

Alberta Federation of Agriculture
Presentation to Standing Committee on Agriculture and Agri-Food
February 12, 2014; Taber, Alberta

Hello. My name is Lynn Jacobson and I am the President of the Alberta Federation of Agriculture. I farm in Enchant – in southern Alberta – raising wheat, pulses, canola seed production and alfalfa seed production.

I am speaking today on behalf of the Alberta Federation of Agriculture, our province's only General Farm Organization. Our members are involved in all aspects of agriculture production. We also work closely with the other western general farm organizations on problems that affect all of Western Canada's agriculture producers.

I would like to thank the Committee for this opportunity to provide comments on the very serious problem Western Canadian farmers are facing shipping their grain and oilseed production this winter. From our perspective, the single largest problem we are facing is **inadequate rail service**.

Western Canada produced a record crop in 2013, totalling some 90M tonnes of grain, oilseeds and pulses – close to 30% more than what was harvested in 2012. While we enjoyed good growing conditions last year, this bumper crop was also due to new technologies and better crop protection and higher yielding varieties. In other words, we view an increased level of crop production as the new normal in the Prairie Provinces now and into the future.

Grain producers, governments of all levels, and industry players have all invested in research priorities that will provide producers and the industry with access to varieties and processes that will increase production across Canada in the future. Without reliable access to overseas markets these investments will be largely underutilized.

As a result of these investments and growing world demand, the current problems grain producers face will only get bigger if there isn't an immediate and permanent solution to fix the shortfall in Canada's grain transportation system.

This is the current situation we face:

- Last year's crop of 90 M tonnes compares with an average crop of 50.8 M tonnes. If things do not improve we will have a **22 million tonne carryover** in 2014. As a comparison, the normal carryover for a given year is **8 M tonnes**. With this huge amount of grain stockpiles, and if the transportation system isn't fixed immediately, even producing an average crop in 2014 would still have a negative impact on the market as Canada only absorbs about 20M tonnes of grain a year and the rest must be exported.
- The inability to move this volume of grain is having a detrimental effect on pricing and the potential losses to Prairie farmers are huge. Based on StatsCan's most recent production figures, and with zero forward pricing, revenue for canola is anticipated to be \$1.6 billion less than it should be, while CWRS wheat is looking at a \$1.2 billion hit. Assuming 50 percent was pre-

priced, canola would be \$823 million lower and wheat would be \$606 million less.

- At this time, when we have record crops to deliver, rail companies are actually operating two to three percent slower than they were at this time last year. The railroads' plan was to spot 11,000 cars per week and this just isn't happening. In fact, **CP has reduced engines and railcars by 43 and 35 per cent**, respectively, taking 400 locomotives and 2,700 railcars out of service at a time when we need to move the biggest grain crop in history to port. Further, **CP has reduced staff by 4,500 employees.**
- Our reputation as a reliable supplier to the export market is being damaged by this as well. For example, last week Japan announced it would start purchasing more American wheat over Canadian wheat because the rail backlogs have led to late Canadian orders two months in a row, leaving Japanese mills short on grain.
- Even our neighbours to the south are unhappy over Canadian delays. An American General Mills plant has already started importing oats from Scandinavia because Canadian suppliers aren't reliable. As Randy Hoback was quoted as saying, "That's unbelievable. How can the logistics be easier to ship oats out of Scandinavia to the U.S. versus 400 miles north in Manitoba and Saskatchewan?"

- We have **more than 50 ships stacked up in Vancouver and Prince Rupert** harbours waiting to be filled. **Western Canadian grain farmers are paying in the neighbourhood of half a million dollars demurrage per day.** Even farmers in BC are seeing shortages of feed grain in that province since most of it comes east from the Prairie Provinces. The situation is going from the sublime to the ridiculous when Prairie farmers are sitting on record stockpiles, yet their fellow farmers in BC are scrambling for feed grain supply!

In summary, something must be done and done immediately. The short term solution to move more grain to market in the coming months is that:

Railways must reallocate locomotives and staffing from other products to grains and oilseeds. The railroads and grain handling companies must work together to utilize these increased assets. And to enable this, the Government of Canada must enforce the *Fair Rail Freight Service Act* to ensure an immediate increase in shipping capacity.

The railways have extensive market power over farmers and all shippers – until this is addressed the situation will remain unresolved. We firmly believe that rail companies need to fully understand and appreciate how vital an efficient grain transportation system is to Western Canada's economy and Canada's reputation as a reliable supplier of world class grain products to the world as opposed to their current approach of tailoring their logistics system to maximise profits.

The government recognized this and enacted the *Fair Rail Freight Service Act* last year. Unfortunately, the provisions of the Act are fairly weak and do not compel rail companies to enter into a service contract with a shipper and even if it did, there are no penalties imposed on the railway for non-compliance. At this time, we are unaware of any shipper who has signed a service contract under the current *Act*. As well, if a grain company takes a railroad to court and wins, the fine that is outlined in the *Act* automatically goes to the government, so the grain company is out of service and legal costs.

The government is set to review the *Act* next year, but this needs to be done now. We cannot wait another year. The *Act* must be amended immediately to compel railways to enter into service contracts with shippers and have meaningful performance standards in place. Should railways fail to meet these standards, meaningful penalties should apply.

In the absence of these service contracts the implementation of open running rights on existing rail infrastructure may be an option. This proposal would require extensive study and regulation to ensure that reliable and cost effective access to this infrastructure was provided by the railroad owners.

There have also recently been questions whether the railways' Revenue Cap may be contributing to the current problem. Let's be clear, the Revenue Cap was put in place by the federal government in recognition of the extensive market power railways exert over shippers. Raising or removing the Cap would simply increase their market power and cripple western Canadian grain farmers and the economy

given that transportation forms such a large part of a grain farmer's cost of production.

The grain logistics study being done by the grain industry with support from the government may provide some options to deal with some of the issues that we are facing today and in the future. Any opportunity to have a recommendation from this study reported before the final report in five years and to implement this recommendation may address some of the issues we are facing.

In conclusion, rail companies must be part of an efficient grain transportation system in Canada which requires both improved human resources and the infrastructure in place to make it happen. Canada is expected to double its grain production by 2050 to help feed the world. Prairie grain farmers are ready to do their part but this will be meaningless unless the other players in the grain transportation system step up and meet this goal.

Revision of *Fair Rail Freight Service Act* with more enforcement capability on performance standards addressing:

Accountability

Service contracts

Premiums and penalties

Thank you for providing me the opportunity to speak to the Committee today. I will gladly answer any questions the Committee members may have.