

## **NEWS RELEASE**

### **MAJOR CASE FILED AGAINST CN RAIL OVER GRAIN SERVICE**

#### **Great Northern Grain's challenge supported by 10 grain-industry corporations**

**Ottawa, March 8, 2007** – Great Northern Grain (GNG), an inland grain terminal in Nampa, Alberta, today filed a major level-of-service complaint against the Canadian National Railway (CN).

The action, filed with the Canadian Transportation Agency, is supported by 10 grain-industry corporations, which are seeking intervener status in the case. They are: the Canadian Wheat Board, Great Sandhills Terminal, Northeast Terminal, Northwest Terminal, Parrish & Heimbecker, Paterson Grain, Prairie West Terminal, Providence Grain Group, Southwest Terminal and Weyburn Inland Terminal.

At issue is a recent change made to CN's advance-product program that is preventing smaller grain companies and single-point shippers from securing enough rail capacity to stay viable. It is also a serious concern for farmers who face added costs, marketing challenges and delivery disadvantages from reduced flexibility in rail transportation for their grain.

"This change by CN could put our business in jeopardy," said Bruce Horner, CEO of GNG, of his 17 000-tonne capacity GNG grain terminal in Nampa. "If this continues, only very large players will be left to ship and handle grain in the West. We believe CN is failing to meet its obligation of service to small shippers and farmers."

Rob Davies, CEO of Weyburn Inland Terminal (WIT), said it was important for others in the Prairie grain industry to support this case. "We as a group of shippers, handlers and marketers of western Canadian grain stand solidly behind Great Northern Grain in its pursuit of fairness from CN. Our company has joined in this action, not because we face the same issues with Canadian Pacific Railway on our own line, but because we hope we never will."

For the 2006-07 crop year, CN eliminated opportunities to advance-book guaranteed supplies of rail cars in units of 50 (except for a limited supply of cars available through cash bids). The railway now offers only blocks of 100 cars, which must essentially be booked to one destination for 42 consecutive weeks to secure supply. This is impossible for single-point shippers and smaller companies.

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Only 22 per cent of primary grain elevators in Western Canada have a rail car spot for 100 cars or more. With only enough track for 73 cars, GNG is incapable of participating in CN's 100-car advance program, which moves at railway tariff rates, and is forced to pay cash bids to CN at over-tariff rates to secure any advance products. Advance cars this year have comprised almost 70 per cent of CN's total railcar offerings to the Port of Vancouver. The remainder is allocated as general car supply with no guarantees provided.

For farmers, the change CN has made creates additional obstacles to the efficient movement of their grain to port. This costs them money and risks sales opportunities with international buyers. More than 20 million tonnes of western Canadian grain are exported each year.

"We must have flexibility in grain transportation," said CWB Chief Operating Officer Ward Weisensel. "On farmers' behalf, the CWB markets and coordinates movement of grain in many different grades, classes and protein levels, sourced from diverse locations all across the Prairies. The change CN has made to advance cars reduces efficiency in the system."

CN is one of two Class One railways, which are critical to the movement of grain. Grain is one of Canada's largest-volume exports, worth billions of dollars a year to farmers, the grain industry and the economy. Delays and inefficiencies in railway performance can lead to significant extra costs for shippers.

The CTA will now investigate the complaint and render a determination within 120 days.

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**For more information, please contact:**

Bruce Horner or Perry Pellerin, Great Northern Grain  
(403) 475-6586  
(403) 464-1007 (cell)

Maureen Fitzhenry, CWB  
(204) 983-3101  
(204) 479-2451 (cell)

## Backgrounder

- CN allocates rail cars to grain shippers in two ways:
  - 1) Advance cars booked for the entire year, with preference given to bookings for the largest number of consecutive weeks and to those with the highest-volume shipping history with CN. Advance cars are guaranteed capacity, with \$250/car penalties for default by either party. In 2006-07, advance cars are 69 per cent of the total CN supply to Vancouver. This includes a limited supply of cars available through cash bid auctions, booked two to five weeks ahead.
  - 2) General car supply offered weekly with no guarantee that the railway will provide booked cars. There are no restrictions on unit size and no additional charges above the posted rail tariff freight rate. During times of tight supply, the general-car program is often reduced to ensure that guaranteed advance cars are used and penalties avoided.
- In 2006-07, CN completely removed its 50-car products (called "GT Secure") for yearly advance bookings and offers only 100-car units ("GX100"), which must essentially be booked for 42 consecutive weeks to secure supply. No single grain elevator in Canada is capable of shipping 42 consecutive 100-car trains to one destination. Yet this is what CN's GX100 program is asking single-point shippers to do.
- Because smaller companies and single-point shippers cannot forward-book into a single rail corridor for consecutive weeks, they cannot participate in the GX100 program, except through the cash bid car market ("GT Pro"). This is a limited planning tool because the companies may not win the cars they want and, during high-demand periods, successful bids are very expensive. This creates an uneven playing field between the very large companies with multiple shipping locations and the others.
- Great Northern Grain (GNG) has a 73-car loading spot at its grain terminal in Nampa, Alberta. The only way for GNG to obtain pre-booked cars in the 2006-07 crop year has been through the cash-bid process available for 50-car units, which entails an average extra cost of \$4.59 per tonne but has climbed as high as \$9.21 per tonne over the posted rail freight rate. By contrast, the GX100 cars, which GNG is incapable of handling, move at regular posted freight tariff rates.
- This year's change in CN's advance-car program reduces efficiency in grain loading. Shippers capable of storing enough grain and loading 100-car trains will have an incentive to overcommit themselves to increase their chances of receiving cars.
  - During low-demand times, this means either that trains will go unused, with the shipped paying a penalty, or be filled with grain not required at port.
  - During high-demand times, CN will spot its guaranteed advance cars before the general allocation to avoid paying a penalty. This means grain required for ocean vessels arriving soonest may be forced to wait, causing grain to arrive at port out of order with vessel arrivals. This leads to increased congestion and potential vessel demurrage penalties, which are paid by shippers (including farmers).
- The level-of-service complaint application outlines a list of specific remedies that GNG is proposing. Among them: to ensure that advance-car bookings constitute no more than 50 per cent of the rail program in any specific corridor; to eliminate 100-car units in the advance-car program in favour of 25- and 50-car blocks (which can be combined to make 100 if needed).

## About rail transportation of grain

- Rail is the only feasible way to move the majority of grain produced in Western Canada to port and market. Half of the 45 million tonnes of grain produced in the West is exported, mostly overseas. Ports are located an average of 1,000 kilometres from the production area. Because almost every kernel of grain is moved to market by rail, the service and cost of rail transportation can define the profitability and competitiveness of a grain-handling company.
- The main objective of a grain company is to handle as much grain in a given year as it can at acceptable margins. Because companies' costs are largely fixed, the more volume they handle at acceptable margins, the greater their profit.
- Grain-handling facilities represent a major investment for grain companies. A modern primary facility costs \$10 million to \$15 million to construct. Average storage capacity is 15 500 tonnes but can range up to 100 000 tonnes.
- In Western Canada, there are two Class One railways: CN and Canadian Pacific Railway (CPR). There are also a handful of shortlines. Because the mainline railways own and operate the lines over which all traffic must travel, they determine the car supply available for grain shippers, whether the grain originates on their lines or a feeder shortline.
- CN and CPR are mostly geographically separate. In Western Canada, there are 146 grain-handling facilities on CN lines. Only 23 facilities in the West can access either railway by having access to both tracks or the ability to inter-switch traffic between lines.
- Only 22 per cent of primary grain elevators have a car spot of over 100 cars.

<b>Grain-handling facilities by car spot (W. Canada)</b>	<b>100-car spot or greater</b>	<b>All facilities</b>
Number of facilities	73	337
Percentage of total	22%	100%

Source: Canadian Grain Commission, CWB

## About the companies

**Great Northern Grain Terminals Ltd.** (GNG) is an independently owned and operated grain company with a 17 300-tonne terminal in Nampa, AB that features a 73-railcar loading spot. It also operates a 7 920-tonne terminal in Killam, AB with a 30-railcar spot. GNG provides grain handling, drying, cleaning and merchandising services in the Peace River and Killam regions. It also runs a producer and dealer car network, offering producer-car marketing services throughout Western Canada. Its head office is located in Edmonton.

**The Canadian Wheat Board** (CWB) is a farmer-controlled corporation that markets wheat and barley on behalf of 70,000 western Canadian producers. As one of Canada's biggest exporters, the Winnipeg-based organization sells \$3 billion to \$4 billion worth of grain a year.

**Great Sandhills Terminal** (GST) operates a 20 000 tonne grain-handling facility and grain cleaner at Leader, Saskatchewan. The facility can handle 56 rail cars on two tracks. In addition to grain handling, GST provides agricultural services for grain producers.

**North East Terminal** (NET) operates a 38 000 tonne producer-owned, full-service elevator located at Wadena, SK, with the ability to load 59 rail cars on CPR and 104 rail cars on CN rail lines. NET also has three retail crop-input locations at Wadena, Kelvington and Ponass Lake.

**North West Terminal Ltd.** (NWT) is a farmer-owned inland grain terminal in Unity, SK. The terminal provides grain cleaning and drying for farmers. The elevator has storage capacity for 63 000 tonnes of grain. It can load 104 cars on its CN mainline rail siding.

**Parrish & Heimbecker** (P&H) was founded in 1909 and continues to be a successful grain handling company in western Canada. P&H has headquarters in Winnipeg and operates more than 20 grain elevators and inland terminals across the prairies.

**Paterson Grain**, a subsidiary of Paterson GlobalFoods Inc. is a privately owned company that was established in 1908. Paterson Grain has its head office in Winnipeg and operates a network of country elevator stations and inland terminals throughout Manitoba, Saskatchewan and Alberta.

**Prairie West Terminal** (PWT) has operated in Plenty, SK since 1998. In 2002, it became the second 100-per-cent producer-owned inland grain terminal in Western Canada. It has 31 750 tonnes of capacity, a cleaning line and dryer. It has a 64-rail car spot, expandable to 112.

**Providence Grain** (PGG) is a farmer-owned inland grain terminal in Fort Saskatchewan, AB with storage capacity for 19 000 tonnes of grain. It can load 52 cars on its CN rail siding. Providence Grain also operates smaller facilities at Waskatenau, AB and at Stettler, AB.

**South West Terminal Ltd.** (SWT) at Antelope, Saskatchewan operates as a 52 000-tonne elevator with cleaning capabilities and a 55-rail car siding on CPR's Maple Creek subdivision. It also operates a producer-car loading facility and crop input business at Hazenmore, SK.

**Weyburn Inland Terminal** (WIT) has been a farmer-owned and farmer-managed company since the early 1970s. It operates an 100 000-tonne capacity inland terminal and grain condo complex on a CPR line with 115 rail car spots near Weyburn, SK.