OPINION TRANSPORTATION

The weak link in Canada's grain supply chain

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While oil and gas continue in a free fall and mining and other sectors of the Canadian economy are struggling with low commodity prices and weak demand, the grain and agri-foods sector is going strong. This is a good thing, since Canada's agriculture and agri-foods sector accounts for 6.7 per cent of GDP and supports one job in eight, employing over 2.2 million people. In fact, Canada is the fifth largest exporter of agriculture and food products in the world.

However, there is a problem. One-half of Canada's food production is exported, yet it relies on a 40-year-old fleet of railway cars. A supply chain, like any chain, is only as strong as its weakest link. And the weakest link in the export supply chain serving our grain industry is the aging fleet of "Government of Canada" covered hoppers.

Canadian agri-business entrepreneurs, such as Richardson International and G3 Global Grain Group, are investing heavily to improve their distribution capabilities, by building new export terminals or dramatically increasing the size of existing facilities. These terminals draw grain from farms in both Western and Eastern Canada by rail, and Canada's two major railways are second to none in terms of their operating efficiency.

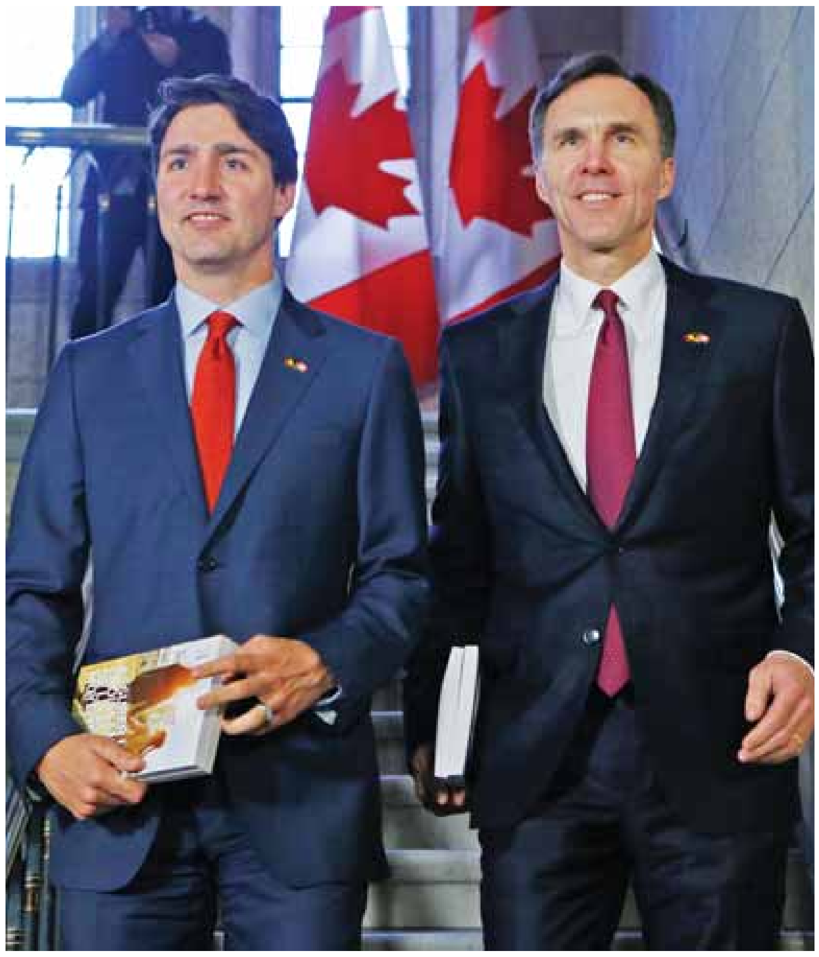
Commencing in the early 1970s, the federal government purchased roughly 13,500 covered hopper railcars for grain service, and assigned the cars to CN and CPR. At the time, CN was still a money-losing Crown Corporation, and export grain rates were frozen at the same level established in 1927 under the Crow's Nest Pass Agreement. The railways claimed that their earnings from grain traffic did not justify the investment in modern railcars, and so the government purchased the railcars instead of allowing the railways to raise their rates to farmers.

The recent review of the Canadian Transportation Act (CTA) also concluded that the existing grain car fleet is nearing the end of its useful life and must be expanded and renewed. The report suggested the federal government can play an important role in the development of a "strategic plan on how best this can be achieved and under what timelines."

Just how deep does this problem go?

Today, about 8,000 of these cars remain in service, and they are an average of 37 years old (to be exact). In theory, a railcar can last up to 50 years, but this rarely occurs in practice. Just like an automobile or a farm tractor, the repairs required to maintain a railcar increase over time, until it is no longer economic to continue to repair. Most railcars are usually scrapped well before their fiftieth year, and hopper railcars typically last between 35 and 45 years, depending on their design. As these types of railcars age, they become increasingly prone to defects, such as jammed top hatches and leaking outlet gates. Grain leaking from old grain railcars has become a hazard to wildlife in our national parks, as bears, moose and other animals are attracted to the rail lines by the grain.

More importantly, the Government of Canada railcars are smaller and longer than the railcar type that is typically used by competing producers in the United States. At 4,550 cubic feet (CF), the Canadian government railcars have 13 per cent less carrying capacity than the 5,200 CF railcars used south of the border. And the Canadian railcars are longer than the contemporary design. This limits the number of railcars that can be carried by a unit train, and stresses track capacity at port.



To quote Prime Minister Justin Trudeau, pictured March 22 with Finance Minister Bill Morneau, 'In Canada, better is always possible.' Canada's grain producers deserve a better, more modern supply chain and it is possible to achieve just that through a creative effort between the government and the private sector, writes Bruce Burrows. *The Hill Times photograph by Jake Wright*

Replacing the aging Government of Canada fleet with modern grain railcars would result in an immediate improvement in the productivity of the Canadian export grain handling system. In fact, CP has estimated that a more modern fleet of railcars could increase the capacity of their grain unit trains by over 23 per cent, adding 3.8 million metric tonnes of additional capacity. If this same approach is extrapolated over the entire fleet of remaining government hopper cars, the increase in system capacity would be over 5.6 million metric tonnes.

Doing nothing is not an option, so should the federal government make an investment? On the surface, an investment in new grain railcars would seem to be consistent with the new Liberal government's desire to invest in infrastructure designed to improve the competitiveness of the Canadian economy, and enhance exports. However, the financial performance of Canada's railways has improved dramatically since the early 1970s, and a "corporate handout" of this scale is unlikely to be politically popular, especially in a sector now seen as much more commercially oriented.

One might suggest a second option is that the railways themselves should replace the government railcars. For their part, CP has taken a firm position that they will not be making large investments in grain cars as long as their pricing freedom is constrained by the maximum revenue entitlement (MRE) formula contained in the CTA. Plus, the federal government promised the shipping community that grain would be given priority policy attention (reference the review of the CTA) and hinted that a "full review" of the grain transportation system would follow. These promises have thrown the cold water of uncertainty onto the grain transportation market, just as the railways are tightening their belts due to the precipitous decline in the commodity markets including crude, coal and potash.

A third option is worth considering. A private—public partnership ("P3") with one or more private sector partners would permit the government and the railways to facilitate the renewal of the Canadian grain fleet without an undue burden on the public purse, and without needing to wait for resolution of the review of the CTA and any proposed alterations, which will be complex and time consuming. Suitable partners exist with railcar expertise and capital to invest, but before a P3 can proceed, the government must first recognize that there is a problem and commit to address it.

To quote the Justin Trudeau's election night acceptance speech, "In Canada, better is always possible." Canada's grain producers deserve a better, more modern supply chain and it is possible to achieve just that through a creative effort between the government and the private sector.

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