

# Canadian Grain Freight Regulation and and Ongoing Processes

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# THE DIVISION OF LABOUR FOR THIS SESSION

## ▶ Richard Gray:

- ▶ The Canadian Grain Freight Regulation and the role of the CWB
- ▶ The markets for freight and incentives
- ▶ Potential improvements

## ▶ Bill Wilson:

- ▶ The operation of the US freight rate market
- ▶ Potential for change in Canada

## ▶ Terry Whiteside:

- ▶ Discussant – US shipper's perspective

# CWB ROLE IN RAIL TRANSPORTATION

- ▶ Through Single Desk Marketing Function:
  - ▶ CWB played a large role in rail car allocation and logistics
  - ▶ increased access for producer cars via marketing
  - ▶ increased use of Rupert/Churchill ports
- ▶ CWB – was a producer voice
  - ▶ In the development of the WGTA/ CTA
  - ▶ in regulatory hearings/ review processes

# CANADIAN GRAIN FREIGHT REGULATION

- ▶ The Crow's Nest Pass Agreement (1897)
- ▶ The Statutory Crow's Nest Rates (1925)
- ▶ Western Grain Transportation Act (1983)
- ▶ CTA with Revenue CAP (2000)
  - ▶ Service obligations
  - ▶ Rate Reviews

# THE REVENUE CAP (QUORUM)

- ▶ statutory limit on the amount of revenue railways can earn from the movement of grain in western Canada
- ▶ export shipments from western Canada handled through the west coast ports Churchill, Thunder Bay & Armstrong
- ▶ The revenue limits for CN and CP were based on an estimate of each carrier's total tonnage, average length of haul, and revenues for the 2000-01 crop year

# THE REVENUE CAP

- ▶ The revenue limits for CN and CP were based on an estimate of each carrier's total tonnage, average length of haul, and revenues for the 2000-01 crop year.

	CN Estimation	CP Estimation
Tonnes Moved (000)	12,437.0	13,894.0
Average Length of Haul (miles)	1,045.0	897.0
Allowable Revenue (\$M)	\$348	\$362.9
Average Revenue per Tonne <sub>2000</sub>	\$27.98	\$26.12

# THE REVENUE CAP IS A DYNAMIC REVENUE REGULATING MECHANISM

- ▶ Based on the estimates of 2000-01 rail costs but provides for adjustments that take into consideration changes in:
  - ▶ The total number of tonnes of grain actually moved each year by the carrier.
  - ▶ The carrier's actual average length of haul
  - ▶ Inflation

# THE “REVENUE CAP” IS AN AVERAGE RATE CAP

- ▶ is a Regulated *Average Freight Rate* multiplied by Tonnage
- ▶ Defined by the formula:

$$\text{Revenue Cap}_{2011} = [(\text{Rate}_{2000-01}) + \text{distance adjustment}] \times \text{Inflation Factor}_{2011} \times \text{Tonnes shipped}_{2011}$$

# INFLATION FACTOR

- ▶ This is calculated each year by the CTA based on input prices
- ▶ labour, fuel, material, leased cars, depreciation and cost of capital, each having its own price index
- ▶ In 2007-08 there was a reduction of 8% due to hopper car maintenance

<u>Year</u>	<u>Inflation Factor</u>
2007-08	1.06
2008-09	1.14
2009-10	1.06
2010-11	1.13
2011-12	1.17

# EXAMPLE

- ▶ Inflation factor for 2011 is 1.17
- ▶ CN Rate 2011 ( if average haul is 1045 miles)
- ▶ Average rate =  $27.98 \times 1.17 = \$32.73/t$
- ▶ Revenue CAP=  $32.73 \times \text{Tonnes shipped}$

Eg.  $32.73 \times 10 \text{ Million tonnes} = \$327.3 \text{ million}$

# DISTANCE ADJUSTMENT:

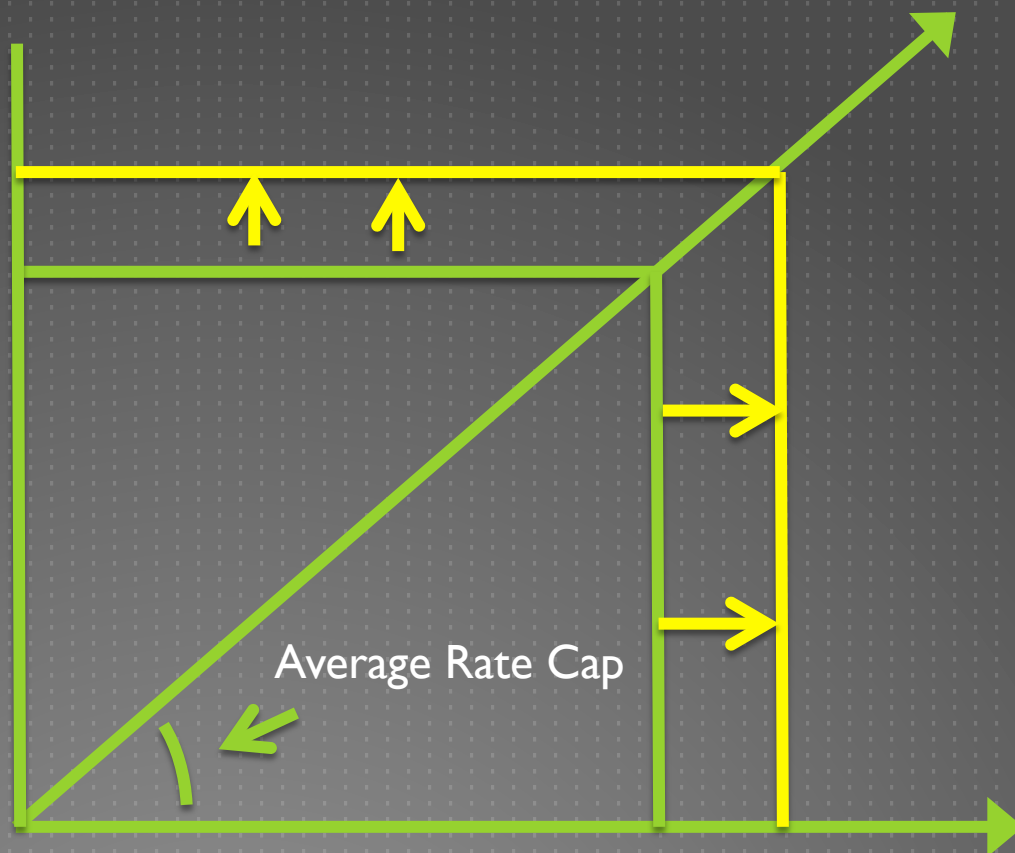
- ▶ (Change in miles hauled) x tonnes x .022 x input price index
- ▶ In CN example if average haul distance was 1145 miles instead of 1045 ie. extra 100 miles
- ▶ Distance adjustment would be (1145 – 1045) or:

$$100 \times .022 = \$2.20 \text{ per tonne}$$

$$\text{Eg. } (32.73 + \$2.20) \times 10 \text{ Million tonnes} = \$349.3 \text{ million}$$

# REVENUE IS PROPORTIONAL TO VOLUME

Revenue



Tonnes Shipped

# INCENTIVE TO MOVE GRAIN EARLY

- ▶ Average rate Cap does not change when shipment is made in August versus the following June but:
- ▶ Railways get paid when they ship – earlier is better for shareholders
- ▶ Railway can expand total volume by moving more early
- ▶ but Railways want to fully utilize their capacity- this is efficient and reduces cost

# POTENTIAL IMPROVEMENTS TO THE REVENUE CAP

- ▶ Some sharing of rail cost efficiency gains (Railways are receiving 100% of efficiency gains made since 2000-01) – But this could reduce incentives to invest in grain versus other capacity
- ▶ The Revenue Cap formula provide some additional incentives to move grain earlier in the crop year but this could distort incentives and increase costs

# GOVERNMENT PROCESSES UNDERWAY

- ▶ Follow up to the 2008 Rail Freight Services Review
- ▶ Follow up to C18

# FOLLOW UP TO RAIL FREIGHT SERVICES REVIEW

- ▶ The government accepts the CTA panel's commercial approach:
  1. Initiate a six-month facilitation process with shippers, railways and other stakeholders to negotiate a template service agreement and streamlined commercial dispute resolution process;
    - ▶ This process has already started and should wrap up before summer 2012.
  2. Table a bill to give shippers the right to a service agreement to support the commercial measures;
    - ▶ This process has not started yet.

## FOLLOW UP TO RAIL FREIGHT SERVICES REVIEW

3. Establish a Commodity Supply Chain Table - involving supply chain partners that ship commodities by rail, to address logistical concerns and develop performance metrics to improve competitiveness;
  - ▶ This process has not started yet, but will likely be initiated near the end of the facilitation process outlined above.

## FOLLOW UP TO RAIL FREIGHT SERVICES REVIEW

4. In collaboration with Agriculture and Agri-Food Canada, Transport Canada will lead an in-depth analysis of the grain supply chain to focus on issues that affect that sector and help identify potential solutions.
  - ▶ The analysis has been started and will run parallel to the facilitation process.

# C18- CROP LOGISTICS WORKING GROUP

- ▶ The Crop Logistics Working Group will be co-chaired by Agriculture and Agri-Food Canada Deputy Minister John Knuble and Gordon Bacon, the Chief Executive Officer of Pulse Canada.
- ▶ The role and objectives of the new working group will be:
  - ▶ To allow agriculture stakeholders to exchange views about issues and support of the Transport Canada facilitation process flowing from the Rail Freight Service Review;
  - ▶ To also provide a forum for stakeholders to exchange information and views about any transportation and supply chain issues that may arise from the transition to marketing freedom for wheat and barley;
  - ▶ To allow stakeholders to exchange information and develop views on performance measurement along the supply chain; and
  - ▶ To provide a forum for agriculture stakeholders to exchange information and views on other supply chain logistics issues.

# CONCLUSIONS

- ▶ Rail Revenue Cap is still in effect and there are no concrete plans to change it
- ▶ There are several process in place to smooth the transition to a post C18 world.