



WESTERN BARLEY GROWERS ASSOCIATION

A strong voice for a vibrant, market responsive barley industry in western Canada

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The Right Honourable Stephen Harper
Office of the Prime Minister
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Dear Prime Minister Harper

The Western Barley Growers Association (WBGA) would like to clarify some of the recommendations we submitted in our earlier correspondence. Once again we would like to extend our support and thanks for the Order In Council which will help bring short term resolution to the transportation challenges we face today.

In our previous letter we stated the debate about whether or not this past years' large crop is the new norm is avoiding the real issue. The fact is the problem of a dysfunctional rail transportation system for raw commodities in Canada existed long before the present disruptions in service. Our customers have been voicing their concerns about the reliability of deliveries to meet contractual obligations for years and now our grain customers are turning to our competitors to fulfill their needs. Canada and Western Canadian farmers cannot afford to lose any more market share due to a shipping / transportation reputation our buyers characterize at best as 'slow and erratic'. Winter is a part of the Canadian landscape and our transportation problems are due to bad planning rather than severe cold weather. The WBGA sees the following as some of the problems and we offer these possible solutions:

1. The present shipping problems can be blamed on the Railroads, but the whole transportation system from farmer deliveries to grain companies, throughout the delivery system to coast terminals needs to be accountable in a true commercial business environment. We must all work together to get grain to our customers and if one sector in the transportation value chain does not perform, it must be held accountable. *Simply put, if the system is incurring extra costs due to underperformance by one of its players, then that player should be held financially responsible.*

This has been referred to by many as "Reciprocal Penalties". Presently, shippers are assessed penalties payable to the Railways when they fail to load cars on time, but the Railways are not required to pay penalties to shippers when they fail to spot cars on agreed dates with shipping companies or pick them up and deliver them to their final destination in a timely matter after they are loaded and ready to ship. Farmers are the ones who pay the penalties through discounted prices (widened basis levels) and sharply declining market prices in reaction to lost sales and slow grain movement. Grain companies and the Railways are not concerned with falling grain prices and the inability of farmers to ship their grain quickly. They know farmers are trapped in a system with few shipping alternatives to port, so spreading the shipping business out over the year avoids any requirement on the part of Grain companies or Railroads to invest in surge capacity.

Conversely, farmers do care about falling grain prices and lack of grain movement because it directly affects our income. We need to ship the bulk of our grain from September through May to pay the bills incurred growing that crop and then purchase inputs for the next crop.

- As we said before, Reciprocal Penalties for all participants in the transportation system, minimum standards of Railway performance and closer performance monitoring of the whole shipping system will help to ensure efficient and timely service for our customers.
2. The Canadian Transportation Agency (CTA) has far less power, especially to assess penalties here in Canada when compared to the Service Transportation Board (STB) in the U.S.
 - The CTA needs more power to deal with transportation problems. They should have stronger powers to arbitrate solutions between shippers and transporters in a more timely manner. They should also have the ability to investigate and assess problems and the ability to target meaningful financial penalties to the offending parties. The financial penalties should be paid to the injured party.
 3. In our earlier letter we suggested ways of increasing competition in our shipping/transportation system by increasing the size of “catchment areas”. This term is being mistakenly used by many and no longer exists. The actual term should be “interswitching areas”.
 - Extending interswitching areas to 160 kilometers or 100 miles would foster some badly needed competition for shipping/transportation. For example, facilities along the United States border are being expanded quickly to buy more Canadian grain. The ability to move grain in this direction and create commercial competition would be greatly enhanced by expanding the interswitching areas. P&H have challenged CP Rail on alternative commercial movement of grain from Milk River, Alberta into Northern Montana through a court challenge and won. CP Rail has appealed the ruling to a higher court. *The message here is that this alternative grain movement creates competition for CP Rail. This is why they are appealing the ruling.*
 4. As we pointed out in our last letter, the Railways are the authors of the revenue cap, which they proposed to Estey to avoid measures to fix this problem back in 1998. Telling the industry now that the revenue cap is the problem and by removing the cap they would improve their service is disingenuous. We could consider removing the cap if they accepted all the necessary changes such as reciprocal penalties and other competition enhancements like the ones they refused in 1998. That said, the cap could also be improved in several ways, among them:
 - remove from the revenue cap calculation the cost of railway employee bonuses
 - benchmark acceptable performance and when there is a railroad performance failure, reduce the revenue cap accordingly. Conversely when their performance is better the revenue cap would be increased.
 5. Long term, Canada needs to foster an environment of increased value-added industry for all our basic commodities, including grain.
 - Encouragement of more value-added industries for grains and oilseeds on the prairies would decrease shipping volumes and add jobs, creating an economic boost to the Canadian economy.

The WBGA, along with other commodity groups in the grains sector, has been working with the Grain Growers of Canada (GGC) to suggest more specific changes and solutions that we hope will be helpful in crafting a more reliable and timely shipping system for all raw commodities in Canada. The problems are within the whole transportation system, not just the Railways.

It is not productive for the Railways to continue blaming Canadian winters which occur annually while they have made the decision to idle large numbers of locomotives and cars and lay off employees in order to make their

balance sheets look better to shareholders. Lack of planning for winter and decades of inadequate past performance (which has been harshly criticized by our customers and studied extensively back in 1998 by Estey) may not show up immediately on shareholder reports, but when they do, it may be too late to fix the industry. Planning shipping capacity is the responsibility of the railways and their claim that a larger crop is partially responsible for logistics problems is akin to saying farmers are responsible for the North American obesity crisis because they produce an abundance of nutritious food!

A bad reputation is difficult to change, and Canada needs to change our image when it comes to shipping grains to meet customer's needs, as soon as possible. The present transportation challenges are a threat to the "National Economic Security" of Canada. This is very serious situation and short term solutions are needed immediately but long term measures must be implemented so this situation does not continue to haunt Canada in the future.

Sincerely,

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