. Almost 8.3 million tonnes (55.4%) of the total was directed to Vancouver; 4.3 million tonnes (29.1%) to Thunder Bay; 1.9 million tonnes (13.0%) to Prince Rupert; and 0.4 million tonnes (2.6%) to Churchill.

Special mention must also be made of the fact that significant quarterly, as well as year-over-year, fluctuations in the grain volumes handled by the west coast ports of Vancouver and Prince Rupert are often observed. By way of example, handlings at the port of Vancouver for the nine-month period ended 30 April 2004 increased by 178.1% over that of the same period a year earlier. These arise chiefly as a result of the comparisons that are made with those time periods directly affected by a labour dispute at the port of Vancouver in the previous crop year.<sup>1</sup>

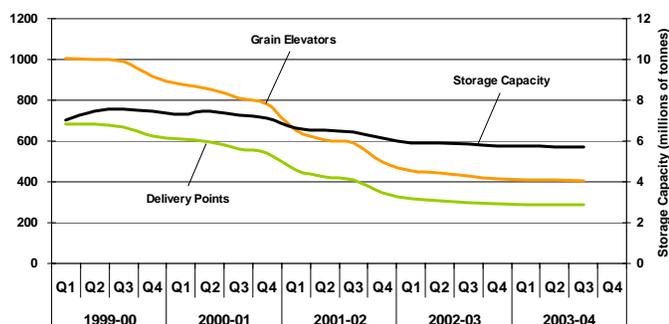
<sup>1</sup> The British Columbia Terminal Elevator Operators Association locked out employees of the Vancouver Grain Workers Union in August 2002. This action effectively prevented grain from being moved through the port of Vancouver for much of the first half of the 2002-03 crop year. Although the dispute was settled in December 2002, the redirection of grain traffic to Prince Rupert effectively distorted traditional shipping patterns on the west coast during this period. Caution is, therefore, urged when making any direct quarterly or year-over-year comparisons.

## 1.2 Country Elevator Infrastructure

As outlined by the Monitor in its annual report for the 2002-03 crop year, the rationalization of the country elevator network continues, although the pace of that restructuring has slowed significantly. During the first nine months of the 2003-04 crop year, a total of eleven facilities were removed from the GHTS. As at 30 April 2004 the total number of country elevators remaining in the system had fallen to 405 – just 2.6% less than the 416 in place at the end of the previous crop year<sup>2</sup>. This network represents but 40.3% of the 1,004 facilities in place at the outset of the 1999-2000 crop year.

The decline in elevator facilities has also been paralleled by a reduction in the number of grain delivery points. For the first nine months of the 2003-04 crop year, the total number of grain delivery points fell by only four (or 1.4%) to 287. As was the case with the elevator infrastructure, the number of active delivery points remaining represents just over two-fifths – 41.9% – of the 685 benchmarked at the beginning of the GMP. In the 2002-03 crop year, 80% of all producer grain deliveries were made at about one-third – 89 – of these locations.<sup>3</sup>

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



At the same time, the associated storage capacity of the country elevator network decreased by 0.8% in the first nine months of the 2003-04 crop year. This modest reduction effectively left the 5.7 million tonnes of storage capacity recorded as at 31 July 2003 unchanged. And while the overall reduction since the beginning of the GMP has resulted in almost 1.3 million tonnes of storage capacity being removed from the GHTS, the remaining elevator network still encompasses 81.2% of the storage capacity that existed almost five years earlier.

On the whole, these trends underscore the fact that the GHTS continues to evolve into a network of comparatively fewer facilities, with higher storage capacities, and an ability to load railcars in greater numbers than ever before. On this latter point, it is worth noting that whereas only 119 of the elevators in place at the beginning of the GMP were able to load 50 or more railcars at a time, that number had increased to 175 by the end of the third quarter. What is more, their relative proportion in comparison to all licensed elevator facilities has gone from 11.9% to 43.2%.

## 1.3 Railway Infrastructure

The third quarter of the 2003-04 crop year posted the first reduction in railway infrastructure since the 2001-02 crop year. A total of 64.0 route-miles were removed from the western Canadian network when the Southern Manitoba Railway abandoned about 40% of its system on 1 March 2004.<sup>4</sup>

Including the third quarter's reduction, the span of Western Canada's railway infrastructure has fallen by 3.1% since the beginning of the GMP – to 18,859.9 route-miles as at 30 April 2004.<sup>5</sup> This stands in sharp contrast with the 59.7% decline in the number of licensed elevators that are tied to this network. Still, another 65.1

<sup>2</sup> This represents a reduction of 13 primary elevators, from 389 to 376, offset by an increase of 2 process elevators, from 27 to 29.

<sup>3</sup> The most recent statistics available for grain deliveries by station are those from the 2002-03 crop year.

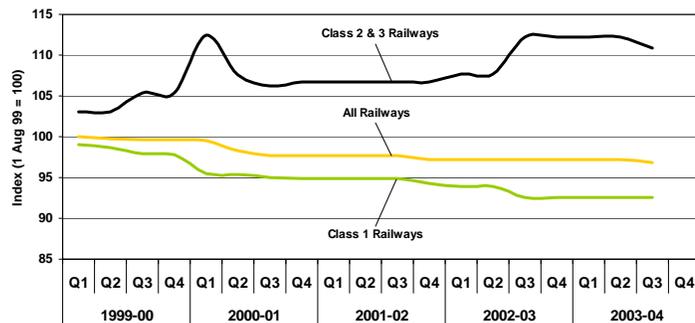
<sup>4</sup> The section abandoned by the Southern Manitoba Railway (SMR) extended westward from Mariapolis to Elgin, Manitoba. This section was purchased from CN when the company was established in 1999, and encompassed portions of the former owner's Miami and Hartney subdivisions. The SMR cited the closure of local elevators, along with the incentives paid by large grain companies to draw grain into their high-throughput facilities, as the underlying forces in the erosion of its traffic base and its abandonment decision.

<sup>5</sup> Most of the railway infrastructure abandoned in Western Canada since the beginning of the GMP has been grain-dependent branch lines – 522.9 route-miles (or 86.0%) out of a total of 608.3 route-miles.

route-miles of CP infrastructure in the provinces of Saskatchewan and Alberta are slated for abandonment in the 2003-04 crop year.<sup>6</sup>

The main change relating to railway infrastructure has been the transfer by CN and CP of various branch line operations to a number of new shortline carriers. By the end of the third quarter, some 5,207.8 route-miles – or 27.5% – of the Western Canadian network was under the administration of 16 different regional and shortline railways. And while the most recent of these transfers saw two shortlines created during the course of the 2002-03 crop year, none have been added in the last nine months. In fact, the focus in the 2003-04 crop year has seemingly moved away from the creation of new railways and towards the sale of existing ones.

**Figure 3: Relative Change in Route-Miles – Railway Infrastructure**



### 1.31 Sale of the Great Western Railway

The Great Western Railway (GWR), which owns 329.1 route-miles of grain-dependent infrastructure in southwestern Saskatchewan, indicated that it was no longer prepared to accept the financial losses it had been incurring in recent years. Notwithstanding a significant gain in producer car volume, the closure of local GWR elevators along with the incentives paid by grain companies to draw grain into larger mainline facilities had effectively reduced the carrier's handlings to about one-quarter of the area's estimated potential.

As a result, the railway's corporate parent stated that it was looking to either sell the line or abandon it entirely.<sup>7</sup> With an asking price of \$5.5 million, however, few appeared ready to make the investment. Nevertheless, a group of concerned area farmers mounted an effort to save the railway, and raised the \$0.6-million down payment demanded by its owners before the end of the third quarter. Additional capital will be required to complete the purchase.

### 1.32 Sale of BC Rail

In addition to the sale of the GWR, the Government of British Columbia's plan for the privatization of BC Rail moved closer to its conclusion. Although the provincial government had announced in November 2003 that it had accepted CN's bid to become the new operator of BC Rail, the transaction was subject to the approval of the Competition Bureau.<sup>8</sup> With shippers having raised a number of concerns over what they perceived as a potential loss of competition, however, this approval had yet to be granted when the third quarter came to a close.<sup>9</sup>

In as much as grain was concerned, a number of shippers had raised concerns about the potential impact a CN purchase might have on movements from the Peace River area. Specifically, these concerns included the need for competitive price protection measures, the maintenance of rail service, and the supply of sufficient

<sup>6</sup> The infrastructure to be abandoned by CP encompasses 39.6 route-miles of track in Saskatchewan (including portions of its Arcola, Burstall, and Rocanville subdivisions) and another 25.5 route-miles in Alberta (made up of segments of its Cardston and Sterling subdivisions).

<sup>7</sup> The Great Western Railway is owned by Westcan Rail Ltd. of Abbotsford, British Columbia.

<sup>8</sup> The transaction specifies that CN will pay \$1.0 billion to acquire the outstanding shares of BC Rail Ltd., along with the right to operate a freight railway over the BC Rail network under a 60-year lease, with an option to renew for another 30 years thereafter. The railway's physical infrastructure – including rights-of-way, roadbed, and track – is to remain owned by the province of British Columbia.

<sup>9</sup> The Competition Bureau gave conditional approval to the transaction on 2 July 2004 after concluding a Consent Agreement with CN. The agreement effectively obligates the carrier to undertake a number of specific actions aimed at addressing the competitive issues raised by railway customers, grain handlers and other stakeholders.

railcars. Beyond this, the transaction is also expected to bring the movement of grain from BC Rail origins under the jurisdiction of the Canada Transportation Act. As regards the GHTS, this change also entails bringing grain moving from former BC Rail delivery points under the provisions of the revenue cap.<sup>10</sup>

#### **1.4 Terminal Elevator Infrastructure**

The number of licensed terminal elevators located within Western Canada was reduced by one (or 5.9%) at the beginning of the 2003-04 crop year with the closure of the 91,000-tonne Agricore United “M” facility at Thunder Bay. As at 30 April 2004, the network comprised a total of 16 facilities and had an associated storage capacity of 2.6 million tonnes – a 3.3% decline from the 2.7 million tonnes in place throughout the 2002-03 crop year.

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<sup>10</sup> Former BC Rail grain shippers will also be given equal treatment under the Canada Transportation Act, as is the case with other CN and CP shippers. This includes its provisions for rates and conditions of service that must be commercially fair and reasonable.

## 2.0 Commercial Relations

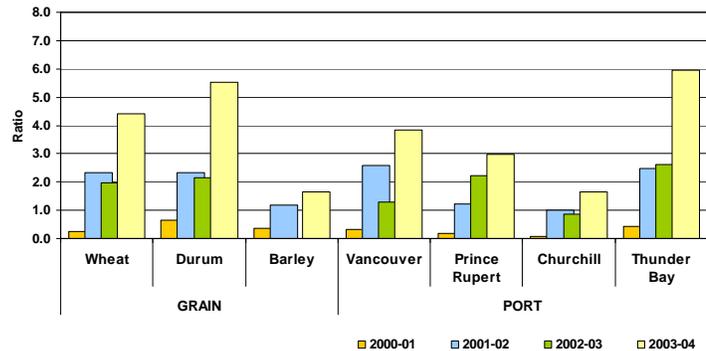
### 2.1 Tendering

Following consultations with its 26 agents in the latter part of the 2002-03 crop year, the Canadian Wheat Board (CWB) brought forward a series of changes to its tendering program for the 2003-04 crop year. Specifically, the CWB committed itself to moving a fixed 40% of the grain it ships to the four ports in Western Canada using a combination of tendering and advance car awards. Under this new arrangement, the CWB had the option of tendering up to a *maximum* of 20% of its overall volume, rather than the minimum commitment of 50% that had prevailed in the 2002-03 crop year.<sup>11</sup>

During the first nine months of the 2003-04 crop year, the CWB issued 158 tender calls for the movement of just under 2.0 million tonnes of grain. These were met by 1,514 bids offering to move an aggregated 8.2 million tonnes – over four times the amount sought by the CWB.

The scope of this response – as gauged by a higher ratio of tonnage-bid-to-tonnage-called – stands in sharp contrast to that witnessed in any of the three preceding crop years. In general terms, the bidding observed during the first nine months of the 2003-04 crop year proved significantly more intense than at any other period under the GMP. This was true of all grains, although the bidding activity with respect to wheat and durum was substantially greater than it was for barley.

Figure 4: Tendered Volume – Ratio of Tonnage Bid to Tonnage Called



Of particular interest was the fact that while the bidding activity surrounding each of the four ports in Western Canada was intensified, the response rate on tenders calling for delivery to Thunder Bay was considerably greater than for any other port. One potential explanation is rooted in the fact that in addition to having the largest number of terminal elevators among the four ports of Western Canada, Thunder Bay also has the most storage capacity, and the broadest ownership base. Furthermore, the mix of grains and grades could also have had a bearing.

This heightened aggressiveness was reflected in the maximum discounts put forward in the tender bids of the grain companies. Specifically, the first nine months of the 2003-04 crop year saw maximum accepted discounts that were about one-third more than those reached during the preceding crop year: \$23.04 per tonne versus \$16.99 in the case of wheat; and \$24.07 per tonne versus \$17.27 in the case of durum.<sup>12</sup> To an extent, it can also be seen in a decline in the proportion of the called volume that ultimately went unfilled. During the first nine months of the 2003-04 crop year, this proportion fell to 10.4% – about one-third of that observed in either of the two preceding crop years.

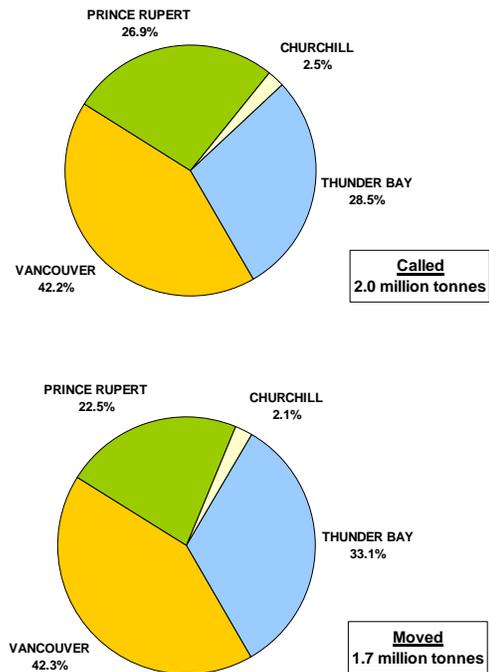
With the labour dispute that had affected west coast operations during much of the 2002-03 crop year settled, the port of Vancouver re-emerged as the principal destination in the movement of tendered grain. Thus far into the 2003-04 crop year, 42.2% of the overall called tender tonnage cited Vancouver as the delivery destination. This was followed by Thunder Bay with an allocation of 28.5%; Prince Rupert with 26.9%; and Churchill with 2.5%.

<sup>11</sup> These modifications to the CWB's tendering program are outlined more fully in section 2.31.

<sup>12</sup> It should be noted that the third quarter showed some curbing in terms of the maximum discounts put forward, particularly among the non-major grain companies. Whether this denotes a short-term lull in bidding activity, or the beginning of a broader retrenchment, remains unclear.

It is worth noting that the 26.9% allocated by the CWB to the port of Prince Rupert during the first nine months of the 2003-04 crop year was significantly above the 14.5% accorded to it for the 2001-02 crop year as a whole.<sup>13</sup> What is more, the second and third quarters saw Prince Rupert allocated even higher shares of the tender volumes called – 34.1% and 30.1% respectively. These gains, along with more modest increases in the proportions secured by Thunder Bay and Churchill, would suggest that Vancouver is losing its dominance as the destination of choice in the movement of tendered grain. It remains to be seen, however, whether these proportions actually depict a fundamental shift in CWB shipping patterns, or the short-term influence of other market forces.

Figure 5: Tendered Grain – Cumulative Volumes to 30 April 2004



The first nine months of the 2003-04 crop year saw the CWB award a total of 330 contracts for the movement of an aggregated 1.7 million tonnes of grain.<sup>14</sup> As was the case with tonnage called, the largest portion of this volume – 42.3% – was delivered to Vancouver. This was in turn followed by Thunder Bay with a 33.1% share, Prince Rupert with 22.5%, and Churchill with 2.1%.

Similarly, Vancouver's share of the tendered grain movement has also fallen from the 59.0% it garnered in the 2001-02 crop year. Over three-quarters of this reduction – 12.8 percentage points – passed to Prince Rupert in the form of increased handlings, while the ports of Thunder Bay and Churchill posted more marginal gains of 3.3 and 0.6 percentage points respectively.

The vast majority of the CWB's tendered grain continued to move in blocks of 25 or more railcars. As at 30 April 2004, the proportion moving in these blocks amounted to 94.0% – just above the 91.2% noted for the previous crop year as a whole. Likewise, the proportion originated at high-throughput elevators during the first nine months was marginally greater than that of the 2002-03 crop year – 85.4% versus 83.0% respectively.

In addition, there has been a clear rise in the proportion of tendered grain that moved in blocks of 50 or more cars – 70.9% for the first nine months as compared to 62.1% for the 2002-03 crop year. Moreover, about two-thirds of the gain came as a result of a migration away from the use of the 25-49-car block, where the incentives supporting them were either reduced or eliminated by the railways.<sup>15</sup>

In aggregate, the grain volume moved under tender by the CWB in the first nine months of the 2003-04 crop year represented 19.5% of the 8.8 million tonnes it moved to Western Canadian ports, and was only marginally lower than the 20% maximum that the CWB had committed itself to. Despite the overall rollback in the proportion of grain moved under the tendering program, the CWB's accumulated transportation savings for the first nine months of the 2003-04 crop year actually increased by 68.8% to reach \$36.3 million versus \$21.5

<sup>13</sup> The 2001-02 crop year represents the last directly comparable period given the distortion of traffic patterns brought on by the labour dispute at the port of Vancouver in the 2002-03 crop year.

<sup>14</sup> The volumes cited as moving under the CWB's tendering program also include those for malting barley – which is administered independent of other CWB grains.

<sup>15</sup> A fuller discussion of the recent changes in railway incentives can be found in section 3.32.

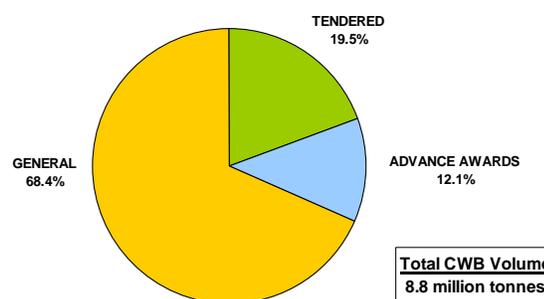
million a year earlier.<sup>16</sup> Furthermore, this gain was realized even though the actual volume of grain moved under tender declined by 33.5% – to 1.7 million tonnes from 2.6 million tonnes the year before. And while many stakeholders may not have anticipated such an expansion, it underscores the fact that from a commercial perspective, competition between grain companies – at least in regards to tendered grain – has intensified.

## 2.2 Advance Car Awards

During the first nine months of the 2003-04 crop year, a total of 1.1 million tonnes of grain moved under the CWB's newly-adopted advance car awards program. As the companion to the tendering program discussed above, it accounted for another 12.1% of the CWB's total shipments within Western Canada. When combined, the total proportion moved under both the tendering and advance car awards programs of the CWB amounted to 31.6% – somewhat less than the 40% to which the CWB had committed itself.

In large measure this shortfall arose from a delay in implementing the advance car awards program, which did not come into effect until late in the first quarter. As such, only 3.0% of the CWB's first quarter volume – or 0.1 million tonnes – was actually shipped under the new program. These proportions were notably higher in the second and third quarters, however, where they reached 17.1% and 18.2% respectively. When combined with tendered volumes, the overall proportion of grain moved under both programs increase steadily – from 23.9% in the first quarter, to 31.9% in the second, and to 40.3% in the third.

Figure 6: Distribution of CWB Tonnage – Western Canada



In a number of respects, the grain volumes shipped under each of these two programs displayed similar characteristics. As was the case with the tonnage moved under tender, the largest portion of the volume moved under the advance car awards program – 41.8% – was destined to the port of Vancouver. Yet with a somewhat greater proportion of the overall volume going to west coast ports – 74.7% versus 64.8% for tendered grain – this was followed by Prince Rupert, with a 32.9% share, rather than Thunder Bay, with its 25.3% share.<sup>17</sup>

In addition, the majority of grain moving under the advance car awards program also originated at high-throughput elevators. In fact, the 81.0% accorded the volume moved under advance car awards fell only marginally below the 85.4% reported for tendered grain. Similarly, with year-to-date averages of 15.4 days for advance-car-award movements and 15.7 days for tendered movements, there is evidence to suggest that both have car cycles that are better than the 16.9-day overall average.

Even so, there are also a number of differences. Advance-car-award movements proved to be more balanced between CN and CP with year-to-date shares of 50.9% versus 49.1% respectively, while tendered movements favoured CP with a slightly greater 55.7% share. In addition, advance-car-award movements generally occurred in smaller car-block sizes than did tendered movements – an average of 24.1 cars versus 39.4 cars respectively. This in turn diluted the proportion that moved in blocks of 50 or more railcars from 70.9% for tendered movements alone, to 51.6% on a combined basis.

<sup>16</sup> The CWB defines its transportation savings as the total value of all reductions in transportation costs realized from discounts advanced by successful bidders under its tendering program, all freight and terminal rebates it received, and any financial penalties it assessed against the grain companies for non-performance.

<sup>17</sup> Given that the port of Churchill's shipping season was coming to an end as the CWB's advance car awards program began, no movements to the port of Churchill using advance car awards were recorded in the first nine months of the 2003-04 crop year.

## 2.3 Other Commercial Developments

### 2.31 The Canadian Wheat Board's Tendering Program

The CWB's tendering program was originally implemented in accordance with a Memorandum of Understanding between it and the federal Minister responsible for the CWB. This document, which defined the federal government's policy respecting the adoption of a tendering program by the CWB and took effect on 1 August 2000, also outlined the volumes that were to be tendered in the first three years of the program. This period – which covered the 2000-01 through 2002-03 crop years – effectively committed the CWB to tender a minimum of 25% of the overall volume destined to Western Canadian ports in the first and second crop years, and a minimum of 50% in the third crop year.

With that set commitment ending with the 2002-03 crop year, the CWB moved to establish a new agreement on tendering with the industry at large. Accordingly, in the spring of 2003, the CWB and its 26 agents began to discuss the level of tendering that would be appropriate for the 2003-04 crop year. Ultimately, these consultations led to the adoption of a new protocol supported by the majority of industry stakeholders.<sup>18</sup>

Beginning with the 2003-04 crop year, a fixed 40% of the CWB's grain movements to the four ports in Western Canada would be accomplished through a program that combined tendering as well as advance car awards. In specific terms, the CWB's tendering commitment was to extend to a maximum of 20% of its overall volume. Building on this, an additional 20% was to be moved under an advance car awards program. Furthermore, in the event that the CWB decided to ship less than 20% of its grain under the tender program, the shortfall was to be assigned to the movements made under the advance car awards program. In this way, the CWB would be held to its wider 40% commitment.

It is important to note that movements made under the advance car awards program involve a corridor-specific allocation of railcars. That is to say that the grain companies may deploy the awarded railcars at any facility, and in any quantity deemed appropriate, within a given port's specified catchment area. This process, to a large extent, is intended to provide the grain companies with the kind of flexibility built into the distribution of railcars under the tendering program itself. Moreover, the entire mechanism is designed to enhance their overall planning ability.

For the remaining 60% of CWB shipments not governed by either the tendering or advance car awards programs, railcars are subject to a weekly general allocation based on an equal weighting of actual elevator deliveries over a preceding 18-week period, and farmers' future delivery intentions.<sup>19</sup> Actual elevator deliveries, however, will be adjusted to exclude any tendered grain that may have moved during the period.

The CWB has also indicated that it intends to distribute the tendered grain movement in a manner that reflects its overall sales program. That is to say that the amount of wheat and durum to be tendered by the CWB will be proportional to the total movement of each commodity. In the case of barley, however, the CWB has reserved the discretionary right to tender a greater or lesser amount.

In the case of shipments to be made using advance car awards, the CWB has committed to provide the grain companies with beforehand indications of the grains and grades required, as well as any restrictions that may be applicable. This is intended to help the grain companies in their planning activities, and to give them greater flexibility in ordering and deploying railcars – be it through advance car awards or the general allocation process.

Although these various mechanisms were technically slated to begin with the 2003-04 crop year, they were in fact implemented more gradually over the course of the first quarter itself. Even so, few operational difficulties appeared to have been experienced during this transition period.

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<sup>18</sup> Of the 26 grain companies involved in these consultations, 24 supported the adoption of the new protocol. The two that did not were the largest handlers of grain in Western Canada – Agricore United and Saskatchewan Wheat Pool.

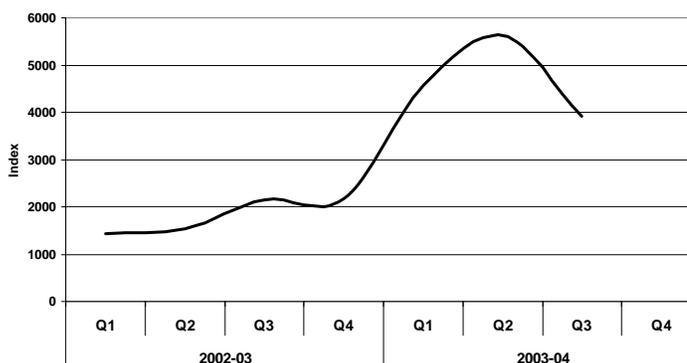
<sup>19</sup> Farmer's future delivery intentions are based on contract sign-ups with grain companies.

## 2.32 Ocean Freight Rates

Towards the end of 2002, rates for the ocean movement of freight – including grain – began to rise. These increases came only after a protracted period of depressed prices. Yet, by the end of the 2002-03 crop year, ocean freight rates had virtually doubled.

Moreover, towards the end of the first quarter of the 2003-04 crop year these rates once again began to rise – but far more sharply. By the end of the second quarter, they had climbed to a level that was five-and-a-half times that seen 18 months before. This, however, denoted a plateau from which these rates soon began to fall. In fact, by the end of the third quarter ocean freight rates had tumbled by about one-third – albeit to a level still four times greater than had prevailed at the beginning of the 2002-03 crop year. A cursory examination of the Baltic Dry Index – a price index based on a composite of daily rate quotes for 24 shipping routes, with representation for vessels of varying size – shows the magnitude of these recent price changes.<sup>20</sup>

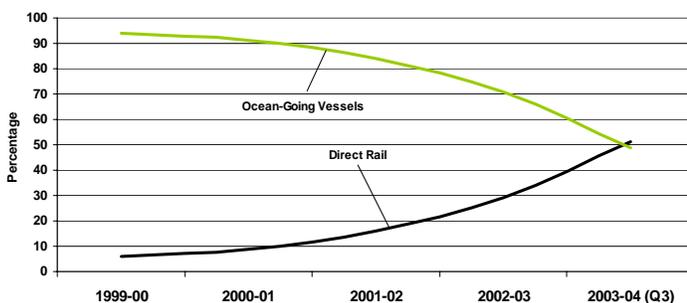
Figure 7: The Baltic Dry Index of Ocean Freight Rates



Much of the movement in rates has been occasioned by the prevailing – as well as perceived future – demand for vessels to service China’s growing trade in raw materials and finished goods.<sup>21</sup> This has had a significant impact on the export programs for CWB as well as non-CWB grains. Nowhere has this been more apparent than in the purchasing decisions of international grain importers. In some cases, they consciously deferred buying Canadian grain in the hope that ocean freight rates would moderate. In others, they simply turned to less-distant grain-exporting nations in an effort to contain these costs.

Even in North America, these forces appear to have influenced the mode of transport used to move grain. Canadian grain exports to Mexico have traditionally employed ocean-going vessels in southbound movements from west coast ports. In the first three years of the GMP, this amounted to an average of about 1.5 million tonnes annually. Even so, an increasingly larger volume of grain was also shipped to Mexico by rail. Direct-rail shipments during this period accounted for slightly less than 15% of the overall volume, and averaged some 0.2 million tonnes per year.<sup>22</sup>

Figure 8: Canadian Grain Exports to Mexico



<sup>20</sup> The Baltic Dry Index is produced by The Baltic Exchange Limited, a London-based organization that provides independently gathered real-time freight market information such as daily fixtures, indices for the cost of shipping wet and dry cargos, route rates, as well as a market for the trading of freight futures. The information presented in the accompanying chart is drawn from publicly-available secondary sources.

<sup>21</sup> A tempering of the outlook for Chinese economic growth was widely considered to be responsible for the reduction of ocean freight rates in the third quarter.

<sup>22</sup> Direct rail shipments to Mexico increased from 90,100 tonnes in the 1999-2000 crop year to 323,500 tonnes in the 2002-03 crop year.

Yet the rise in ocean freight rates – particularly during the first half of the current crop year – appears to have eroded the economic advantage that usually favoured marine transportation in servicing the Mexican market. By the end of the third quarter, the direct-rail movement of Canadian grain to Mexico had reached over 0.7 million tonnes – more than twice that of the previous crop year. Even more indicative was the fact that these movements accounted for just over half of the combined 1.4 million tonnes moved by both modes.

Similarly, an increase in the spread between benchmark ocean freight rates from the US to Japan gave temporary favour to the railway delivery of grain to the Pacific Northwest rather than the Gulf of Mexico. Such also appears to have been the case with respect to an advance in the rail movement of Western Canadian grain to the east coast ports of Quebec, Montreal, and Trois-Rivieres. Although the 1.1 million tonnes handled through to the end of April 2004 proved to be only 5.6% higher than the average for both the 2000-01 and 2001-02 crop years, almost two-thirds of the volume came in the second – as opposed to third – quarter.<sup>23</sup>

### 2.33 Railway Car Supply

Given the expanded grain supply of the 2003-04 crop year, there was a resultant increase in the demand for railway carrying capacity. And as was noted in the Monitor's annual report for the 2002-03 crop year, the ability to supply equipment is a function of both the number of railcars the railways devote to grain service, as well as the average amount of time taken by these cars in delivering a load of grain to destination, and then being repositioned for another shipment. As such, the upsurge in demand for covered hopper cars would have to be met through an addition to the existing fleet, a reduction in the average car cycle, or a combination of both.

This relationship between a railcar's cycle time and its carrying capacity can be seen when considering the year-over-year changes in first quarter data. For a two-day (or 10.6%) reduction in the first quarter's average car cycle (16.8 days versus 18.8 a year earlier), the GHTS was able to forward an additional 2.0 million tonnes of grain to the four ports in Western Canada (5.6 million tonnes versus 3.6 a year earlier). In simplified terms, this translated into about 1.0 million tonnes of additional carrying capacity per reduced car-cycle day. And as can be seen from the second quarter's results, this efficiency gain was in turn lost when the average car cycle rose to 17.8 days (an increase of one full day), and originated tonnage fell to 4.2 million tonnes (a drop of 1.4 million tonnes).

Part of this drop in carrying capacity is attributable to normal winter operations.<sup>24</sup> Yet car supply problems, and particularly those experienced by CP shippers, began to appear in the first quarter. In the second quarter, they had become more widespread.<sup>25</sup> Where possible, shippers tried to circumvent CP by redirecting deliveries into facilities served by CN.<sup>26</sup> By late January 2004, however, the situation had worsened and extreme winter weather in the Rockies compelled CP to place an embargo on grain shipments to Vancouver, and to declare Force Majeure.<sup>27</sup> Although CP restored mainline operations early in February, the aftershocks continued to be felt well into the third quarter.

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<sup>23</sup> For the three-year period ending with the 2002-03 crop year, almost two-thirds of the winter rail movement to Eastern Canada was handled in the third quarter of the crop year.

<sup>24</sup> Winter railway operations typically result in reduced train lengths and trailing tonnages. Without a corresponding increase in the actual number of trains operated, average transit times generally increase. This serves to lengthen the overall car cycle, which can also be undermined by such physical impediments as derailments, congestion within receiving terminals, or the lack of sufficient locomotives and train crews.

<sup>25</sup> To many shippers the problem seemed rooted in the effects of an early harvest, but others cited the railways for having failed to safeguard a sufficient number of cars, locomotives, and crews to handle the increased grain volume.

<sup>26</sup> The redirection of grain deliveries into CN local elevators during the second quarter is observable in terms of carrier handlings. Despite the price leadership that appeared to have given CP a 54.3% share of terminal handlings in the first quarter, customer dissatisfaction appeared to have reduced this share to 46.6% in the second quarter.

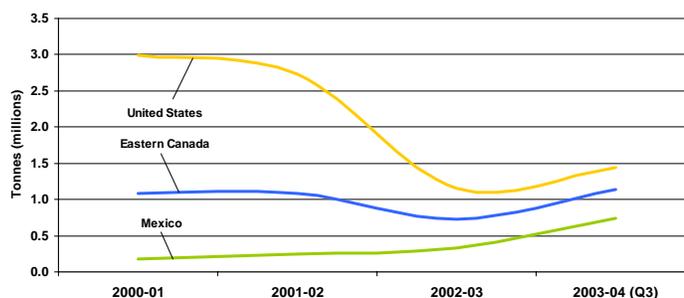
<sup>27</sup> CP declared Force Majeure retroactively to 25 January 2004. Force Majeure is a contractual provision that is intended to excuse a party from liability if some unforeseen event beyond the control of the party prevents it from performing its obligations under the contract – typically a natural disaster or other "Act of God", war, or even the failure of third party suppliers. Force Majeure provisions are intended to excuse a party only if the failure to perform could not have been avoided with the exercise of due care by that party.

Given such circumstances, an increase in the average car cycle for the third quarter seemed highly probable. Yet the data supplied to the Monitor for this period shows that the car cycle actually fell by 9.6% to an average of 16.1 days. Assuming that the number of railcars in the fleet had remained unchanged during this period, the result suggests that there should have been an increase in carrying capacity, and that car supply problems should actually have been eased. Moreover, the incremental gain in quarterly volume – which climbed from 4.2 million tonnes in the second quarter to 4.5 million tonnes in the third – indicates that almost 1.4 million tonnes of additional carrying capacity should have been available.

This improvement in the overall car cycle – and for that of the Vancouver corridor specifically – implies that the constriction in the supply of covered hopper cars during this period was the result of other forces. To be sure, there is a strong suggestion that any difficulty in supplying cars for the movement of grain within Western Canada arose from the allocation of carrying capacity to movements having destinations outside of this area.<sup>28</sup> In fact, owing to the comparatively longer car cycle involved, such impacts have often been noted whenever there has been a substantial movement of grain to Eastern Canada. The 1.1 million tonnes of grain previously cited as having moved to Eastern Canada in the first nine months of the 2003-04 crop year would have undoubtedly helped draw down the carrying capacity available within Western Canada.

As mentioned previously, the increase in ocean freight rates was observed to have had an impact on both the domestic and international flow of Canadian grain. One of the most unexpected outcomes related to the significant increase in the volume of grain shipped to Mexico by rail. Even though such movements had grown to over 0.3 million tonnes in the 2002-03 crop year, it appears unlikely that the railways would have prepared themselves to handle a volume that surpassed 0.7 million tonnes by the end of the third quarter.

**Figure 9: Railway Grain Movements Beyond Western Canada**



Moreover, with the US government having imposed a 14.15% duty on Canadian wheat imports, it seems likely that the railways would have already prepared for a sharp reduction in their southbound grain handlings. Even so, a continued strong US demand for Canadian oats and canola may have already constrained their ability to accommodate a further 0.4 million tonnes of incremental traffic to Mexico.<sup>29</sup>

And while the railways undoubtedly welcomed this partial substitution for lost US business, its handling had somewhat more negative consequences for the GHTS as a whole. This stems from the fact that shipments of Canadian wheat to Mexico would entail generally greater distances than those to the US.<sup>30</sup> As a result, Mexican rail movements would be expected to produce significantly longer car cycles, and draw down even more on the supply of covered hopper cars.

The car supply problems experienced thus far into the 2003-04 crop year would appear to have less to do with the efficiency of railway operations than they do with the draw-down effects of allocating a greater proportion of carrying capacity to long-haul domestic and international markets. Moreover, being non-regulated, long-haul grain movements to Eastern Canada, the US, or Mexico could well be more lucrative for the railways

<sup>28</sup> With the Grain Monitoring Program focused on statutory movements within Western Canada, the Monitor neither collects nor possesses any detailed information regarding direct-rail shipments to Eastern Canada, the United States, or Mexico. As a result, the Monitor is precluded from measuring their associated car cycles, and undertaking a complete examination of the potential impact they may have on the Grain Handling and Transportation System.

<sup>29</sup> Direct rail movements of Canadian export grain to the United States averaged some 2.9 million tonnes annually between the 1999-2000 and 2001-02 crop years. With wheat accounting for about 1.0 million tonnes of this volume, a one-third reduction in the total volume of grain to be shipped by rail to the US could easily have been anticipated. The inclusion of another 0.4 million tonnes of traffic for Mexico would have meant a 20% increase in an expected southbound movement of approximately 1.9 million tonnes.

<sup>30</sup> Grain movements to the US typically involve destinations with distances comparable to that of servicing any of the four ports in Western Canada – Minneapolis and Chicago being among the most prevalent.

themselves. Building on this assumption, both CN and CP would also have an economic incentive to give somewhat more preferential service to these longer-haul markets rather than the regulated segment of their grain businesses.

### 2.34 Port of Churchill Experiences a Sharp Increase in Grain Volumes

As was mentioned by the Monitor in its annual report for the 2002-03 crop year, the volume of grain moving through the port of Churchill had been steadily declining for several years, and reached a recent low of 351,900 tonnes in the 2002-03 crop year. In early 2003, the Port of Churchill Advisory Board warned that another such shipping season might well prove ruinous.

With Churchill considered of vital economic interest to the province, the Manitoba government moved to provide the port with an interim package of financial support. Aimed at helping ensure a sustainable economic future for both the port and the Hudson Bay Railway, this support package was complemented by additional funds from the federal government. Further, towards the end of the 2002-03 crop year, the port's owner had also entered into a new marketing agreement for the port with the internationally-known grain company, Louis Dreyfus.

Along with a harvest that enhanced the grain supply within the Churchill catchment area, these efforts appeared to have produced positive results during the 2003 shipping season.<sup>31</sup> Terminal throughput at the port in the first nine months of the 2003-04 crop year increased to 542,700 tonnes – a gain of 94.4% over the 279,200 tonnes handled in the same period a year earlier. In addition to increasing its handlings of CWB grains, it also broadened its traffic base to include 144,700 tonnes of peas, canola, and other non-CWB grains.



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

**Figure 10:** A dockside view of two marine vessels arriving to load at the grain-handling facilities of the Hudson Bay Port Company in Churchill, Manitoba.

Despite these gains, and the overall improvement recorded for the 2003 shipping season as a whole, the volume of grain shipped through Churchill still fell below the 1.0-million tonne level deemed necessary for the port's long-term success.

### 2.35 Producer-Car Loading

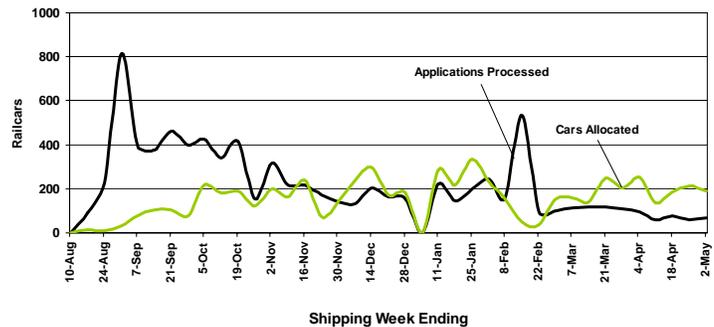
The first nine months of the 2003-04 crop year saw a total of six new license-exempt producer-car loading facilities added to the 30 in place at the end of the 2002-03 crop year. Moreover, five of the new operations opened for business in the third quarter alone, thereby distinguishing it as the most significant period of growth in the current crop year. And while the vast majority of all facilities – 80.6% – are still found in Saskatchewan, the current expansion lessened this concentration. Specifically, three facilities were added to those in Saskatchewan, two to those in Alberta, and one to those in Manitoba.

Similarly, the current crop year's expansion has not favoured shortline locations. Four of the six new facilities are serviced directly by either CN or CP. Still, the overall division between the facilities serviced by Class I and shortline carriers remains roughly equal – 47.2% versus 52.8% respectively.

<sup>31</sup> The port of Churchill's catchment area encompasses grain delivery points situated primarily in northeastern Saskatchewan, as well as northwestern Manitoba. Churchill-bound grain is generally loaded into vessels during a shipping season that normally extends from late July to early November.

Although the need for railcars is common to all grain shippers, the demand for producer-car loading has been particularly strong during the first nine months of the 2003-04 crop year. The 6,028 producer-cars loaded in this time frame was more than three times the 1,877 loaded during the same period a year earlier. In the face of this greater demand, car supply emerged as a specific problem for many producers. This was particularly the case during the first quarter when the number of cars applied for often exceeded those allocated by a factor of three-to-one. Still, the situation improved markedly over the next six months, and by the end of the third quarter slightly under three-fourths – 72.3% – of the 8,336 applications for railcars received by the Canadian Grain Commission had been filled.

Figure 11: Producer-Car Loadings



Even so, a group of farmers in northeastern Saskatchewan filed a formal level-of-service complaint with the Canadian Transportation Agency (CTA) for CP's failure to spot cars for producer loading at three sites along its White Fox subdivision.<sup>32</sup> CP had de-listed these sites at the end of the 2002-03 crop year as a result of declining volumes, and suggested that producer-car loading could easily be centralized at Nipawin instead. Using the mediation services offered by the CTA, CP has reportedly committed itself to servicing two of the sites – Choiceland and White Fox – for the remainder of the 2003-04 crop year as long as producers respected a 25-car minimum loading commitment.<sup>33</sup>

The increase in producer-car shipments along with the expansion of license-exempt facilities suggests that this option is gaining favour with some farmers. In point of fact, producer-car shipments grew to about 3.8% of the overall grain volume moved in covered hoppers during the first nine months of the crop year – a significant gain over the 2.4% it was estimated to have constituted in the 2002-03 crop year. However, had producers been able to secure the railcars for which they had placed orders during this period, the proportion might well have reached 5.2%.

<sup>32</sup> The sites specifically referred to are Choiceland, Garrick, and White Fox.

<sup>33</sup> The Canadian Transportation Agency provides mediation services to resolve disputes between various parties as an alternative to the more formal adjudicative process. By design, this service is confidential, as is the settlement that may be reached between the parties. The specifics presented here are drawn from published press accounts and should, therefore, be considered unofficial. A formal decision in the complaint filed with the CTA remains pending since the parties must agree beforehand to an indefinite extension of any statutory deadlines in order to allow the mediation process to be completed or, in the event that the case should be returned to the Agency for resolution through traditional means, subsequent adjudication.



## 3.0 System Efficiency and Service Reliability

### 3.1 Trucking

Commercial trucking rates were reported to have remained unchanged through the first nine months of the 2003-04 crop year. To a large extent, the rates relating to the movement of grain have been contained in recent years by an excess of capacity in the face of reduced demand. In addition, the competition existing between the largest grain companies offering commercial trucking services has also been instrumental in containing these rates.

### 3.2 Country Elevators

Total country elevator throughput (measured as shipments from primary elevators) escalated substantially in the first nine months of the 2003-04 crop year. Aggregate volume for the period increased by 6.8 million tonnes (or 48.2%) to reach 20.7 million tonnes. This increase also produced a 48.1% rise in the primary elevator system's capacity turnover ratio – which climbed to 4.0 turns from the 2.7 turns experienced during the same period in the year before.

With a weekly average of 2.9 million tonnes, grain held in primary elevator storage showed a year-over-year gain of 15.6% for the first nine months. And while the average stock level increased by 0.4 million tonnes, the average amount of time that grain spent in inventory has declined substantially. The third quarter's average of 39.1 days was 34.7% less than the 59.9-day peak attained a year earlier.<sup>34</sup> Moreover, it also compared more favourably to the values observed in both the 2000-01 and 2001-02 crop years.

Further evidence of this upturn in country elevator activity was reflected in a reduction to the average weekly stock-to-shipment ratio. Over the course of the past twelve months, this ratio has fallen from an extreme value of 8.8, to a more normal 5.7. While still denoting more than adequate on-hand stocks, the reduction indicates that grain companies were able to ease the burden brought on by the previous crop year's decline in CWB and non-CWB grain sales.

### 3.3 Railway Operations

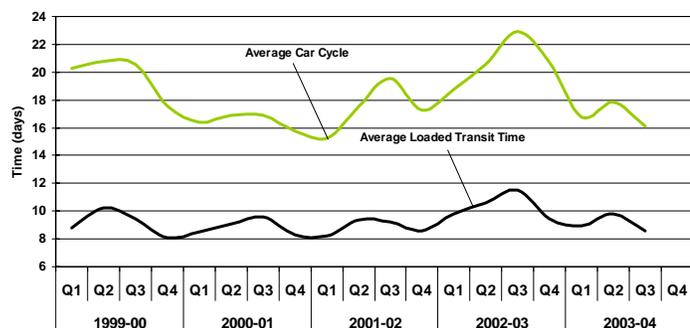
#### 3.31 Car Cycles

The upsurge in grain traffic saw total railway grain volumes for the first nine months of the 2003-04 crop year increase by 71.7% – to 14.3 million tonnes from 8.3 million tonnes a year earlier. Shortline railways, the most adversely impacted by the last two years of drought, experienced a more pronounced recovery in originated tonnage – 92.9% versus 69.7% for the Class I carriers.

This gain in volume has also had an overarching positive impact on the railways' average car cycle. Even with the adversities brought on by harsh winter operations, the year-to-date average of 16.9 days was 16.3% less than the 20.2-day average recorded a year earlier. What is more, the third quarter's 16.1-day average denotes the best observed in over two years.

Improvement was also noticed in both the loaded and empty transit portions of the car cycle. Specifically, the first nine month's average loaded transit time of 9.1 days fell by 12.5% from the 10.4-day average observed in the same period a

Figure 12: Railway Car Cycle



<sup>34</sup> The 59.9-day average referred to was reached in the third quarter of the 2002-03 crop year.

year earlier. On a year-to-date basis, the average empty transit time fell by a full two days (or 20.5%) to 7.8 days.

It is important to recognize that the observed improvement in the car cycle also reflects changes in the actual flow of traffic as well. Moreover, recent pattern changes appear to have been a significant force in reducing the average car cycle in Western Canada. In particular, much of the grain directed to both Eastern Canada and Mexico seems to have been drawn from Saskatchewan. Indicative of this is the fact that Saskatchewan-originated grain moving to the four ports of Western Canada actually fell in comparison to that of Alberta and Manitoba in the third quarter.

This is most evident in the Vancouver corridor, where the proportion of grain shipped from Saskatchewan declined to 43.1% on a year-to-date basis from 49.4% for the 2002-03 crop year as a whole. Correspondingly, the proportion given to shipments from Alberta rose to 52.3% from 39.7%. Moreover, Alberta's share increased to 58.5% in the third quarter itself. Owing to the comparatively shorter distances involved in movements from Alberta, this increased weighting undoubtedly helped push down the car cycle in the Vancouver corridor, and may have worked to counter the adverse effects of recent service disruptions.

Similar forces were also at work in the Prince Rupert corridor, where the combined effects of a substantive increase in volume along with shorter hauls gave impetus to a 36.3% reduction in the year-to-date average car cycle – which fell to 14.3 days from 22.5 days a year earlier.<sup>35</sup>

### 3.32 Railway Freight Rates

Although the revenue cap accorded both CN and CP greater freedom in setting freight rates since it was introduced in the 2000-01 crop year, their pricing decisions have generally been similar. At the beginning of the 2003-04 crop year, however, both carriers implemented decidedly different rate structures. With minor exception, CN maintained the rate structure that had prevailed throughout the preceding crop year.<sup>36</sup> In contrast, CP effectively chose to roll back its rates by approximately 1.0% across the board.

In addition, both carriers made significant changes to their respective incentive programs – the first since the beginning of the 2000-01 crop year.<sup>37</sup> Firstly, CN eliminated its incentives for grain moving in blocks of 25-49 railcars, while CP cut its corresponding incentive from \$1.00 per tonne to \$0.50. Neither carrier chose to alter their existing \$4.00-per-tonne discount for movements in blocks of 50-99 railcars. But whereas CN also elected to maintain the discount it offered for movements in blocks of 100 or more cars at \$6.00 per tonne, CP increased its discount to \$7.00 per tonne.

Both carriers also changed the discounts that applied to their Shuttle services.<sup>38</sup> Building on its 100-car discounts, CN moved to add a separate efficiency payment of \$8,700 per train, which effectively raised its Shuttle discount from \$6.50 per tonne to \$7.00. CP, however, substantially restructured its incentives to create a scale of discounts based on the number of Shuttle trains a shipper committed itself to over time. Compared with that offered by CN, the scope of CP's discounts greatly enhanced the potential savings that could be realized by shippers.<sup>39</sup>

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<sup>35</sup> Prince Rupert did not receive any grain from Manitoba in the first nine months of the 2003-04 crop year, whereas it accounted for almost one-fifth – 17.0% – of the overall shipments made in the 2002-03 crop year.

<sup>36</sup> CN increased some rates, but these were selectively applied, and largely pertained to origins in northern Saskatchewan and the Peace River area.

<sup>37</sup> While differences between the incentive programs offered by CN and CP exist, both were structured around movements in blocks of 25-49 railcars; 50-99 railcars; and 100 or more railcars. Since the beginning of the 2000-01 crop year, these movements could earn per-tonne discounts of \$1.00, \$4.00, and \$6.00 respectively. CP also offered a fourth grouping, based on movements in blocks of 112 or more railcars.

<sup>38</sup> The Shuttle services offered by CN and CP are built on a shipper's commitment to move a defined number of unit trains (of 100 or more railcars) within a specified period of time.

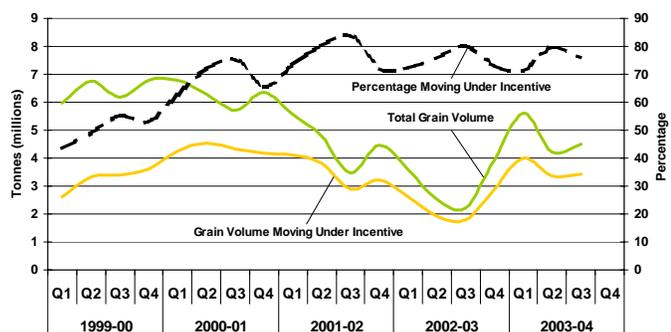
<sup>39</sup> The discounts offered by CP could exceed \$9.00 per tonne.

These actions served to make CP the more price-competitive Class 1 carrier in Western Canada. With 54.3% of the total unloads at the four ports in Western Canada in the first quarter, it initially appeared that CP had gained some competitive ground against CN.<sup>40</sup> However, the second quarter saw CP's share fall to 46.6%, and to 40.2% in the third. There can be little doubt that some of this decline reflects the degree to which shippers disaffected by CP's winter operating problems were moved to employ CN as a secondary service provider.<sup>41</sup> Yet it could also reflect the impact of various other market forces, or even a shift in the balance between a carrier's regulated and non-regulated grain movements.

As opposed to previous crop years under the GMP, both carriers brought forward secondary rate changes midway through the third quarter. In the case of CN, the carrier increased its rates by about 1.5%. CP increased their rates by a marginally greater 2.0%. This had the effect of narrowing the gap that had been opened in August 2003, but which still generally favours CP.

With the elimination of the CN discount for shipments in blocks of 25-49 railcars, the relative proportion of grain moving under the railways' incentive programs initially declined to 71.6% in the first quarter from 74.8% for the 2002-03 crop year as a whole. Yet this proportion rebounded to 79.6% in the second quarter before falling back slightly to 76.0% in the third quarter. Given the fluctuation in these quarterly values over the course of the past two crop years, there is some indication that a plateau in the range of 75% to 85% may be forming.

**Figure 13: Railway Volume Moving Under Incentive**



Nevertheless, the enhanced discounts offered by both railways appeared to have promoted increased shipments in blocks of 100 or more cars. These shipments increased to 23.3% in the first quarter, and then to 27.1% in the second, before falling back marginally to 25.6% in the third. On a year-to-date basis, these movements accounted for 25.1% of the total tonnage handled, and considerably exceeded the 19.2% they had garnered for the 2002-03 crop year as a whole.

The volume of grain moving under railway incentives in the first nine months climbed to 10.8 million tonnes – a gain of 71.2% over the 6.3 million tonnes moved during the same period a year earlier. What is more, the value of the discounts earned by shippers is estimated to have reached \$49.1 million – an increase of 92.8% over the \$25.5 million netted in the first nine months of the 2002-03 crop year.

With the larger proportion of grain moving in blocks of 50 or more cars, the average-earned discount also continued to climb, and reached a record \$4.62 per tonne in the third quarter. The year-to-date average of \$4.56 per tonne stood 14.9% above the \$3.97-per-tonne average of the 2002-03 crop year as a whole.

<sup>40</sup> During the first two years of the GMP, CP's share of the total unloads at the four ports in Western Canada averaged 47.3%. In the 2002-03 crop year, that share jumped to 57.8% chiefly in reflection of the fact that the drought had had a harsher impact in CN's service area. With more equitable distribution of grain production in the 2003-04 crop year, it is assumed that CP's share should have reverted to something approaching that seen initially under the GMP. The fact that CP secured a 54.3% share in the first quarter strongly suggests that the carrier's pricing actions served to enhance its market position.

<sup>41</sup> During this period, shippers that had the option of using either CN or CP, reported shifting grain volumes over to CN-served elevators in order to mitigate the impact of CP service problems on their own operations.

### **3.4 Terminal Elevator and Port Performance**

#### 3.41 Terminal Elevators

As with other volume-related indicators, port throughput (measured as shipments from terminal elevators and bulk loading facilities) showed a marked increase in the first nine months of the 2003-04 crop year. Aggregate volume increased by 70.2% to 13.6 million tonnes from 8.0 million tonnes a year earlier.

On the west coast, Vancouver posted a nine-month volume of 7.0 million tonnes – more than three times that of the same period a year earlier. Although a larger grain supply was an important factor, the magnitude of the gain was enhanced by settlement of the labour dispute that had closed most of the port's terminal elevators for four months a year earlier. The 8.7% decline in Prince Rupert's 1.9-million-tonne volume is attributable to the same cause.

The port of Churchill saw its volume for the first nine months climb by 94.4% to 0.5 million tonnes – the best performance recorded at the port for this period since the 2000-01 crop year. At Thunder Bay, grain throughput increased by 21.1% to 4.1 million tonnes. To a large extent, Thunder Bay's more moderate gain in volume simply reflected the fact that it posted a comparatively stronger throughput in the 2002-03 crop year owing to the demand for domestic milling wheat and export durum. During the course of the GMP, the volumes moving through the Thunder Bay gateway have generally proven to be the most consistent.

Terminal elevator inventories for the first nine months increased by 6.9% from that of a year ago – to an average of 1.1 million tonnes – but remained largely comparable to levels observed in the first two years of the GMP. It must be remembered, however, that a 91,000-tonne reduction in licensed storage capacity implies that there has been a real rise in the use of available terminal space (measured in terms of average terminal inventories per unit of storage capacity), which climbed to a ratio of 0.42 in the first nine months from an average of 0.37 for the preceding crop year as a whole.

The average amount of time spent by grain in inventory in the first nine months fell by 7.4% – to 20.1 days versus 21.7 a year earlier.<sup>42</sup> This, however, masks the improvement made since the quarterly average reached a record 27.7 days in the third quarter of the 2002-03 crop year. Again, much of this improvement was derived from a general upsurge in commercial activity. The average days in store are determined from average inventory turnover ratios, adjusted to reflect the operating days seasons at Prince Rupert, Churchill and Thunder Bay. This difference is reflected in the distinct measures for each port, where, for example, Thunder Bay realizes an average time of 25.6 days but Vancouver is only 18.2 days.

#### 3.42 Port Performance

A total of 520 vessels called at Western Canadian ports during the first nine months of the 2003-04 crop year. This marks a significantly higher rate of arrival than observed during the same period a year earlier when 361 vessels arrived. This too reflects the sharp increase in grain volumes previously discussed. Yet the amount of time spent by these vessels in port remained comparable to the previous crop year. The year-to-date average of 4.3 days was only 2.3% below the 4.4-day average recorded a year earlier.

### **3.5 The Supply Chain**

As outlined in earlier editions of the Monitor's quarterly and annual reports, the supply chain model provides a framework for examining the workings of the GHTS as a whole. The Monitor's annual report for the 2002-03 crop year concluded that the amount of time taken by grain as it moved through the supply chain had increased to an average of 79.7 days – a significant deterioration from the 67.4 days realized in the 2001-02 crop year. Even so, the year-to-date average of 68.3 days for the first nine months of the 2003-04 crop year suggests a significant improvement.

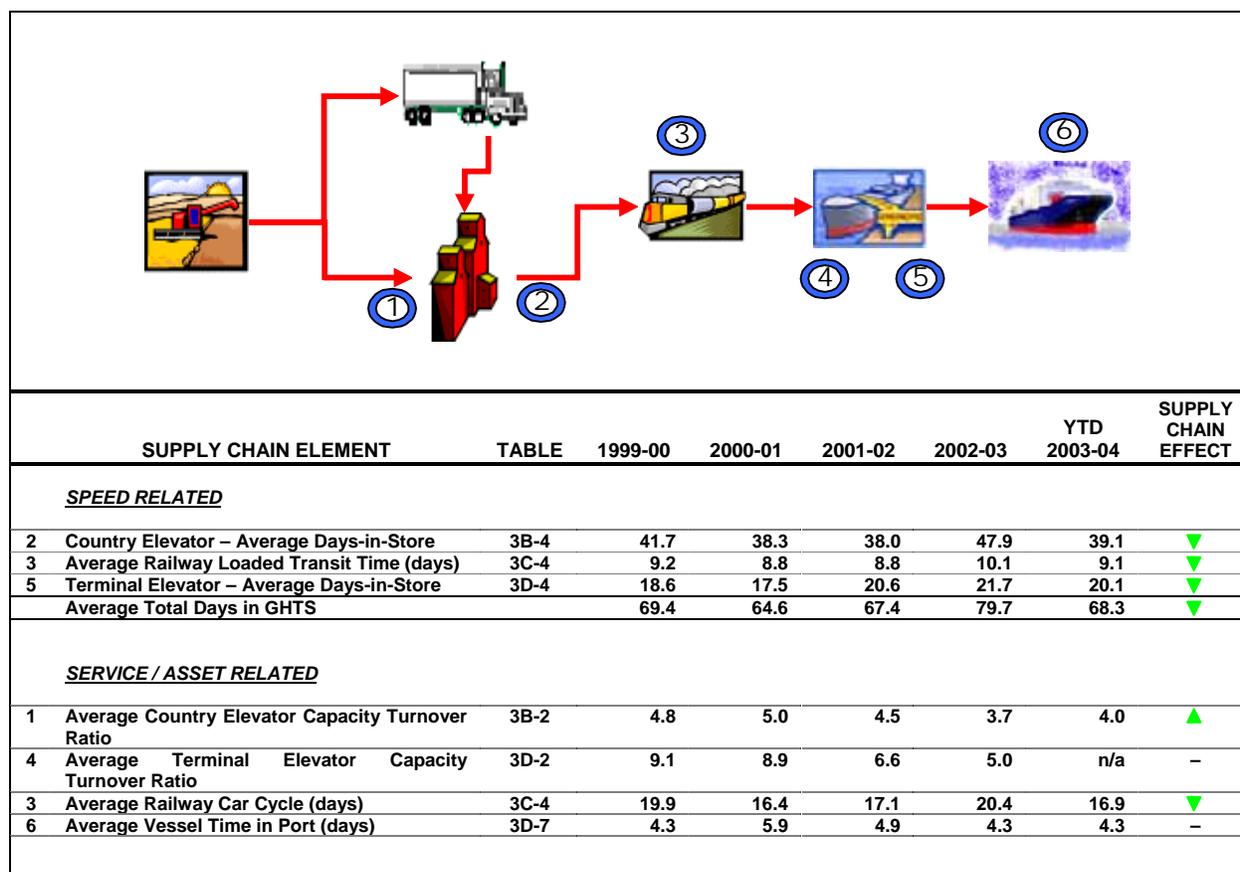
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<sup>42</sup> Direct comparisons of the overall average number of days-in-store at terminal elevators are also influenced by the effects of the labour disruption at Vancouver during the first half of the 2002-03 crop year. Caution is advised in drawing conclusions from any direct year-over-year comparison using these values.

This 11.4-day (or 14.3%) reduction in the pace at which grain moved through the GHTS stemmed mainly from a substantial decline in the amount of time grain spent in inventory. To be sure, over three-quarters of the reduction came from an 8.8-day (or 18.4%) decline in the primary elevator system's average number of days-in-store – which fell to an average of 39.1 days for the first nine months from the 2002-03 crop year's 47.9-day average.

This was furthered by a 1.6-day (or 7.4%) reduction in the amount of time grain spent in inventory at terminal elevators – which fell to an average of 20.1 days from the preceding crop year's 21.7-day average. An additional 1.0 days was derived from a reduction in the railways' average loaded transit time – which fell by 10.0% from the preceding crop year's 10.1-day average to 9.1 days.

Figure 14: The GHTS Supply Chain



With these results, a few general observations concerning the supply chain's performance during the first nine months of the 2003-04 crop year are warranted:

- Firstly, an increase in the volume of grain handled by the GHTS has brought about noticeable improvements in the effectiveness of the supply chain. With increased activity, country elevator inventories turned over faster, and grain spent 18.4% less time in storage. This in turn brought about adjustments in railway service to meet prevailing demand, and reduced the average loaded transit time by 10.0%. The greater volume that also passed through the terminal elevator system also helped reduce the amount of time grain spent in inventory by 7.4%.
- Secondly, despite an increase in the volume already handled, the 2003-04 crop year's potential grain movement – as represented by a grain supply of 53.1 million tonnes – still falls short of the 62.6 million

tonnes set in the first year of the GMP. In representing 84.9% of that first year's grain supply, the pressures brought to bear on the GHTS cannot be fully indicative of those that would be occasioned by a return to higher operating levels. As such, the performance of the GHTS in the 2003-04 crop year must be viewed as a partial test of the system's capabilities. Even so, problems – particularly as regards the supply of railcars – were encountered at this lower threshold.

- Thirdly, some of the difficulty associated with car supply may well have had less to do with railway efficiency than with the draw-down effects of allocating a greater proportion of carrying capacity to long-haul domestic and international markets. Although market forces may have augmented the volume of grain shipped by rail to Eastern Canada, the US, and Mexico, it also detracted from the carrying capacity that would have otherwise been available to move grain to the four ports of Western Canada.
- Fourthly, the overall effectiveness of the GHTS remains largely unchanged. That is to say, grain still moves through the system in much the same way, and in much the same timeframe, as it did four years previously. This is reflected in average country and terminal elevator storage times, as well as the railways' average loaded transit time, that are within but a few percentage points of their previous bests under the GMP.<sup>43</sup>
- Finally, the GHTS's continuing evolution into a network of comparatively fewer elevator facilities, with higher storage capacities, and the ability to load railcars in greater numbers than ever before, has allowed the grain companies and the railways to reduce their overall costs. To be sure, the savings derived from these improvements in financial efficiency are being shared – at least in part – with producers through such competitive mechanisms as trucking premiums. These benefits have in turn ultimately allowed producers to offset – but not fully neutralize – escalations in the direct cost of country elevator handling, rail transportation, and terminal elevator handling.

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<sup>43</sup> An exception must be noted for the average number of days-in-store for grain at terminal elevators. The first nine month's year-to-date average of 20.1 days is 14.9% higher than the 17.5-day record established in the 2000-01 crop year.

## 4.0 Producer Impact

### 4.1 Producer Netback – Expectations for the 2003-04 Crop Year

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 per-tonne financial return to producers after deduction of the “export basis.”

As discussed in the Monitor’s annual report for the 2002-03 crop year, an improvement in the market prices of wheat, durum, canola, and yellow peas, along with changes in their respective export basis, produced steadily greater per-tonne returns for grain producers over the course of the past four crop years.

Moreover, the data revealed that the single largest force behind the improvement in the producer’s netback was a positive change in the market price of these grains. And while producers realized significantly higher per-tonne returns than in previous years, sharply diminished volumes also served to contain their overall financial gains.

The GMP provides for the calculation of the producer’s netback at the end of any given crop year. This arises chiefly because certain elements integral to that 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 in the 2003-04 crop year.

#### 4.11 Current Price Movements

Throughout much of the first half of the 2003-04 crop year, the CWB’s Pool Return Outlook (PRO) for 1CWRS wheat (13.5% protein) floated in a range defined by a low of \$195.00 per tonne, and a high of \$206.00 per tonne. At the beginning of the third quarter, the PRO was still holding to the upper end of this range – \$206.00 per tonne. Over the course of the next three months, the PRO posted a further 3.4% increase, to close out the quarter at \$213.00 per tonne.<sup>44</sup> Although this represents a 14.9% decline from the 2002-03 crop year’s final realized price of \$250.20 per tonne, it still exceeds the farmer’s payment of \$189.95 per tonne by 12.1%.<sup>45</sup>

Much of this general price erosion stemmed from the combined forces of higher global wheat production, continuing export competition, and weaker global demand. Although a moderation in the value of the Canadian dollar lent some degree of price support, it has not been enough to counter these forces.

In the case of 1 Canada Canola, the Vancouver cash price initially fell from the

Figure 15: Price Changes – 1CWRS Wheat (dollars per tonne)

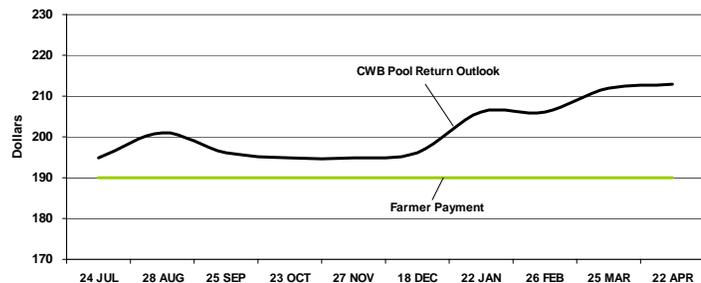
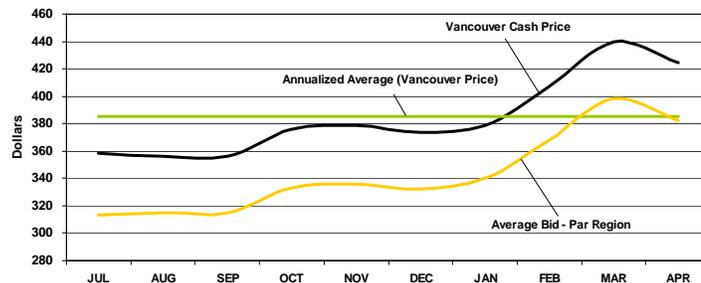


Figure 16: Price Changes – 1 Canada Canola (dollars per tonne)



<sup>44</sup> The CWB did not issue a PRO in April 2004. The value of \$213.00 per tonne presented here is an average drawn from the PRO values issued in March and May.

<sup>45</sup> The farmer’s payment of \$189.95 cited here comprises the CWB’s initial payment of \$169.95 plus three subsequent adjustments.

2002-03 crop year's average of \$414.36 per tonne to a low of about \$356.00 at the beginning of the first quarter. With each succeeding quarter, the cash price for canola has continued to push higher – to about \$379.00 and \$425.00 at the end of the second and third quarters respectively. Despite the more recent gains, the year-to-date monthly average price of \$384.91 still remains below that of the previous crop year. As in the case of wheat, changes in global market conditions underlie the recent movement in price. In general terms, an increase in the volume of canola available for sale around the world initially worked to reduce prices. Yet continued demand coupled with the expectation of tighter year-end stocks helped to push up canola prices in the third quarter.

The scope of these price declines suggests that the year-over-year change in the per-tonne financial returns accruing to producers is likely to be negative for the 2003-04 crop year – particularly as regards CWB grains. In addition, increases in the area of 3% for both country and terminal elevator handling, along with recent increases in railway freight rates, suggests that the export basis for these grains are also likely to rise, thereby further eroding the overall per-tonne return to farmers.

## **4.2 Producer-Car Loading**

As related in the Monitor's annual report for the 2002-03 crop year, the aggregate number of producer-car loading sites had fallen from 706 to 518 over the course of the first four years of the GMP. This net decline stemmed largely from a reduction of 263 sites local to both CN and CP. To be sure, shortline carriers assumed operation of some 75 of these – pushing their count from 63 to 138. And while the number tied to these latter carriers remained unchanged during the first nine months of the 2003-04 crop year, the major railways closed another 20 sites.<sup>46</sup> The overall number in place at the end of the second quarter thus fell by 3.9% to 498.

Nevertheless, the resurgence in grain volumes also brought about a renewed demand for producer-car loading. In point of fact, producer-car shipments during the first nine months of the 2003-04 crop year increased by 221.2% when compared to the same period a year earlier. More importantly, producer-car loadings have been gaining as a percentage of the overall volume moved in covered hopper cars. From an estimated 2.4% of the 2002-03 crop year's volume, it accounted for as much as 5.5% of the total volume in the second quarter alone. And while that share fell to 4.2% in the third quarter, the comparatively higher quarterly values continued to elevate the overall year-to-date value – which reached 3.8% for the first nine months of the 2003-04 crop year.

As outlined previously, the fundamental issue surrounding the expansion of producer-car loading relates to the producers' ability to secure railcars for loading. Assuming that producers had been able to secure the 8,336 for which they had placed orders during the first three quarters of the 2003-04 crop year, its proportion of the overall movement might well have reached 5.2%.

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<sup>46</sup> The closure of 20 producer-car loading sites by the Class I carriers represents a net reduction. The number of sites operated by Class I carriers actually declined by 26 in the first quarter of the 2003-04 crop year – from 380 to 354. The addition of six other sites during the second quarter, however, increased their number to 360.



## 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 2003-04 Crop Year**

#### **Grain Production and Supply**

- Grain production increased by 51.1% to 47.7 million tonnes.
  - First reprieve from widespread drought in the past three growing seasons.
  - Current production level slightly less than 90% of the average for the 1999-2000 and 2000-01 crop years.
- Carry forward stock decreased by 9.6% to 5.5 million tonnes from 6.1 million tonnes.
- Overall grain supply increased by 41.3% to 53.1 million tonnes.

#### **Railway Traffic**

- Railway movements in the first nine months of the crop year increased by 71.7% from the same period a year earlier to 14.9 million tonnes.
  - Reflects greater volume of grain available for movement.
- Traffic to Western Canadian ports posted significant increases.
  - Volume to Vancouver increased by 178.1% to 8.3 million tonnes.
    - Reflected the settlement of the labour dispute that had disrupted movements in the 2002-03 crop year.
  - Prince Rupert volume fell from 2.2 million tonnes (8.6%) to 1.9 million tonnes.
  - Volume to Thunder Bay increased 27.0% to 4.3 million tonnes.
  - Churchill volume increased by 111.8% to 0.4 million tonnes.

#### **Country Elevator Infrastructure**

- Rationalization efforts of the major grain companies moderated significantly.
  - Grain delivery points reduced by 1.4% to 287.
  - Number of country elevators fell by 2.6% to 405.
- Elevator storage capacity reduced by 0.8% to 5.7 million tonnes.
- Elevators capable of loading in blocks of 25 or more cars fell by five to 264.
  - Accounted for 65.2% of total GHTS elevators.
  - Share of GHTS primary storage capacity rose to 87.5%

#### **Railway Infrastructure**

- Western Canadian rail network reduced by 0.3% to 18,860 route-miles.
  - Abandonment of 64.0 route-miles belonging to the Southern Manitoba Railway.
  - Another 65.1 route-miles pending abandonment by CP.
- Great Western Railway placed its 329.1-route-mile operation up for sale in the second quarter.
  - Local farmers mounted an effort to purchase the line; transaction contingent on financing.
- CN named the successful bidder in a \$1.0-billion deal to purchase BC Rail.
  - Transaction contingent on approval of the Competition Bureau.

#### **Terminal Elevator Infrastructure**

- Licensed GHTS terminal elevators reduced to 16 from 17.
- Terminal elevator unloads for the first nine months increased by 87.2% to 157,542 railcars.

## Indicator Series 1 – Industry Overview

		2003-04										
Table	Indicator Description	Notes	1999-00	2000-01	2001-02	2002-03	Q1	Q2	Q3	YTD (1)	% VAR	
<b>Production and Supply [Subseries 1A]</b>												
1A-1	Crop Production (000 tonnes)	(1)	55,141.7	54,072.6	42,541.4	31,539.9	47,655.3	-	-	47,655.3	51.1%	▲
1A-2	Carry Forward Stock (000 tonnes)	(1)	7,418.2	9,775.6	8,750.6	6,070.8	5,488.9	-	-	5,488.9	-9.6%	▼
	Grain Supply (000 tonnes)	(1)	62,559.9	63,848.2	51,292.0	37,610.7	53,144.2	-	-	53,144.2	41.3%	▲
<b>Rail Traffic [Subseries 1B]</b>												
1B-1	Railway Grain Volumes (000 tonnes) – Origin Province	(1)	26,441.0	25,885.5	18,765.1	12,736.4	5,790.1	4,408.3	4,707.9	14,906.3	71.7%	▲
1B-2	Railway Grain Volumes (000 tonnes) – Primary Commodities	(1)										
1B-3	Railway Grain Volumes (000 tonnes) – Detailed Breakdown	(1)										
<b>Country Elevator Infrastructure [Subseries 1C]</b>												
1C-1	Grain Delivery Points (number)	(2)	625	542	347	291	288	288	287		-1.4%	▼
1C-1	Grain Elevator Storage Capacity (000 tonnes)	(2)	7,443.9	7,137.0	6,125.2	5,747.3	5,736.9	5,699.9	5,702.9		-0.8%	-
1C-1	Grain Elevators (number) – Province	(2)	917	781	500	416	410	408	405		-2.6%	▼
1C-2	Grain Elevators (number) – Railway Class	(2)										
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	269	267	264	264		-1.9%	▼
1C-6	Grain Elevators Capable of Incentive Loading (number) – Railway Line Class	(2)	43	23	29	31	3	7	9		-71.0%	▼
1C-7	Grain Elevator Openings (number) – Province	(2)										
1C-8	Grain Elevator Openings (number) – Railway Class	(2)										
1C-9	Grain Elevator Openings (number) – Railway Line Class	(2)										
1C-10	Grain Elevator Closures (number) – Province	(2)	130	159	310	115	9	15	20		-82.6%	▼
1C-11	Grain Elevator Closures (number) – Railway Class	(2)										
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	89	n/a	n/a	n/a		n/a				
<b>Railway Infrastructure [Subseries 1D]</b>												
1D-1	Railway Infrastructure (route-miles) – Grain-Dependent Network	(2)	4,876.6	4,592.8	4,495.8	4,495.8	4,495.8	4,495.8	4,431.8		-1.4%	▼
1D-1	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-1	Railway Infrastructure (route-miles) – Total Network	(2)	19,390.1	19,020.9	18,923.9	18,923.9	18,923.9	18,923.9	18,859.9		-0.3%	-
1D-2	Railway Grain Volumes (000 tonnes) – Grain-Dependent Network	(1)	8,683.6	8,407.3	6,228.7	3,670.1	1,943.3	1,323.7	1,410.3	4,677.4	85.5%	▲
1D-2	Railway Grain Volumes (000 tonnes) – Non-Grain-Dependent Network	(1)	16,976.0	16,749.6	12,048.0	8,601.2	3,656.6	2,883.7	3,094.7	9,634.9	65.7%	▲
1D-2	Railway Grain Volumes (000 tonnes) – Total Network	(1)	25,659.6	25,156.8	18,276.6	12,271.3	5,599.9	4,207.3	4,505.0	14,312.3	71.7%	▲
1D-3	Shortline Railway Infrastructure (route-miles)	(2)	3,043.0	3,106.0	3,106.0	3,363.7	3,363.7	3,363.7	3,299.7		-1.9%	▲
1D-3	Shortline Railway Grain Volumes (000 tonnes)	(1)	2,090.5	2,335.1	2,061.0	1,111.7	453.1	495.2	497.4	1,445.7	92.9%	▲
1D-5	Railway Grain Volumes (000 tonnes) – Class 1 Carriers	(1)	23,569.1	22,821.7	16,215.7	11,159.6	5,146.8	3,712.2	4,007.6	12,866.6	69.7%	▲
1D-5	Railway Grain Volumes (000 tonnes) – Class 2 and 3 Carriers	(1)	2,090.5	2,335.1	2,061.0	1,111.7	453.1	495.2	497.4	1,445.7	92.9%	▲
1D-6	Grain Elevators (number) – Grain-Dependent Network	(2)	371	311	180	141	138	135	135		-4.3%	▼
1D-6	Grain Elevators (number) – Non-Grain-Dependent Network	(2)	513	440	305	261	258	260	256		-1.9%	▼
1D-6	Grain Elevator Storage Capacity (000 tonnes) – Grain-Dependent Network	(2)	2,475.4	2,243.7	1,731.3	1,569.3	1,543.7	1,520.6	1,544.5		-1.6%	▼
1D-6	Grain Elevator Storage Capacity (000 tonnes) – Non-Grain-Dependent Network	(2)	4,847.6	4,776.6	4,334.0	4,123.5	4,140.0	4,132.0	4,106.3		-0.4%	-
<b>Terminal Elevator Infrastructure</b>												
1E-1	Terminal Elevators (number)	(2)	15	16	17	17	16	16	16		-5.9%	▼
1E-1	Terminal Elevator Storage Capacity (000 tonnes)	(2)	2,678.6	2,703.6	2,733.6	2,733.6	2,642.6	2,642.6	2,642.6		-3.3%	▼
1E-2	Terminal Elevator Unloads (number) – Covered Hopper Cars	(1)	278,255	271,606	202,943	125,339	59,902	49,214	48,426	157,542	87.2%	▲

- (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 2002-03 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. For the 2003-04 crop year, the CWB has committed itself to moving 40% of its grain shipments under a new program that combines tendering as well as advance car awards.

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

### Highlights – Third Quarter 2003-04 Crop Year

#### Tendering

- The Canadian Wheat Board's (CWB) tendering commitment was reduced to a maximum of 20% effective 1 August 2003.
- 158 tender calls were issued by the CWB during the first nine months of the 2003-04 crop year.
  - Calls for the movement of 2.0 million tonnes to export positions in Western Canada.
- 1,514 bids received; offered an aggregated 8.2 million tonnes.
  - Response rate denoted heightened competition between grain companies.
- 330 contracts concluded for the movement of 1.7 million tonnes.
  - Represented 19.5% of volume shipped by CWB to port positions in Western Canada.
- Tenders for 10.4% of the tonnage called either partially, or not at all, filled.
- Proportion of tendered grain volume moving in multiple car blocks increases slightly to 94.0%.
  - Proportion moving in blocks of 50 or more cars climbed to 70.9% from 62.1% in the 2002-03 crop year.
- 85.4% of all tendered movements originated at high-throughput elevators.
  - Marginally higher than the 83.0% observed in the 2002-03 crop year.
- CWB's overall transportation savings reached \$36.3 million in the first nine months of the crop year.

#### Advance Car Awards

- Grain companies moved 1.1 million tonnes of grain under the CWB's new advance car awards program.
  - Represented 12.1% of volume shipped by CWB to port positions in Western Canada.
  - Similar traffic patterns to that of tendered grain.
- Tendered and advance-car-award shipments account for 31.6% of all CWB movements in Western Canada.
- 81.0% of all advance-car-award movements originated at high-throughput elevators – similar to that of tendered grain.
- Proportion of grain volume moving in multiple car blocks stands at 80.8% – noticeably less than that of tendered grain.
  - Driven by a smaller average car block size of 24.1 cars.
- Average car cycle of 15.4 days similar to tendered grain's average of 15.7 days.

#### Other Commercial Developments

- CWB restructured its tendering program, and reduced its commitment from 50%.
  - Now focused on a fixed 40% of the CWB's overall Western Canadian grain movement.
    - Specific provisions for up to one-half to move under tendering, and the remainder under an advance car awards program.
- Ocean freight rates more than double as a result of the high demand for vessels to service China's growing international trade.
  - Had an impact on Canadian grain sales as well as its railway movement within North America.
- Railway car supply problems began to significantly impact GHTS operations in the second quarter.
  - Hard-hit by adverse winter operating conditions, CP embargoed grain traffic to the west coast in late January 2004.
    - CP loses Western Canadian market share as grain traffic is redirected through CN-served facilities.
  - Increased movements of grain to Eastern Canada, the United States, and Mexico add to car supply problems.
- Producer-car loading increased by 221.2% in the first nine months to 6,028 railcars.
  - Car supply appeared to be the chief limitation to greater growth.
- Sharp increase in grain volume moved through the port of Churchill.
  - Prompted by governmental aid package as well as the port's new partnership with Louis Dreyfus.

## Indicator Series 2 – Commercial Relations

											2003-04	
Table	Indicator Description	Notes	1999-00	2000-01	2001-02	2002-03	Q1	Q2	Q3	YTD (1)	% VAR	
<b>Tendering [Subseries 2A]</b>												
2A-1	Tenders Called (000 tonnes) – Grain	(1)	n/a	4,888.0	4,961.4	5,794.2	908.6	419.3	642.4	1,970.3	-47.9%	▼
2A-2	Tenders Called (000 tonnes) – Grade	(1)										
2A-3	Tender Bids (000 tonnes) – Grain	(1)	n/a	1,629.2	11,400.8	11,778.1	3,470.3	1,962.5	2,730.9	8,163.7	-4.0%	▼
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	8,000.6	3,382.4	2,544.5	2,895.5	8,822.2	70.2%	▲
2A-5	Tendered Movements (%) – Proportion of Total CWB Movements	(1)(2)	n/a	5.4%	27.9%	46.1%	20.9%	14.8%	22.1%	19.5%	-61.0%	▼
2A-5	Tendered Movements (000 tonnes) – Grain	(1)(2)	n/a	858.6	3,566.0	3,685.2	707.3	376.4	639.0	1,722.7	-33.5%	▼
2A-6	Tendered Movements (000 tonnes) – Grade	(1)(2)										
2A-7	Unfilled Tender Volumes (000 tonnes)	(1)	n/a	4,312.4	1,487.3	1,742.5	140.4	51.1	14.3	205.8	-80.0%	▼
2A-8	Tendered Movements (000 tonnes) – Not Awarded to Lowest Bidder	(1)	n/a	0.0	96.1	126.8	21.6	29.7	12.2	63.4	-36.0%	▼
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	0.0	–
2A-9	Tendered Movements (000 tonnes) – In-Store	(1)	n/a	577.8	3,494.7	3,685.2	707.3	376.4	639.0	1,722.7	-33.5%	▼
2A-10	Distribution of Tendered Movements – Port	(3)										
2A-11	Distribution of Tendered Movements – Railway	(3)										
2A-12	Distribution of Tendered Movements – Multiple-Car Blocks	(3)										
2A-13	Distribution of Tendered Movements – Penalties	(3)										
2A-14	Distribution of Tendered Movements – Province / Elevator Class	(3)										
2A-15	Distribution of Tendered Movements – Month	(3)										
2A-16	Distribution of Tender Delivery Points (number) – Contracted Cars	(3)										
2A-17	Average Tendered Multiple-Car Block Size (railcars) – Port	(1)	n/a	n/a	38.3	35.6	40.7	36.8	39.7	39.4	4.2%	▲
2A-18	Railway Car Cycle (days) – Tendered Grain	(1)	n/a	n/a	14.8	19.3	17.3	16.3	13.4	15.7	-19.1%	▼
2A-18	Railway Car Cycle (days) – Non-Tendered Grain	(1)	n/a	n/a	16.7	20.0	17.0	17.5	15.2	16.6	-13.1%	▼
2A-19	Maximum Accepted Tender Bid (\$ per tonne) – Wheat	(1)	n/a	n/a	-\$18.07	-\$16.99	-\$22.09	-\$23.04	-\$21.07	-\$23.04	37.7%	▲
2A-19	Maximum Accepted Tender Bid (\$ per tonne) – Durum	(1)	n/a	n/a	-\$14.17	-\$17.27	-\$22.02	-\$24.07	-\$23.09	-\$24.07	45.3%	▲
2A-20	Market Share (%) – CWB Grains – Major Grain Companies	(1)	n/a	n/a	77.2%	72.9%	71.6%	71.7%	75.6%	73.0%	-2.4%	▼
2A-20	Market Share (%) – CWB Grains – Non-Major Grain Companies	(1)	n/a	n/a	22.8%	27.1%	28.4%	28.3%	24.4%	27.0%	7.1%	▲
<b>Advance Awards [Subseries 2B]</b>												
2B-1	Advance Award Movements (%) – Proportion of Total CWB Movements	(1)	n/a	n/a	n/a	n/a	3.0%	17.1%	18.2%	12.1%	0.0	–
2B-1	Advance Award Movements (000 tonnes) – Grain	(1)	n/a	n/a	n/a	n/a	101.9	436.2	528.3	1,066.3	0.0	–
2B-2	Distribution of Advance Award Movements – Port	(4)										
2B-3	Distribution of Advance Award Movements – Railway	(4)										
2B-4	Distribution of Advance Award Movements – Province / Elevator Class	(4)										
2B-5	Distribution of Advance Award Movements – Month	(4)										
2B-6	Distribution of Advance Award Movements – Multiple-Car Blocks	(4)										
2B-7	Railway Car Cycle (days) – Advance Award Grain	(1)	n/a	n/a	n/a	n/a	n/a	16.8	14.0	15.4	0.0	–
2B-8	Average Advance Award Multiple-Car Block Size (railcars) – Port	(1)	n/a	n/a	n/a	n/a	32.7	19.2	24.1	24.1	0.0	–

(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 tendering and advance award programs.

(2) – Includes tendered malting 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 the Data Tables.

(4) – Indicators 2B-2 through 2B-6 examine advance award 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 the 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 2003-04 Crop Year

#### Trucking

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

#### Country Elevators

- Throughput increased by 48.2% to 20.7 million tonnes in the first nine months of the crop year.
- The average elevator capacity turnover ratio increased by 48.1% to 4.0 turns.
- Average weekly stock level increased by 15.6% to 2.9 million tonnes.
- Average number of days-in-store fell 21.8% to 39.1 days.
  - Significant reduction from 59.9-day average reached in the third quarter of the 2002-03 crop year.
- Average weekly stock-to-shipment ratio declined by 24.5% to 5.5 for the first nine months.
  - Denotes reduction in the overburden of elevator stocks.
- Posted tariff rates for elevator handling activities increased by approximately 3% since the beginning of the crop year.

#### Rail Operations

- Average car cycle decreased by 16.3% to 16.9 days during the first nine months of the crop year.
  - Significant reduction reflected the effects of increased grain volumes.
    - Average empty transit time decreased 20.4% to 7.8 days.
    - Average loaded transit time decreased 12.5% to 9.1 days.
  - Reduction in the third quarter average of 16.1 days reflects a decline in the volume of grain moved from Saskatchewan.
    - Greater concentration of comparatively shorter-haul movements from Alberta and Manitoba to export positions at port.
- Proportion of grain traffic moving under incentive programs climbed marginally to 75.4% in the first nine months.
  - Impacted by a restructuring of the railways' incentive programs.
    - CN eliminated all discounts for movements in blocks of 25-49 railcars.
    - CP significantly increased the discounts for movements in 100 or more railcars.
  - Migration towards movements in blocks of 100 or more cars.
    - Year-to-date proportion increased to 25.1% from the 2002-03 crop year's 19.2% average.
  - Railway incentive payments estimated at \$49.1 million for the first nine months – up 92.8%.
    - Reflected effects of increased grain volumes and higher discounts.
    - Average-earned discount reached \$4.56 per tonne.
- CN and CP move independently in setting posted freight rates.
  - August 2003: CN maintained rates at 2002-03 crop year levels; CP applied a 1.0% reduction from most origins.
    - Opens a gap between CN and CP rates that help increase CP's market share in the first quarter.
  - March 2004: CN and CP escalate rates by about 1.5% and 2.0% respectively.
    - Narrows the pricing gap opened in August, but still leaves CP with the most price-competitive rates.

#### Terminal Elevators and Port Performance

- Terminal throughput increased by 70.2% to 13.6 million tonnes during the first nine months.
- 520 vessels loaded at Western Canadian ports during the first nine months of the crop year.
  - Average time in port fell by 2.3% to 4.3 days.
- Posted tariff rates for elevator handling activities increased by approximately 3% since the beginning of the 2003-04 crop year.

## Indicator Series 3 – System Efficiency

		2003-04										
Table	Indicator Description	Notes	1999-00	2000-01	2001-02	2002-03	Q1	Q2	Q3	YTD (1)	% VAR	
<b>Trucking [Subseries 3A]</b>												
3A-1	Composite Freight Rate Index – Short-haul Trucking	(2)	100.0	102.5	100.0	100.0	100.0	100.0	100.0	100.0	0.0%	–
<b>Country Elevators [Subseries 3B]</b>												
3B-1	Grain Volume Throughput (000 tonnes)	(1)	32,493.9	33,281.9	25,923.8	19,052.1	7,081.1	6,819.4	6,826.2	20,726.7	48.2%	▲
3B-2	Average Elevator Capacity Turnover Ratio	(1)	4.8	5.0	4.5	3.7	1.4	1.3	1.3	4.0	48.1%	▲
3B-3	Average Weekly Elevator Stock Level (000 tonnes)	(1)	3,699.3	3,494.7	2,699.8	2,502.0	2,931.5	2,904.6	2,934.4	2,924.0	15.6%	▲
3B-4	Average Days-in-Store (days)	(1)	41.7	38.3	38.0	47.9	39.3	38.8	39.1	39.1	-21.8%	▼
3B-5	Average Weekly Stock-to-Shipment Ratio – Grain	(1)	6.2	5.4	5.4	7.1	5.5	5.3	5.7	5.5	-24.5%	▼
3B-6	Average Handling Charges – Country Delivery Points	(3)										
<b>Rail Operations [Subseries 3C]</b>												
3C-1	Hopper Car Grain Volumes (000 tonnes) – Province	(1)										
3C-2	Hopper Car Grain Volumes (000 tonnes) – Primary Commodities	(1)	25,659.6	25,156.8	18,276.6	12,271.3	5,599.9	4,207.3	4,505.0	14,312.3	71.7%	▲
3C-3	Hopper Car Grain Volumes (000 tonnes) – Detailed Breakdown	(1)										
3C-4	Railway Car Cycle (days) – Empty Transit Time	(1)	10.7	7.6	8.3	10.2	7.8	8.0	7.5	7.8	-20.4%	▼
3C-4	Railway Car Cycle (days) – Loaded Transit Time	(1)	9.2	8.8	8.8	10.1	9.0	9.8	8.6	9.1	-12.5%	▼
3C-4	Railway Car Cycle (days) – Total Transit Time	(1)	19.9	16.4	17.1	20.4	16.8	17.8	16.1	16.9	-16.3%	▼
3C-5	Hopper Car Grain Volumes (000 tonnes) – Non-Incentive	(1)	12,735.5	7,906.2	4,219.3	3,093.3	1,590.7	855.6	1,081.3	3,527.6	73.2%	▲
3C-5	Hopper Car Grain Volumes (000 tonnes) – Incentive	(1)	12,924.2	17,250.7	14,057.3	9,178.0	4,009.2	3,351.8	3,423.7	10,784.7	71.2%	▲
3C-6	Hopper Car Grain Volumes (\$ millions) – Incentive Discount Value	(1)	\$31.1	\$60.1	\$57.2	\$36.4	\$17.9	\$15.4	\$15.8	\$49.1	92.8%	▲
3C-7	Traffic Density (tonnes per route mile) – Grain-Dependent Network	(1)	442.3	450.3	340.8	204.1	432.3	294.4	318.2	348.4	86.4%	▲
3C-7	Traffic Density (tonnes per route mile) – Non-Grain-Dependent Network	(1)	292.4	289.4	208.8	149.0	253.4	199.9	214.5	222.6	65.7%	▲
3C-7	Traffic Density (tonnes per route mile) – Total Network	(1)	330.3	328.6	240.5	162.1	295.9	222.3	238.9	252.4	71.9%	▲
3C-8	Composite Freight Rates (\$ per tonne) – Rail	(2)(3)										
3C-9	Multiple-Car Shipment Incentives (\$ per tonne) – Rail	(2)(3)										
3C-10	Effective Freight Rates (\$ per tonne) – CTA Revenue Cap	(2)(4)	n/a	\$25.83	\$25.28	\$24.52	n/a	n/a	n/a	n/a	n/a	–
<b>Terminal Elevator and Port Performance [Subseries 3D]</b>												
3D-1	Annual Port Throughput (000 tonnes) – Grain	(1)	23,555.5	23,941.3	18,004.6	11,806.9	4,877.7	4,765.1	3,940.1	13,582.9	70.2%	▲
3D-2	Average Terminal Elevator Capacity Turnover Ratio	(1)(5)	9.1	8.9	6.6	5.0	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	1,016.5	1,194.9	1,068.4	1,051.1	1,105.8	6.9%	–
3D-4	Average Days-in-Store – Operating Season (days)	(1)	18.6	17.5	20.6	21.7	21.4	18.7	20.3	20.1	-7.4%	▼
3D-5	Average Weekly Stock-to-Shipment Ratio – Grain	(1)(3)										
3D-6	Average Weekly Stock-to-Shipment Ratio – Grade	(1)(3)										
3D-7	Average Vessel Time in Port (days)	(1)	4.3	5.9	4.9	4.3	4.3	4.5	4.3	4.3	-2.3%	▼
3D-8	Distribution of Vessel Time in Port	(1)(3)										
3D-9	Distribution of Berths per Vessel	(1)(3)										
3D-10	Annual Demurrage Costs (\$millions)	(5)	\$7.6	\$16.1	\$2.9	\$0.8	n/a	n/a	n/a	n/a	n/a	–
3D-10	Annual Dispatch Earnings (\$millions)	(5)	\$14.5	\$13.3	\$7.0	\$4.4	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 2002-03 crop year.
- (5) – The GMP provides for the calculation of this indicator on an annual basis. Quarterly values are not available.

## Synopsis – Service Reliability

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*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 2003-04 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.
  - Vancouver
    - Wheat – 4.0 for the first nine months of the 2003-04 crop year; down by 30.2%.
    - Canola – 3.2; up by 9.3%.
  - Thunder Bay
    - Wheat – 6.2 for the first nine months of the 2003-04 crop year; down by 14.1%.
    - Canola – 3.4; down by 19.8%.
- 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 2003-04 crop year.
  - Vancouver
    - CWB grains – 3.5 for the first nine months of the 2003-04 crop year; down by 35.1%.
    - Non-CWB grains – 3.5; down by 18.6%.
  - Thunder Bay
    - CWB grains – 6.2 for the first nine months of the 2003-04 crop year; down by 7.2%.
    - Non-CWB grains – 3.4; down 26.7%.

## Indicator Series 4 – Service Reliability

											2003-04	
Table	Indicator Description	Notes	1999-00	2000-01	2001-02	2002-03	Q1	Q2	Q3	YTD (1)	% VAR	
<b>Port Performance [Subseries 4A]</b>												
4A-1	Avg. Weekly Stock-to-Vessel Requirements Ratio – VCR – Wheat	(1)(2)	3.1	2.5	2.3	4.9	4.6	4.1	2.9	4.0	-30.2%	▼
4A-1	Avg. Weekly Stock-to-Vessel Requirements Ratio – VCR – Canola	(1)(2)	2.5	1.9	3.3	2.9	3.1	2.8	3.9	3.2	9.3%	▲
4A-1	Avg. Weekly Stock-to-Vessel Requirements Ratio – TBY – Wheat	(1)	5.6	5.3	4.3	6.8	5.3	4.7	18.2	6.2	-14.1%	▼
4A-1	Avg. Weekly Stock-to-Vessel Requirements Ratio – TBY – Canola	(1)	2.8	1.9	2.6	4.3	2.7	5.2	1.5	3.4	-19.8%	▼
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	4.3	3.5	3.5	3.6	3.5	-35.1%	▼
4A-3	Avg. Weekly Stock-to-Shipment Ratio – VCR – Non-CWB Grains	(1)(2)	3.6	2.6	4.1	4.3	4.3	2.6	3.9	3.5	-18.6%	▼
4A-3	Avg. Weekly Stock-to-Shipment Ratio – TBY – CWB Grains	(1)	4.6	5.2	5.5	6.6	6.2	5.2	7.3	6.2	-7.2%	▼
4A-3	Avg. Weekly Stock-to-Shipment Ratio – TBY – Non-CWB Grains	(1)	3.3	2.8	2.9	5.0	2.3	5.0	2.4	3.4	-26.7%	▼
4A-4	Terminal Handling Revenue (\$millions) – Vancouver	(1)(4)	\$192.7	\$198.9	\$139.7	\$49.7	n/a	n/a	n/a		n/a	–
4A-4	Terminal Handling Revenue (\$millions) – Thunder Bay	(1)(4)	\$82.1	\$75.5	\$64.2	\$58.6	n/a	n/a	n/a		n/a	–
4A-4	CWB Carrying Costs (\$millions) – Pacific Seaboard	(1)(4)	\$63.3	\$48.2	\$49.1	\$22.4	n/a	n/a	n/a		n/a	–
4A-4	CWB Carrying Costs (\$millions) – Thunder Bay	(1)(4)	\$31.3	\$34.4	\$34.4	\$30.1	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 GWU 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, direct quarter-over-quarter comparisons are not possible.
- (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 2003-04 Crop Year

#### Export Basis and Producer Netback – CWB Grains

- Changes in the CWB’s Pool Return Outlook (PRO) for 1CWRS wheat:
  - Farmer’s payment set at \$189.95 per tonne.
    - Represents a 24.1% reduction from the final realized price for the 2002-03 crop year of \$250.20 per tonne.
    - Reduction largely fuelled by better crop production in 2003; and increased international competition.
  - PRO reaches \$213.00 per tonne by the end of the third quarter.
    - Represents a 12.1% gain over farmer’s payment.
- Recent changes in input costs:
  - Country elevator handling – up by about 3% for most activities and commodities.
  - Rail transportation – net rate increase of about 1.0% for CP origins; 2.0% for CN origins.
  - Terminal elevator handling – up by 3% for most activities and commodities.
- Changes in the PRO for 1CWRS wheat, and input costs to the export basis, suggests a reduction in the producer’s netback for CWB grains in the 2003-04 crop year.

#### Export Basis and Producer Netback – Non-CWB Commodities

- Changes in Vancouver cash price for 1 Canada canola:
  - Price reaches \$425.00 per tonne by the end of the third quarter.
    - Represents a 2.6% gain from the monthly average of \$414.36 per tonne for the 2002-03 crop year.
    - Year-to-date monthly average of \$384.91 still below the 2002-03 average.
    - Recent increase largely fuelled by strong demand; and expectations of tighter year-end stocks.
- Recent changes in input costs:
  - Country elevator handling – up by about 3% for most activities and commodities.
  - Rail transportation – net rate increase of about 1.0% for CP origins; 2.0% for CN origins.
  - Terminal elevator handling – up by 3% for most activities and commodities.
- Changes in the price of 1 Canada canola, and input costs to the export basis, suggests a reduction in the producer’s netback for non-CWB commodities in the 2003-04 crop year.

#### Producer-Car Loading

- Number of producer-car-loading sites fell by 3.9% to 498.
- Producer-car shipments increased by 221.2% to 6,028 railcars in the first nine months.
  - Growth contingent on an adequate supply of railcars.

## Indicator Series 5 – Producer Impact

											2003-04	
Table	Indicator Description	Notes	1999-00	2000-01	2001-02	2002-03	Q1	Q2	Q3	YTD (1)	% VAR	
<b>Export Basis</b>												
Western Canada												
5A-10	1 CWRS Wheat (\$ per tonne)	(1)(3)	\$54.58	\$52.29	\$50.39	\$56.65						
5A-10	1 CWA Durum (\$ per tonne)	(1)(3)	\$67.63	\$68.71	\$63.05	\$73.05						
5A-10	1 Canada Canola (\$ per tonne)	(1)(3)	\$52.51	\$49.11	\$42.01	\$48.97						
5A-10	Canadian Large Yellow Peas – No. 2 or Better (\$ per tonne)	(1)(3)	\$54.76	\$72.72	\$70.97	\$83.19						
<b>Producer-Car Loading</b>												
5B-1	Producer-Car-Loading Sites (number) – Class 1 Carriers	(2)	415	381	386	380	354	360	360		-5.3% ▼	
5B-1	Producer-Car-Loading Sites (number) – Class 2 and 3 Carriers	(2)	120	122	127	138	138	138	138		0.0% -	
5B-1	Producer-Car-Loading Sites (number) – All Carriers	(2)	535	503	513	518	492	498	498		-3.9% ▼	
5B-2	Producer-Car Shipments (number) – Covered Hopper Cars	(1)	3,441	4,724	6,583	3,209	1,322	2,580	2,126	6,028	221.2% ▲	

(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

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

- The introduction, and gradual expansion of tendered grain movements by the Canadian Wheat Board; and
- The replacement of the maximum rate scale for rail shipments with a cap on the annual revenues that railways can earn from the movement of regulated grain.

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

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

- Series 1 – Industry Overview  
Measurements relating to annual grain production, traffic flows and changes in the GHTS infrastructure (country and terminal elevators as well as railway lines).
- Series 2 – Commercial Relations  
Measurements focusing on the tendering activities of the Canadian Wheat Board as it moves towards a more commercial orientation as well as changes in operating policies and practices related to grain logistics
- Series 3 – System Efficiency  
Measurements aimed at gauging the operational efficiency with which grain moves through the logistics chain.
- Series 4 – Service Reliability  
Measurements focusing on whether the GHTS provides for the timely delivery of grain to port in response to prevailing market demands.
- Series 5 – Producer Impact  
Measurements designed to capture the value to producers from changes in the GHTS, and is focused largely on the calculation of “producer netback.”



## Appendix 2: Acknowledgements

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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 31 August 2004)**

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](http://www.quorumcorp.net)

Email: [info@quorumcorp.net](mailto:info@quorumcorp.net)

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