Dear Senate Transport Committee: Rail

Your committee will determine the future of rail transport in Canada.

Your task at this time is as significant to the history of nation as those who envisioned a railway to tie this confederation together, and pounded the last spike on November 7, 1885. Your task is to define legislation to insure shippers in this nation have access to world markets in a timely, efficient and competitive manner. Your task if to insure shareholders of railways continue to enjoy a return on investment. Your task is to find the sweet spot that pages of thesis’, countless meetings, volumes of reviews, commissions, and legislation has failed to do in the past solve the issue of transportation for this nation. Your task is important. Not only is it important but it is essential, and today it is even more timely as the global production & supply from this nation is part of changing paradigm of world trade. Competition for global trade is increasing. Canada will need to up our game to stay in the game.

The world we live in is a changing paradigm.

What is different today, is no longer do we have the privilege to get this wrong, in the past captive grain would wait for a market, suppliers would be able to deliver to a patient marketplace, which had no other choice due to available supply than to wait: this is what happened in 2013/14, buyers waited for months for cargo. Now, buyers can find supply elsewhere. The agricultural trade is in a whole new paradigm, one that includes increasing production for the same markets and commodities as we supply, steadily increasing production from the FSU (former Soviet Union) is a fact that is changing global markets. I will speak to global competition later in this presentation.

Who we are, & what we need from railroads.

Canada is a unique country. Western Canada is where the bulk of the exports are generated, with about 50% originate from my province of Saskatchewan. The west is different from the east: we have a low population; we have few consumers; we have limited crops selection due to our climate; we do not have great North South shipping access by rail to consumers in the USA, we are a land locked production zone that exports over 80% of what we produce. Unlike the USA, we do not have the Mississippi. Trucks are inefficient and unaffordable and if we put all the grain on trucks it would an environmental disaster. Very simply: we need the rail to get to markets. Furthermore, we have no choice we need to use rail.

Crops are not unique, oil and potash and lumber, fertilizer, and most goods & service large and small that wishes to be exported from this country needs rail. We all need to use the rail.

The changing paradigm of global supply chains & trade.

Canada is an exporting country. We can proudly bring up statistics that validate our record of supplying the world with agricultural commodities. But the world changed beginning in 1990: We need to understand why this changing paradigm of export in the world affects Canada a lot.
2. When communism failed in the FSU (former Soviet Union) was an importer. This region, the FSU which includes Russia, Ukraine, Kazakhstan and countries whose names I struggle to pronounce or even to pinpoint on a map until recently, are now part of the global export community supplying commodities to customers much closer, faster & cheaper than us. Russia has tripled its production and doubled its exports in the last 10 years, backed by Putin they have a goal to do the same in the next 10 years, and this is just Russia. Uzbekistan is offering mung beans: Uzbekistan where is this anyway, it is a former member of the FSU & lower priced mung beans readily available will compete with Canadian pulses! Kazakhstan was offering lentils at 50$ USD/mt into Turkey, arriving in a few weeks, not a few months like Canadian (a few months is if we can get rail service!). Kazakhstan lentil production is in its infancy. We have seen the news releases about the new Silk road (railway) linking this region to markets; of China investing in dry ports in Kazakhstan to deliver goods by rail just in time; China investing in the Ukraine ag sector; and of highly successful large farmers increasing production by increasing the farmable land & the production on the land. We know that export from this region is limited at this time by their logistics & port facilities but not for long as investments in new infrastructure are being made. The competition is real. The competition is growing.

I have included data on production from Ukraine & Russia, (1) please note the following: 1/ FSU included production from countries other than Russia, all increasing production with each passing year. 2/ The production is increasing, most analysts expect this pace will pick up as more land and better technology and logistics create a better environment.

**Why does increasing global completion matter to this committee?**

Why does production from the FSU matter to your committee? Simple because of what it means: Canada is no longer a key supplier, the bread basket of the world has increasing competition, and for this reason the solution to our ongoing chronic rail issues is imperative. This year supply from the FSU is often offered from 30 to 100$ cheaper than Canadian, with quicker transit times. Increased competition often means decreased margins. Margins decreased dramatically for Canadian exporters, in a lower profit margin the industry cannot afford service disruptors. Lack of rail service is a disruptor. Lack of rail service puts an increased financial burden on shippers.

**What will global demand look like & how is Canada positioned to supply?**

Canadian grain must be globally competitive. I forecast that agricultural demand will segregate into two value chains: bulk, and IP products for specific product. The trade is changing, higher income product sensitive consumers are demanding qualities in their food. In both of these models we can find opportunity: within the demand. For Canada the high quality segregated as ingredients is our most obvious challenge, but high volume requires service as well as demurrage on vessels is costly. Hopefully in Canada we should envision to do both, but with the current model of rail service, we will only achieve the first, and even as such large shippers will need dependable just in time links to global markets. (Please review the transport coalition data to see how the railways serve smaller shippers relative to larger as part of your understanding of how the railways currently operate.)
Indeed Canada is well suited to service the high quality niche market (varieties that meet a certain functionality as a food or a food ingredient). In Western Canada we have a very technical production network with integrated knowledge research, plant breeders with innovative producers, we have a wealth of investment in industry as suppliers, and processing infrastructure which is able to process to this demand. The fact that Canada just invested in the superclusters is an signal that the vision for Agriculture in the future must be beyond that of a bulk conventional supplier.

**Enabling the SUPERCLUSTER investment or not?**

The PROTEIN SUPERCLUSTER investment validates the intent of the government of Canada to combat low commodity prices with value add in industry: protein. You see, protein represents a value add industry, a niche market. Protein cannot be shipped in 135 unit trains of 12,000 mt at one stop, which is the business that railroad model would prefer. Protein is the type of business model that is highly value added and required. These business models need reliable dependable service all the time, every time, all year every year. A level of service that is not provided by railways.

**What type of demand do & will we supply?**

So here in lies the challenge; 100 to 135 car spots are much easier to service from a railway perspective. Large spots are rewarded with preferential treatment and rates. I doubt it would come as a shock to anyone to find that this model is one the railroaders would prefer as the only model.

In the appendix are 3 links to CTA filings from Naber Seed: (2)

- 1999
- 2001
- 2002

Ironically just as 2002 CTA ruling in Nabers ‘favour was announced Naber Seed & Grain filed for bankruptcy. The Naber family lost the business and many farmers lost money in the wake for unpaid grain.

Was the bankruptcy due to the inability to generate revenue due to chronic poor rail service, as documented by 3 CTA claims prior to the failure?

In the appendix is the link to the filing of WESTERN GRAIN a company once owned by my family: (2)

Western Grain filed a CTA level of service claim in 2009, in the judgement of 2010 we lost due to discrepant numbers between CN and ourselves. CNs numbers said they met the requirements. Ours said they did not. CTA rules in favour of CNs numbers. In 2011 we sold the company. We believed the vision we had of supplying high quality food grain ingredients was not sustainable without dependable rail service, and we did not foresee a solution to our inability to supply the value chain we have built, much less grow our business. We sold.
4.
The reason I have included these CTA ruling is what these cases document which simply chronic issues is dating back to 1999, in addition the events of 2013 & 2018: a chronic fight for service for service to Shippers is not new. It is now 2018 and our level of service at ADM (which purchased Western Grain from our family and where I remain employed) is below 35%, and word on the street is that it’s likely to get worse before better. The numbers expected for next week’s stats are expected to fall as low 20% in the orders requested versus ordered received data. This data validates our decision as a family to sell the company, and has the impact of limiting agriculture investment in Canadian Ag infrastructure for some time to the future.

Including the CTA rulings also enables the committee to appreciate how onerous and time consuming the process is, and that decisions reached months later have limited ability to mediate the problem of chronic shortfall.

The future of shipping is in your hands?

Your committee has an immense task. So many voices lobbying you. So many stakeholders to balance. So much at stake for a nation as railway is a key artery in a land locked country. So many documented failures in the attempt to find a solution which is why you are here today.

I started this presentation with a technical review of what would be necessary to evoke the changes we need, but decided that my mail message today should not be technical, at this stage you have likely heard what would be necessary on the technical side. My message is about the impact of legislation on people’s lives, on the investment of those of us who depend on rail for success, it is about the entrepreneur small & corporate who chooses to invest in Canada or invests in diversification, and it is also about the vision of nation, it is about the competition we face to maintain our standard of living in Canada today if you believe export has a factor in that equation as I do.

Honourable Committee of Senators, responsible for sober second though in our great nation, this is why your decision at this time is as vital as the pounding of the last stake: we need rail to bind the economy country as much today as in 1885, maybe more because we have become accustomed to the lifestyles we all share.

A few technical points:

I believe we need reciprocal penalties, shared lines, a report card and a resolution mechanism. I believe reciprocal penalties can help create a fair balance of power between shipper and suppliers. I believe a report card defined by industry maintained by the independent body of CTA, one that uses data input by both sides, intended to independently accurately document the actual service supplied are necessary to avoid the crisis we are in today in 2018. I believe that shared rail interchange introduces a small window of competition to some players. And when and if service breaks down the process to seek solution should be one of proactive measures designed to correct level of service issues in place with defined actions: the CTA needs to be able to investigate & mediate when level of service levels create an issue between shipper and carrier. Having filed a CTA complaint they are costly, & intimidating and they do not work.
5. The railway left to govern themselves will do exactly what they did in 2013, and right now in 2018: allocate resources accordingly. Indeed this is the model we have, if this is to change, then clearly legislative is required, and this is the task of your committee to determine.

**Determine what is needed:**
Exporters of agricultural commodities need to be able to supply the global market they compete in all year every year, as such your committee needs to be clear about the objectives of your ruling.

Railway is essential so almost every facet of trade in this resource based land locked country.

In closing we all know, there is no alternative for the committee than to define legislation to ensure the railways comply with whatever objectives are set by the committee. Railroads have in 2018, in this moment in time once again proven that allocation of resources is within their power and discretion. Documented service shows 1/3 of what suppliers need to service international sales have been provided, and if you care to drill down on the evidence the service to small shippers is worse than large. The record will also show that service has been declining for five months, eroding balance sheets and affecting sales and execution of trade, CN far worse than CP. And while the railway will blame winter, winter arrives every year. We live in Canada. We have winter every year but as an overall it is likely not in itself an issue of weather, it is an issue of where and how the railways decide to allocate their resources.

The statistics on level of service to grain by railways is clear evidence that railroad require precise legislation in order to deliver a fair level of service to the land locked rail dependent agricultural industry. To do so, legislation will need to insure the relationship between shipper and the railroads are on a reasonably level playing field.

In summary, agriculture is a high volume low margin commodity that has always competed with other high volume low margin production zones, however in 2018 with increasing global supply and increasing potential for future global supply expected the paradigm of world trade is being redefined on our watch.

The ruling of this committees will set the framework for the service shippers can reliably expect from privately held railways. What type of service will be determined by your rulings? While shippers see the railway not unlike a private power company that supplies electricity to citizens: the obligation of service for a power is not selective, your committee will determine how railway service is managed to shippers in Canada who export resources from this country

Transportation is key to the bottom line of all of us in agriculture from the researcher, to the consumer, and is likely the single most important link in the export dependent supply chain. It is also a made in Canada link. As global competition creates a new paradigm for Canadian & global agricultural trade the future demands we adapt, as to how we adapt, well, the future is in the hands of this committee: Times up.

Thank you for your time and attention to this important issue, wishing you the best of luck with solutions.
PS: I have also included an Editorial I wrote in January when service was at 54% it is a quick summary of the issue as well. (3) https://www.grainews.ca/2018/01/24/when-it-comes-to-rail-service-fifty-six-per-cent-is-not-a-passing-grade/

I have not included the coalition report cards as I expect the committee reviews these weekly, as does the railways. I have included neither report but I expect the committee has noted the differences in reporting and for this reason the CTA should be mandated and a transparent accountable report card be made part of your solution tool kit. I have included the report card on the level of service at ADM Hamlin:

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Respectfully submitted:

Vicki Dutton
SUBMISSION:

SENATE COMMITTEE ON TRANSPORTATION
RAIL
February 23/ 2018

FROM:
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Crop producer
Select Seed Grower
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Grain Trade & Market Development at ADM AGRI INDUSTRIES

We have a multigenerational farm. I have always been involved in agriculture on many levels, and in many aspects including as a board member for SASK PULSE GROWERS, PULSE CANADA, and PULSE INDUSTRY ROUND TABLE.

I have combined knowledge as a principal of production, global markets, exporting from Canada, value chain niche market development. I am a solution based thinker: I seek to find solutions, we have a problem in shipping grain by rail, it has been a problem all my career, however at this time this problem has the potential to further impair the future of a valuable industry. I so appreciate this committee taking time to read this presentation and for the translation provided by the support staff.

Good luck with the sober second thought!

Base message:
As a member of the agricultural production and export community I make the case that the world is changing, increasing production & changing paradigms of global production make chronic issues in western Canada with level of service to exporters by railroads no longer sustainable.

Specific recommendations:
Determine what type of export is necessary to serve agriculture & agricultural innovation:
Two models operate: high volume shippers & niche market shippers.

Define what the nation needs from a railway as a service provider.

Determine what legislation is needed to accomplish that goal.

Vicki Dutton
Appendix: ATTACHED SEPERATELY

1/ Chart of Production
RUSSIA: Wheat / Pulse / Rapeseed
Ukraine & Russia wheat production graphs.

Please note this does not include the rest of the countries which are contained by the production zone
FSU: FORMER SOVIET UNION

Credit to: Weber Commodities for this data

2/ CTA Rulings

Naber seeds x 3

Western Grain x 1

3/ Editorial from GRAINEWS
Written by Vicki Dutton
Published January 24/ 2018
“56% is not a passing grade”