Grain Transportation: Canada’s Place as a World Leader Today and in the Future

2015 Farmers’ Forum on Grain Transportation

July 20, 2015 – Saskatoon, Saskatchewan

Presentation by: Mr. Murad Al-Katib, CTA Review Advisor
It’s a great time to be in agriculture...

- World population 9.6 billion by 2050
- FAO forecasts this will require 70% increase in food production
- By 2030 global middle class will more than double to 4.9 billion
- Global trade in food has nearly tripled in the last decade
- Food trade will help to feed the world
...and Canada is well-placed for the future...

- Canada has a world-class agriculture and agri-food system:
  - Favourable conditions, with abundant natural resources, and enabling policy environment...
  - Resulting in most commodity sectors generating net surplus, exported competitively on world markets
...but challenges remain

- Increased volatility both domestically and globally
  - Market, weather and resource (land & water) constraints
- Growing demand for food
  - Growing world population and incomes in emerging economies
  - More complex supply chains
- Evolving sector…agriculture will face stronger competition, and changes in consumer demand
  - Increasing demand for safe & high-value food products, including those with specific attributes
- Agriculture trade barriers remain high compared to other products
- Productivity growth increasing faster in emerging economies than in developed countries
  - Need to bolster innovation and productivity to meet growing demand and improve competitiveness
Canada is adapting to changing circumstances…

New markets

and new products…

…with a finite set of resources

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<th>Region</th>
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<th>Industry</th>
<th>Agriculture</th>
<th>Change from 2005</th>
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MENA = Middle East & Northern Africa
Global megatrends are shifting the food industry and changing global strategies

- The Canadian agricultural sector is well positioned to seize the opportunities stemming from an ever-changing global marketplace characterized by relentless competition and continuous demand for consistency, visibility, and reliability.
Canada is dependent on export markets

Exports as Percentage of Production 2012-13

Source: Statistics Canada, 2013; AAFC Calculations, 2013;
Does not account for carry-over stocks, solely production vs. exports in given year.
Emerging economies will provide new markets

Research suggests that the BRICs and N-11 are experiencing changes in the level and nature of their demand for agri-food imports.

In particular, China, India, South Korea, and Vietnam had relatively large import demand responses to changes in per capita income.

The U.S. is not expected to experience the growth forecast for the BRICs and Next-11, but it will remain a large market.
Where is Canada’s place in the global market-place?

How well placed is Canada for future growth in demand, in particular from emerging markets?

How does the Canadian Grains, Oilseeds, and Special Crops sector support future competitiveness in the agriculture sector?
Demand is heavily shaped by demographics, urbanization, infrastructure, income growth ...
... which plays out in distinctive preference shifts for different agricultural products
The Western Canadian agriculture sector is also evolving

- The family farm is growing – according to the 2011 Statistics Canada Census of Agriculture:
  - Canada had 205,730 census farms, a decrease of 10.3% (or 23,643 farms) since the last census.
  - Total land on farms stands at 160,155,748 acres, down 4.1% since 2006.
  - Compared to 2006, the average size of a Canadian farm increased from 728 acres to 778 acres, a growth of 6.9%.
  - For the first time, operators in the age group 55 and over represented the largest share of total operators. They accounted for 48.3% compared to 40.7% in 2006, up from 32.1% in 1991.
  - Gross farm receipts grew by 3.9% (at 2010 constant prices) since 2005 in Canada. This growth occurred primarily on larger farms.
Canada remains a major cereal grains producer, but the production of oilseeds and special crops, like pulses, are continuing to expand in Western Canada.
Western Canada Annual Grain Production, 1980 - 2012

- Cereals
- Canola
- Special Crops
- Other

Total

Linear (Total)
Crops in Canada

The area harvested to oilseeds, pulses and special crops has been growing rapidly over the past two decades relative to wheat and coarse grains.

Shifts in Harvested Area of Principle Field Crops in Canada, 1982 - 2014

[Graph showing shifts in harvested area from 1982 to 2014, with oilseeds, pulses, and special crops increasing at the expense of wheat and coarse grains.]
Crops in Canada

Canada continues to export larger relative volumes of oilseeds and special crops.
Western Canadian Grain Handling and Transportation System – Moving Grain from Producer to Consumer
Long distances to Port are unique to Canada relative to our main competitors

- Grain from western Canada travels an average of 1,500 km from origin to export position
  - Compared to Australia and Argentina where grain travels less than 300 km on average to export position

- Rail is only practical way to move grain to port
  - It would take approximately 850,000 truck trips to move Western Canada’s grain export volume to port, compared to 3,670 unit trains

- 94% of all export grain traffic moves to port by rail
  - Compared to U.S. and Australia where roughly 50% of grain exports move to port by rail

- Transportation represents about 25% of total export price
Primary network selection is based on export market destination

► Since Asia is the primary market for Western Canadian grain, the West Coast is the most utilized corridor for grain shipments

► On average, 38% of total Western Canadian grain production (60% of total exports) move through the Western Corridor

► Rail freight incentives to the West Coast have also increased movement through this corridor
Western Canadian commodities can play a major role in supporting Canadian sector competitiveness

- Growing global demand for food, freer trade in agriculture and resources, a booming Western Canadian commodities sector and the deregulation of the grain sector are placing unprecedented pressure on the transportation and logistics infrastructure in Western Canada.

- Additional stress has come from two successive bumper grain crops, severely cold winters, and bottlenecks, both physical and regulatory.

- Excellence in the grain handling and transportation system is pivotal if Canada is going to reap the benefits and capitalize on the growing global market demand for our production.
Infrastructure Bottlenecks and Capacity Constraints?

► Two way trade in many key emerging markets increasing at rates exceeding 10%

► Given that the capacity of Canada’s ports and affiliated infrastructure has been expanding at rates between 2.5% and 3.5% annually, Canadian exporters will be challenged to keep pace with growth in key market destinations
The Canada Transportation Act (CTA) is the umbrella economic legislation for Canada’s national transportation system

- The Act (Sec. 53) authorizes the Minister of Transport to “appoint one or more persons to carry out a comprehensive review of the operation of the Act and any other Act of Parliament for which the Minister is responsible that pertains to the economic regulation of a mode of transportation or to transportation activities under the legislative authority of Parliament”

Transport Minister Lisa Raitt launched the current review on June 25, 2014

Key elements of this undertaking include:
- Examining whether the national transportation system has the capacity and adaptability that will allow it, and its users, to respond effectively to evolving international and domestic conditions and markets looking out 20-30 years
- Advising on steps to help ensure the system has the capacity and nimbleness to support economic activity across all sectors over the medium- and long-term

Provides an opportunity to consider how the national transportation system can effectively be leveraged to support Canada’s continuing economic growth
EXECUTIVE TEAM

- **Chair**
  - The Hon. David L. Emerson P.C, O.B.C

- **Advisors**
  - David Cardin
  - Murad Al-Katib
  - Duncan Dee
  - Marie-Lucie Morin
  - Marcella Szel

- **Executive Director of the Secretariat**
  - Randall Meades
TIMELINES

|-------------|-----------|----------------|-------------|-------------|-----------|--------------|

Planning Phase
Discussion Paper

Consultations
Research
Analysis of Submissions

Finalize Report
Final Report to Minister

Launch
June 25, 2014
CTA REVIEW STATUS UPDATE

► Stakeholder consultations are largely complete

► Over 200 stakeholder submissions have been received

► Process also informed by existing and new analysis, and research from industry experts, academics, and past reviews

► Moving forward from the information gathering stage to analysis, development of options, formulation of recommendations, and report writing
Some of the themes that have emerged from stakeholder consultations and comments received:

► Removal of bottlenecks and improvements to supply chain are required to maintain Canada’s reputation as a reliable supplier of products – current approaches may not be adequately strategic.

► There is consensus that well-functioning corridors are critical, but information on performance of the various components is lacking – call for greater network/system transparency.

► Enhancements to Canada’s transportation infrastructure are critical to support increased trade and economic growth, but there is no consensus on where money should be targeted and how Canadians will pay for it.

► Concerns about rail service have been raised more often by shippers than those related to rates, along with interest in less costly and expedited remedies.
There is a perception of a power imbalance between railways and shippers, and an interest from shippers in improving the functioning of Service Level Agreements.

The high cost of air transport (from limited carrier competition, user-pay infrastructure, taxes, etc.) and declining performance of airport security screening are among barriers to growth and improved connectivity.

Harmonization of domestic and international regulatory regimes is necessary to maintain efficiencies and control costs.

Questions about whether the mandate of the Canadian Transportation Agency is appropriate for the economic regulation of the transportation system over the long term.

Over-regulation can be problematic and work against the development of new efficiencies and innovation.

Low traffic volumes and significant infrastructure gaps hamper economic and social development in northern and remote regions.
Moving Forward

CTA Review Chair highlighted some guideposts for development and presentation of recommendations, including:

► Getting it right versus obtaining consensus
► Markets trump central planners when dealing with a complex, dynamic environment
► Policy and regulatory implications – general principles should apply
► Transportation as a derived demand and a generator of demand
► Need to embrace technological innovation to bolster competitiveness
► Agents of delivery – governance and accountability frameworks
► Logistics connectivity and liquidity, with Canadian roots
► Remote communities
► Developing a compelling narrative wrapped around actionable recommendations
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ANNEX: SPECIFIC ISSUES

The CTA Review has been asked to give consideration to a number of specific issues, including:

► Whether adjustments are required to support Canada’s international competitiveness, trade, prosperity and economic growth

► How gateways and corridors can be leveraged to support Canadian prosperity through links with global markets

► How the quality and utilization of transportation infrastructure capacity can be optimized

► How technological innovation can contribute to improvements in infrastructure and services

► How to ensure continued high safety and environmental standards in the context of increasing demands
ANNEX: SPECIFIC ISSUES (CONT’D)

► How safety and well-being concerns related to rail transportation through communities can be addressed
► How to address rapid changes in the North and support a safe, secure, sustainable northern transportation system
► How passenger rail service can be delivered to meet travellers needs while minimizing costs to the public purse
► How the vitality of the Canadian aviation sector, air connectivity and Canada`s ability to attract visitors can be maintained and augmented
► Whether current governance and service delivery models – including the Canadian Transportation Agency, the Canadian Pilotage Authorities and the St. Lawrence Seaway, airport and port authorities - can be improved