



Railway Accountability & Level of Service Review

*Terms of Reference
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Keystone Agricultural Producers (KAP) is Manitoba's largest general farm policy organization, and our role is to represent and promote the interests of thousands of the province's farm families. Our policies are developed democratically by farmer-delegates, and our organization is fully funded by memberships. It is from this perspective that we wish to provide comments on the need for a level of service review and the related issue of railway accountability.

Bill C-58 must be re-introduced into the next session of Parliament, and KAP believes that it is critical that this piece of legislation be passed quickly. This bill specifically refers to the level of service review, which is to be implemented within 30 days of it coming into effect. The level of service that railways provide to agricultural shippers has a significant effect back to farmers and the prices that farmers receive for the commodities they ship by rail, therefore we wish to make recommendations on what this review should encompass. KAP expects that an in-depth level of service review will help to identify current shortcomings in the Canada Transportation Act and also develop a path forward to pursue any necessary legislative changes to address the issue.

Overall, we believe that the obligations and expectations currently placed on railways related to level of service are not sufficient. A lack of accountability in the system has led to a decrease in service, combined with increasing demands on grain shippers.

The impact on the farm gate is clear. It is estimated that grain handling and transportation represents 35% of all farm input costs for Western Canadian farmers, so any increases or decreases in efficiency are a critical issue. As grain shippers must deal with decreasing or unreliable service, their operation costs rise. These costs are passed back to their customers – the farmer – who must bear the increasing financial burden. We have observed the increasing demands that have been placed on shippers by the rail companies, including the increased loading requirements needed to achieve incentives. However, there are no reverse accountability and service requirements placed on railways to ensure the timely delivery of cars to the shippers.

As a result, farmers are now part of a “just-in-time” delivery model, where their commodities can only be delivered to the grain handling facilities once the rail cars have actually arrived. This creates additional demands on farmers, including those related to human resources and the need to store increasing amounts of commodities on the farm until deliveries are confirmed.

KAP is also concerned about the impact that the overall lack of rail service is having on the entire grain industry. Should the accountability and level of service issues remain unaddressed, we believe there will be serious consequences for Western Canadian farmers. Specifically, we believe the following negative outcomes, as expressed by the Western Grain Elevators Association (WGEA), are likely to occur:

- Lost grain sales domestically and internationally;
- Lost revenue because grain will be sold outside of peak price periods;
- Large potential for significant vessel demurrage bills; and
- Lost confidence in Canada as a reliable supplier.

We are also extremely concerned about the change in the car payment system, which now requires shippers to pay for the cars in advance. In the past, payments were due at port. As a result, farmers must now pay for rail service before delivery. In addition, farmers also pay for the full amount of grain that is loaded on the car, and not on the amount of grain that remains when it reaches port. The poor maintenance of the grain industry’s rail cars is well documented, with an estimated \$10 million in grain lost annually due to poor maintenance. Farmers are essentially paying for the grain that is lost in transit because of the railways’ failure to complete necessary repairs and upgrades.

To address these overlying issues, KAP believes that the level of service review must study the existing service issues in the system, as well as the varying expectations of accountability and service for railways and grain shippers. The review should also identify the financial cost of the existing shortcomings for farmers and the agricultural community as a whole. It will be important for the review to recommend a path forward, and solutions to the level of service issue. To do so, KAP suggests that the review include a summary of the gaps in existing legislation, and approaches that may be suitable to address them. Another tool that may be useful in balancing the roles and expectations of shippers and railways is to institute a comparable penalty for both parties, payable when either fails to meet the expected level of service.

KAP appreciates the opportunity to comment on this important issue.