ISSUE BRIEF: Transportation

RENEWING SYSTEMS FOR TRANSPORTING GRAIN

The CANADIAN FEDERATION OF AGRICULTURE emphasizes that:

- **Farmers, not shippers, pay the cost of transporting grain** (35% of their total costs). And rail companies hold a near monopoly in the rail shipping system. That's why regulation through Maximum Revenue Entitlement (MRE) is essential — it protects farmers from monopolistic practices.
- **A full costing review of rail rates must be undertaken** to ensure that the MRE is fair for both producers and shippers.
- **Government must ensure necessary infrastructure funding** to create an efficient and reliable grain transportation system in Canada.
- **A comprehensive export strategy is needed** to rebuild damaged trade relationships and ensure consistent delivery of grain.

BACKGROUND

Current concerns about crop transportation in Canada stem from the grain transportation crisis that occurred over the crop year of 2013-14. During this time, an inability to transport grain to export markets in a timely fashion led to an **estimated loss of $6.5 billion** in revenue for Western Canada and damaged international trade relations with various countries.

In response, the government passed emergency measures under Bill C-30. While this helped alleviate problems and has introduced effective ways to improve competitiveness (through options like interswitching), Bill C-30 is a temporary solution that expires in August 2017.

Many of our farmers are concerned about a repeat of the 2013-14 crisis, and feel that problems with the grain transportation system are systemic in nature and must be addressed quickly to improve the flow of grain exports, and to ensure a fair and transparent process in rail services.

While Bill C-30's extension will help deal with short-term uncertainties, the recent Canadian Transportation Act (CTA) review has left farmers worried about the long-term future of their industry.

Markets and demand for Canadian grain will continue to grow, especially in the Pacific Rim. It is vital that we improve handling and logistics systems, and that we ensure infrastructure capacity is in place to meet these demands.

To explain why, we outline some of the important concepts involved — starting with the Maximum Revenue Entitlement (MRE) program.

What is the Maximum Revenue Entitlement (MRE) program?

The MRE is a regulation that sets a limit on the overall revenue that can be earned by the Canadian National Railway Company (CN) and the Canadian Pacific Railway Company (CP) for shipping regulated grain from Western Canada to export markets. It was put into place to protect grain farmers from monopolistic practices from rail companies, as the reality for most farmers is that they only have access to one railway company to ship their grain.

The MRE for a given crop year is established in relation to the "base year" of 2000-2001. The formula used to establish the annual MRE is based on three factors: the actual tonnage of grain that was hauled, the average length of haul during the crop year and the volume-related composite price index (VCRPI).

All other things being equal (i.e. the other two factors mentioned above), the VRCPI has a direct relationship with railway MRE's. For instance, a 3% increase in the VRCPI will result in a 3% increase in railway companies' MRE's.

The VCRPI is an inflation index that represents the forecasted price changes for labour, fuel and material and capital purchases for freight companies.

Understanding the MRE and how it protects farmers is key to understanding why farmers are against the CTA review's recommendation that the MRE be "modernized" and then eventually eliminated.

Why is the MRE necessary?

Rail transportation costs represent one of the largest costs for western grain farmers — **upwards of 35% of their total costs.** The majority of grain farmers only have access to a single rail provider, making it essential for a regulation of rail rates to avoid monopolistic practices by rail providers.

The CTA review simultaneously dismisses the need for the MRE program while recommending that chickpeas and soybeans be added to the list of eligible crops to the program due to increased production. If the panel considers that farmers would receive better rates by removing the MRE, why recommend that other commodities be added? It can only be concluded that the MRE is seen as beneficial for the commodities it protects.

While the MRE is seen as necessary and beneficial, many aspects of it are outdated. Farmers believe it should be maintained but updated, using current rail transportation costs.

Why undertake a costing review?

Over 1,000 grain elevators have been closed in the Prairie region since 1990. Today only 240 grain elevators serve the Prairie region, allowing rail providers to stop less frequently and to pick up grain in larger quantities when they do. As the MRE is mainly affected by an inflation index, these increases in productivity are not reflected by the MRE formula; so freight rates have not gone down — railway company profits have improved, yet farmers costs have gone up as a result of increased distance from farm-gate to grain terminal.

Since 2000, freight rates for CN have risen 32%, while they have risen 39% for CP.

Prior to establishing the MRE, the CTA made an 18% productivity related adjustment based on a study of railway productivity and grain costs completed in July 1999. There have been no adjustments made for productivity in the past 16 years.

It has been almost 25 years since the last full review of railway costs. Freight rates should be based on actual costs instead of annual revisions to an outdated formula. A costing review is needed to ensure that the MRE program is accurate and fair for all those involved.

Does the MRE hinder infrastructure spending?

The CTA review suggests that the MRE is the primary hindrance to railways investing in rail assets and capacity. Authors of the review purport that increasing the capital cost allowance rates in the MRE will motivate operators to expand capacity, including grain hopper car capacity.

However, the MRE formula already provides abundant room for railways to reinvest in assets. For example, the CTA estimated that during the first seven years under the

How can Canada better facilitate grain exports?

As an exporting country, Canada needs reliable and efficient transportation infrastructure to move product cost effectively to export positions. Western Canadian grain farmers have already seen negative impacts from bottlenecks in the rail transportation system and the lack of surge capacity. Additionally, the government-owned hopper car fleet is aging quickly and will have to be replaced within the next 10 years.

As world demand for Canadian agriculture grows, the government must ensure that federal funds are earmarked for grain transportation and logistics systems that enable Canadian farmers and businesses to successfully compete and supply the new market access opportunities arising across the globe.

Liberal Party statement on the MRE:

"The last time a full railway costing review was conducted was in 1992. A lot has changed since then. So yes, after 23 years, it is time to update the arithmetic. Certainly before any discussion about the MRE, a costing review would be an absolute must. While the railways and some farm organizations have argued for the MRE to be changed or eliminated, there is no compelling evidence to date that the MRE is causing inferior railways services. Indeed, service to shippers has been even more inferior in shipping corridors to which the MRE does not apply."

— Excerpt from a 2015 election survey published by the Agricultural Producers Association of Saskatchewan

Founded in 1935, the Canadian Federation of Agriculture (CFA) is the country's largest farmers' organization. Its members include provincial general farm organizations as well as national and inter-provincial commodity organizations. Through its members, CFA represents over 200,000 Canadian farmers and farm families.

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