

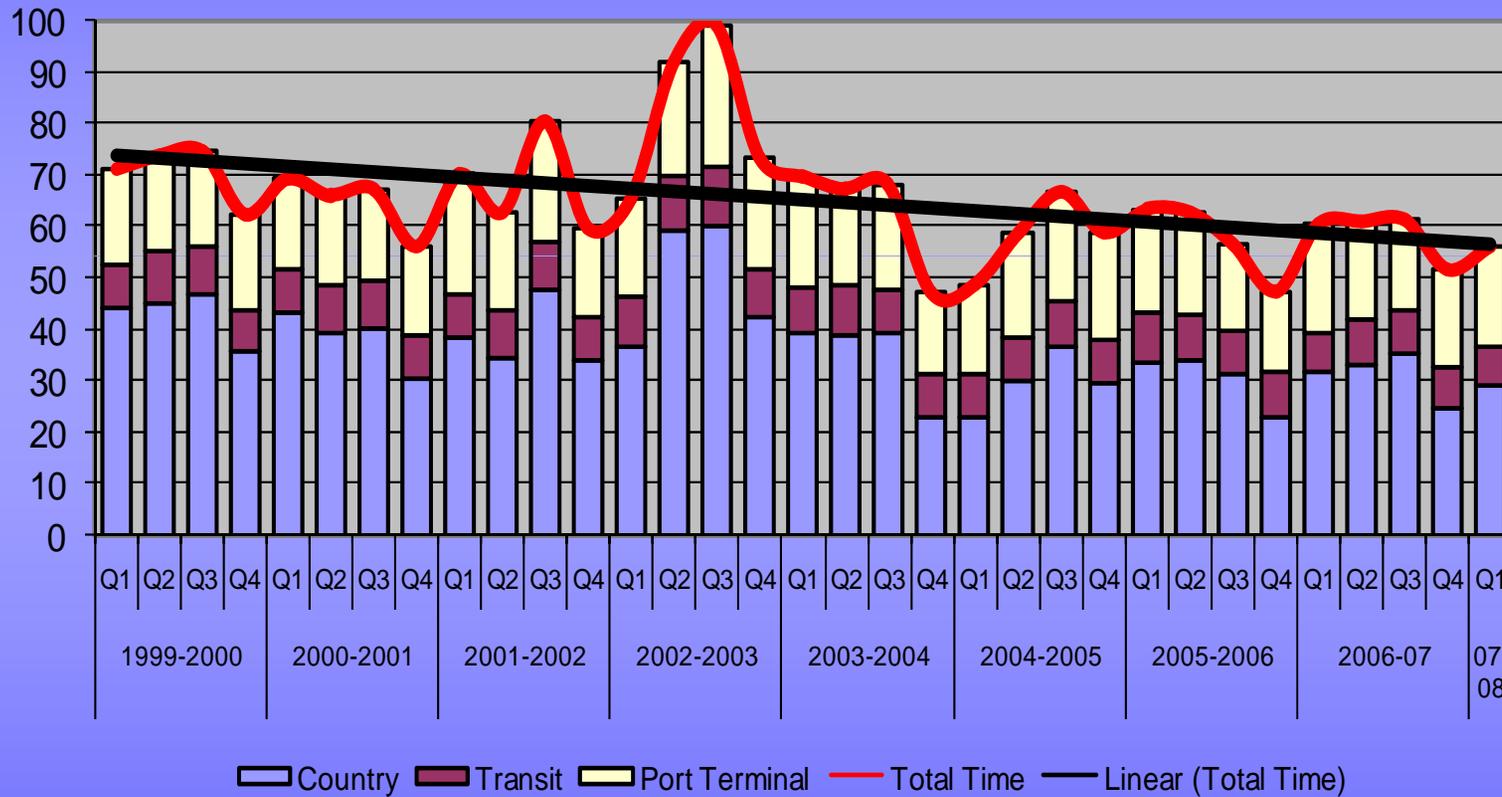


**Monitoring the Canadian
Grain Handling and
Transportation System**

Grain Monitoring Update

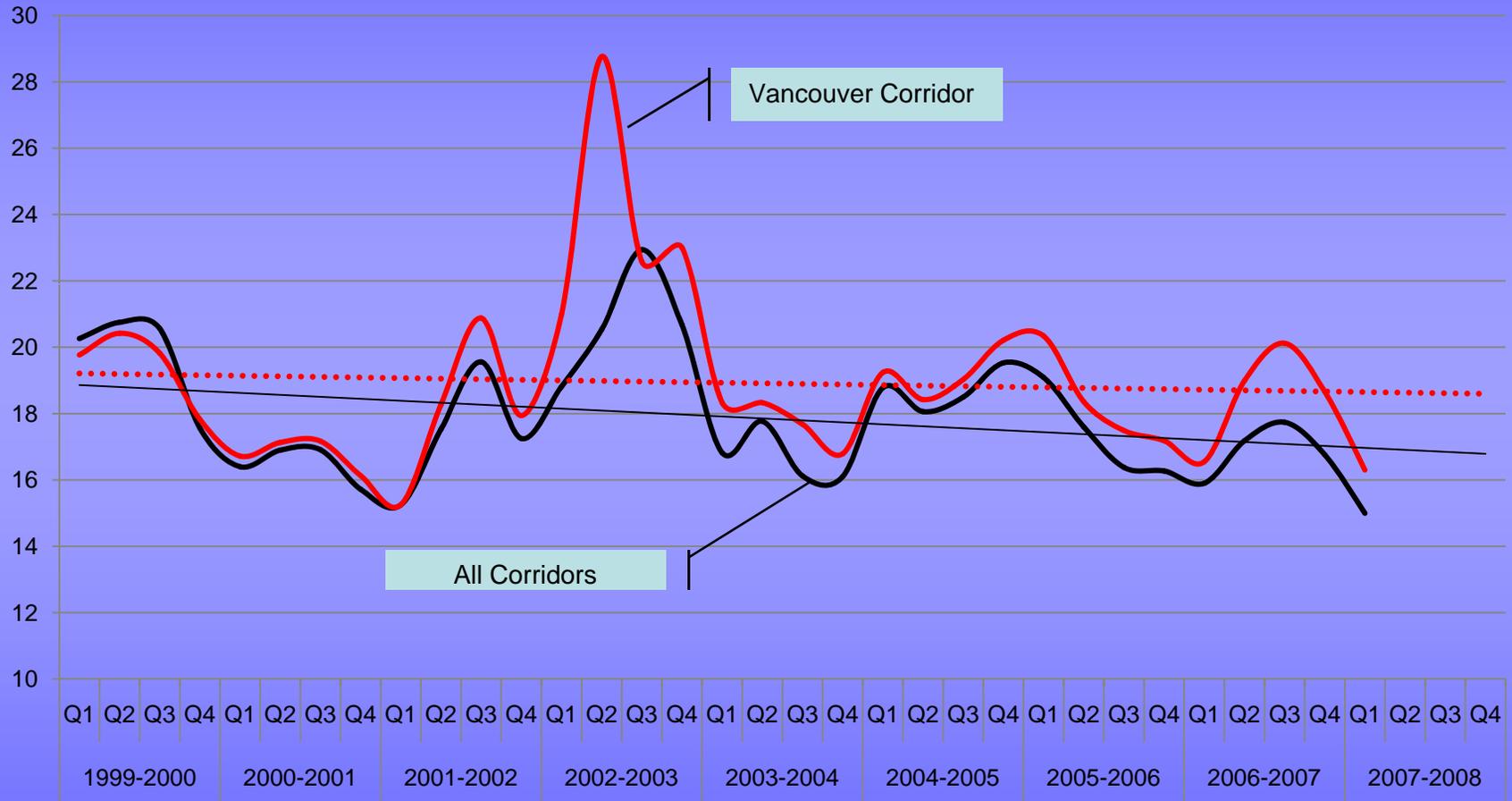
**Canada Grains Council
April 7, 2008**

The Supply Chain



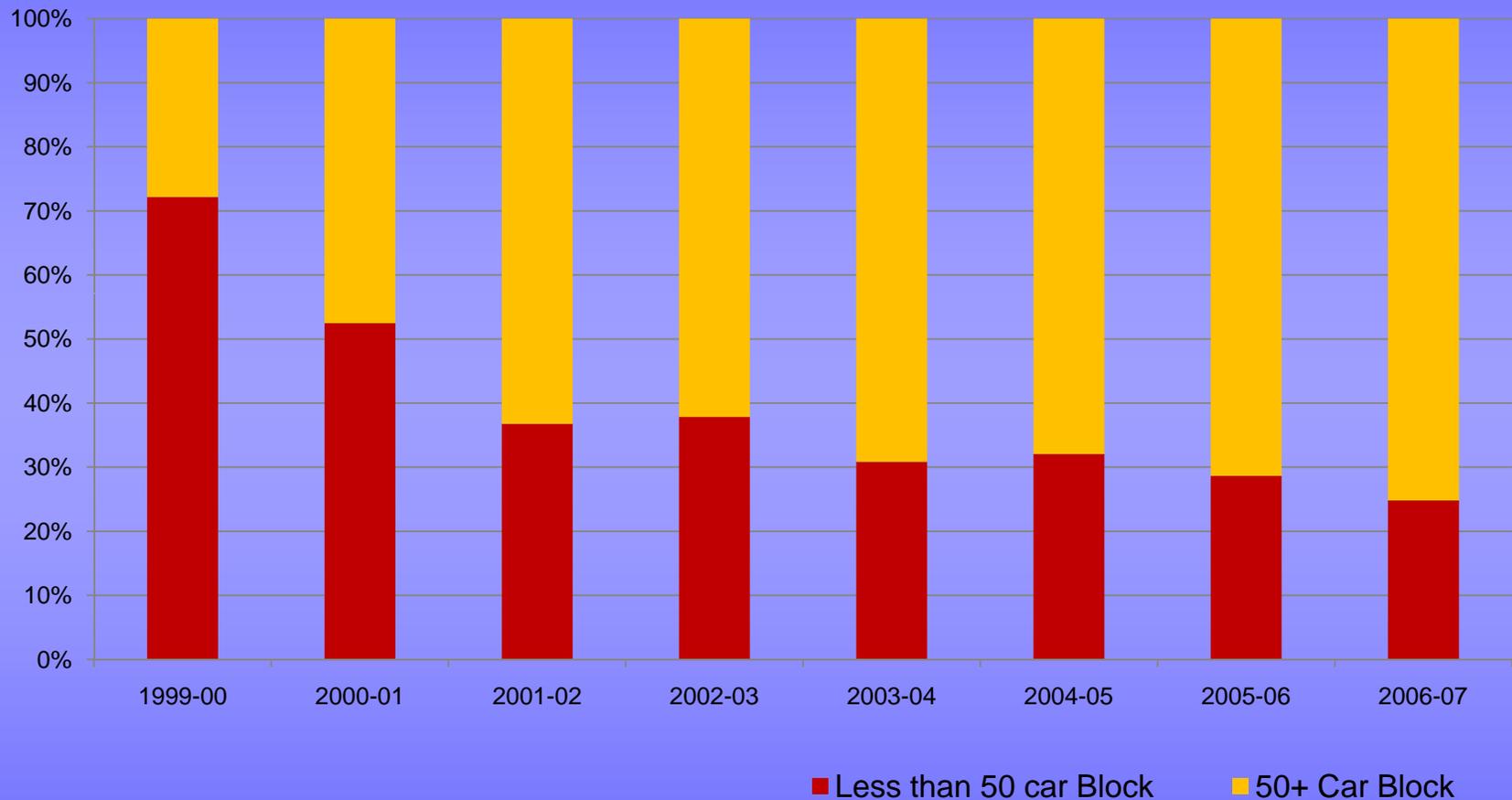
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Car Cycles



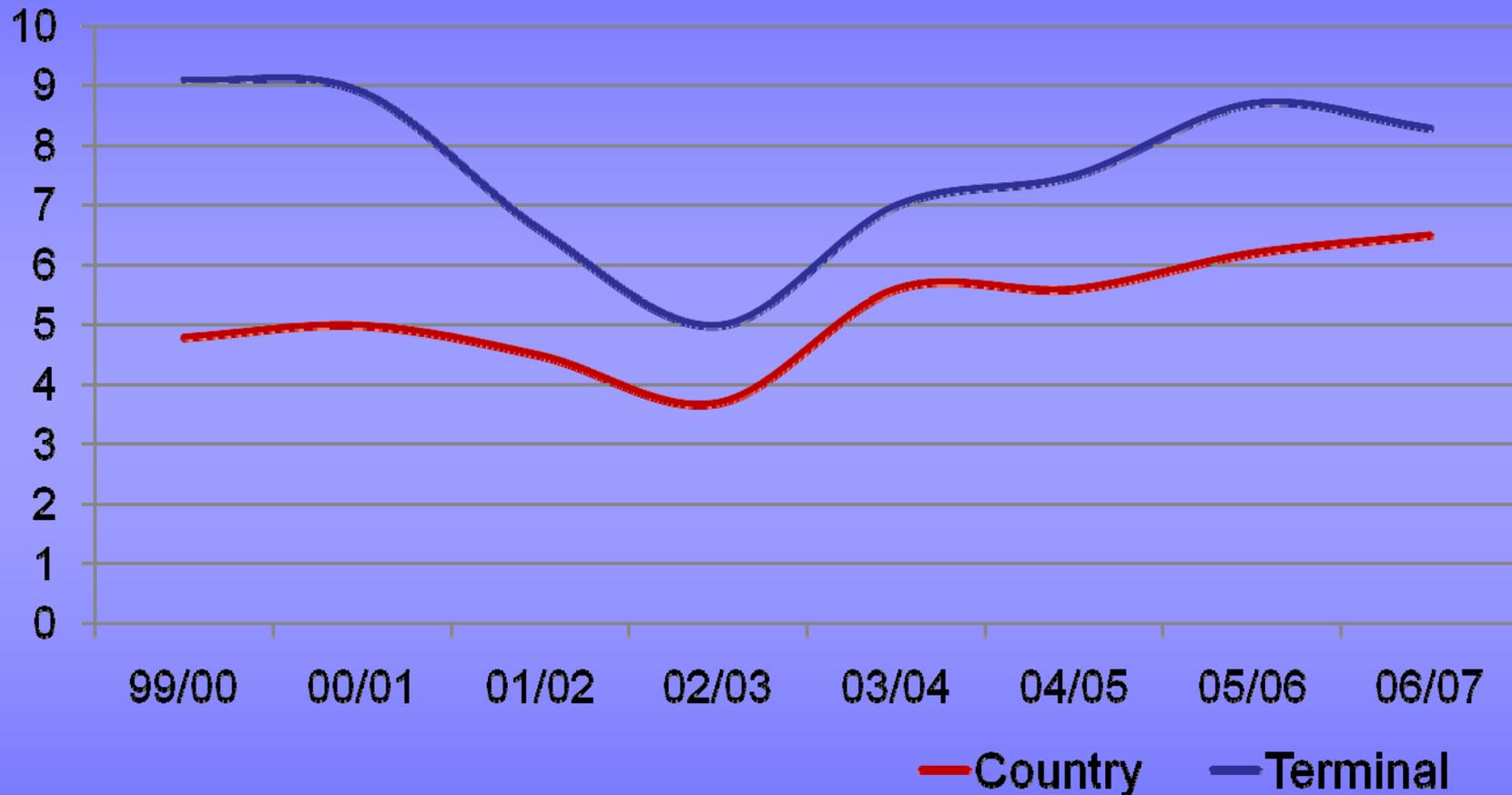
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Average Car Block Size



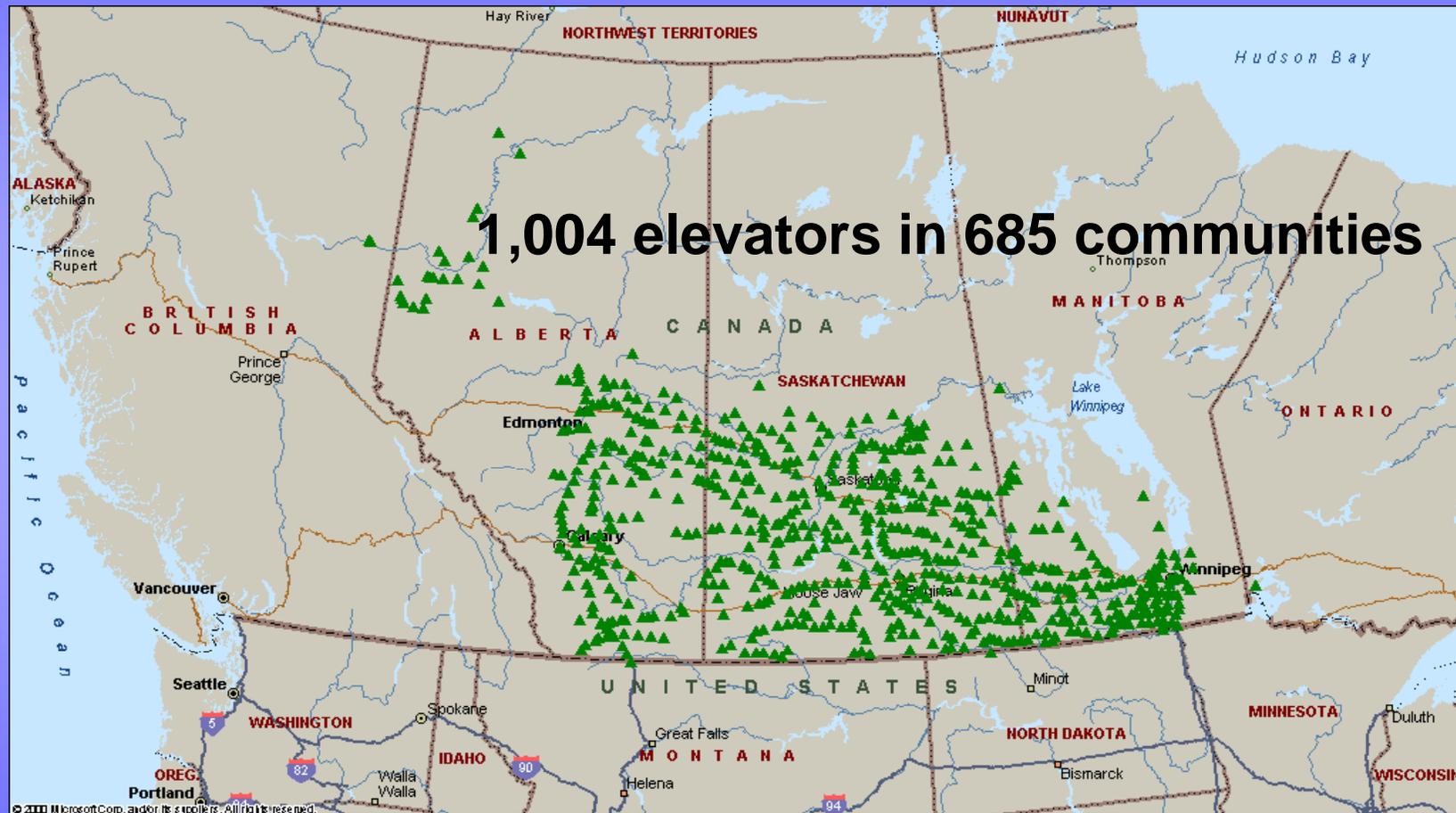
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Country and Terminal Capacity Turns

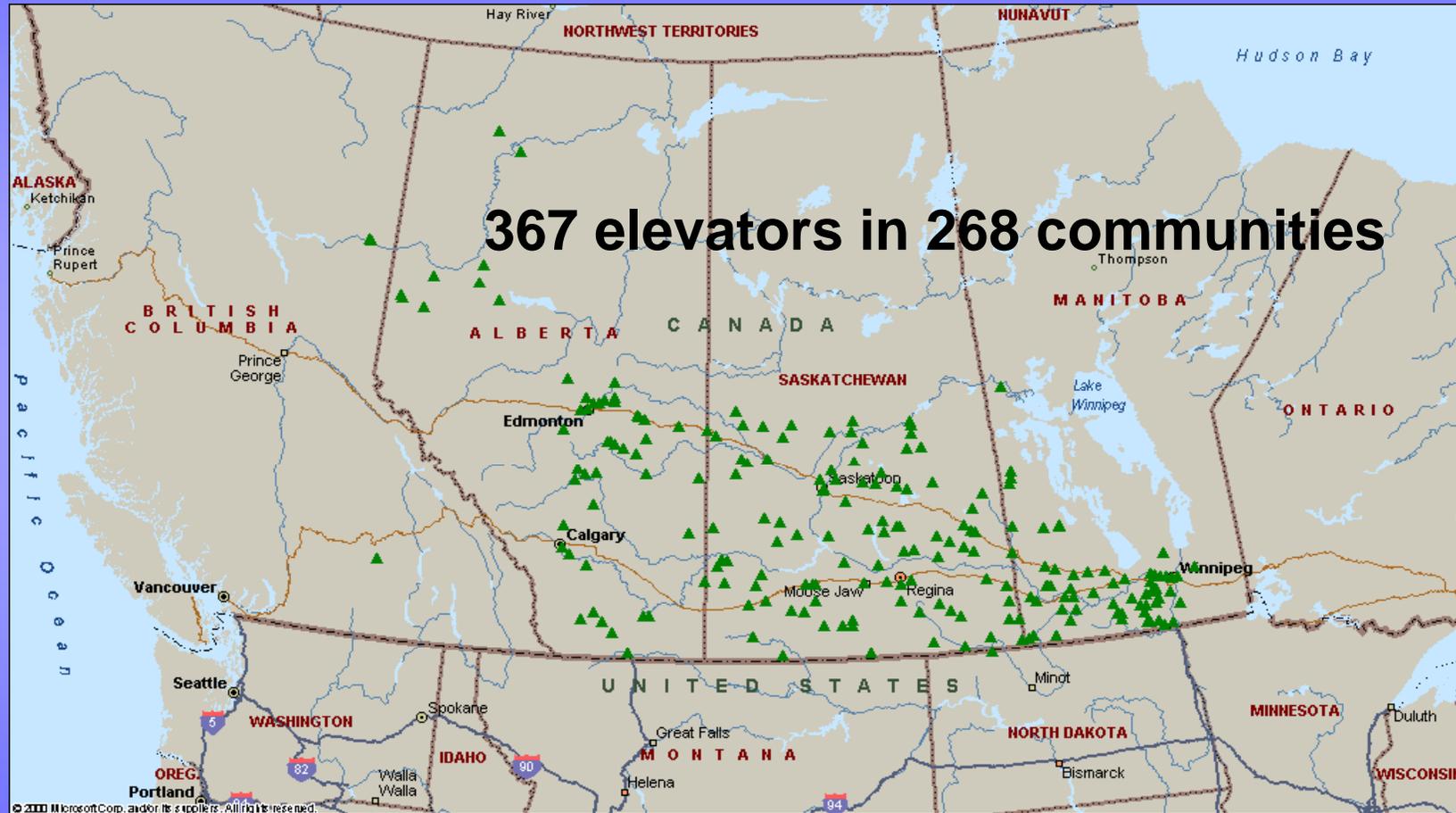


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Licensed Elevators - 1999



Licensed Elevators – August 2007

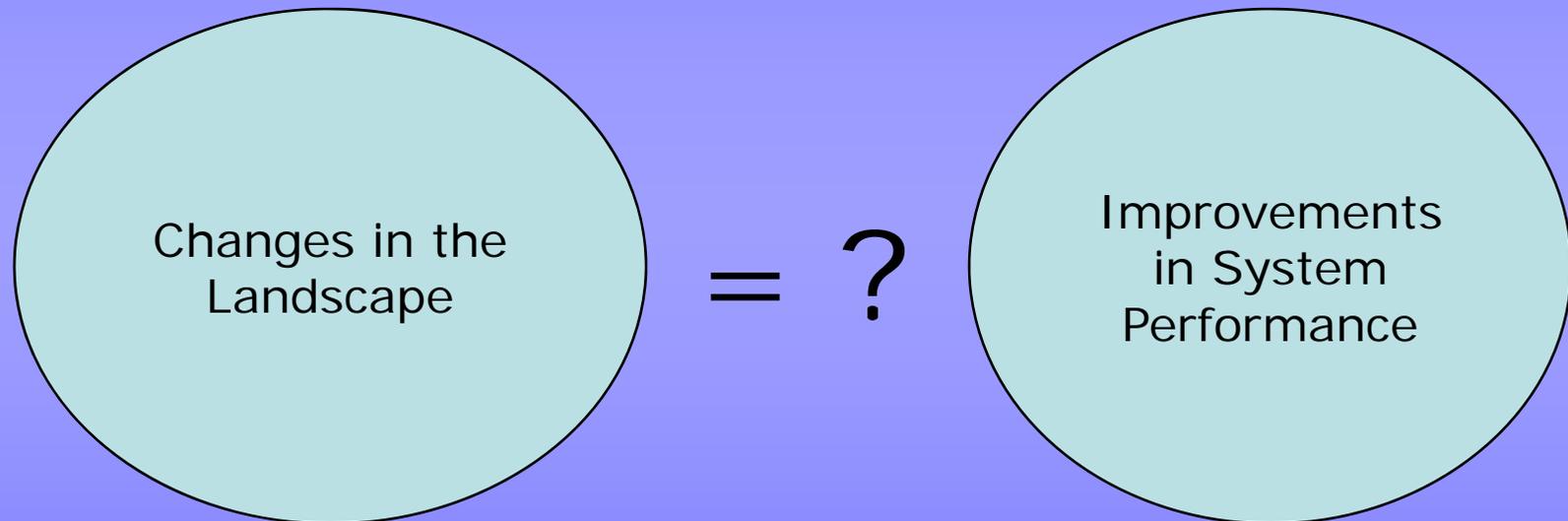


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Railway Infrastructure – route-miles



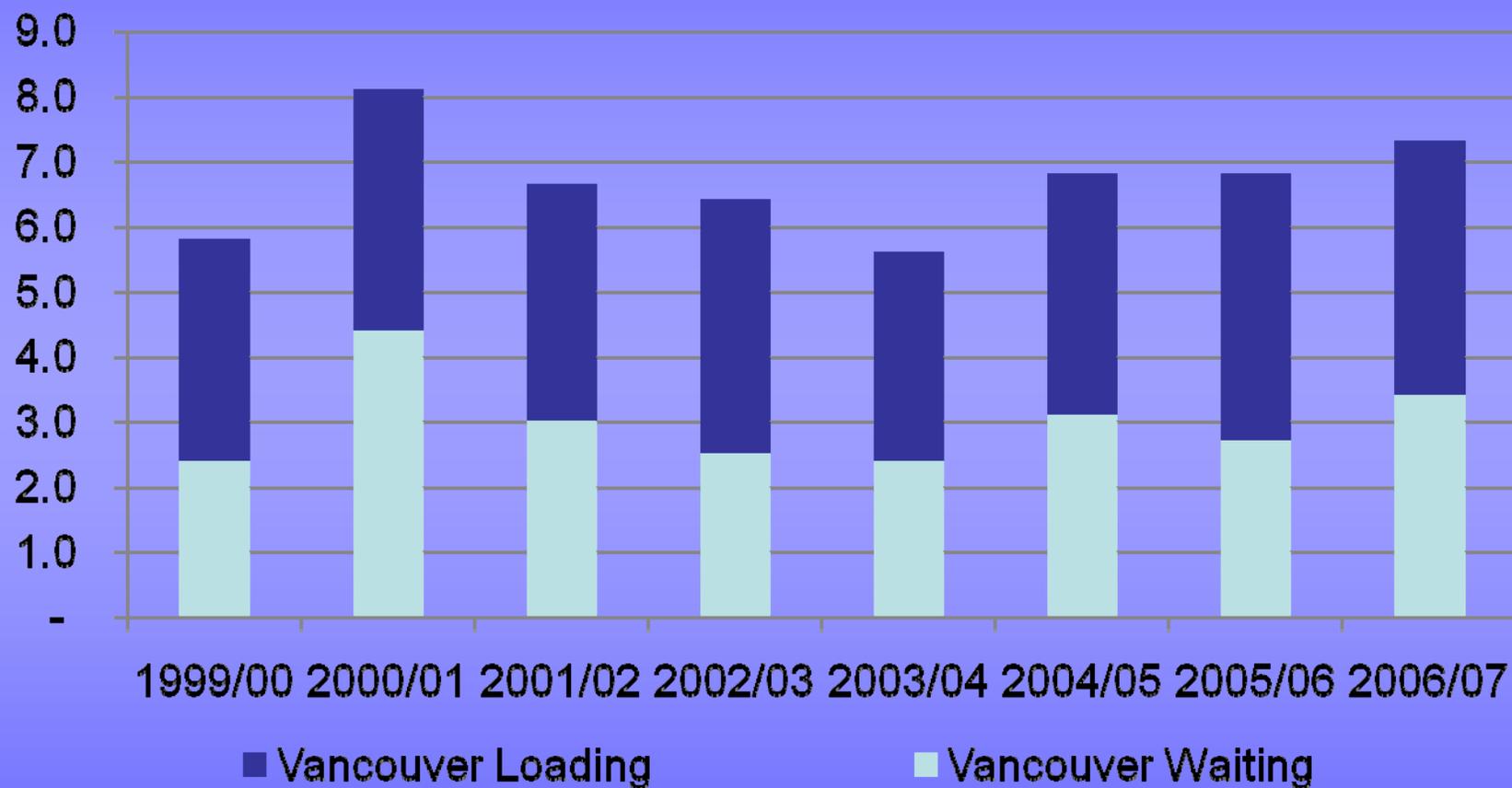
Is it good enough?



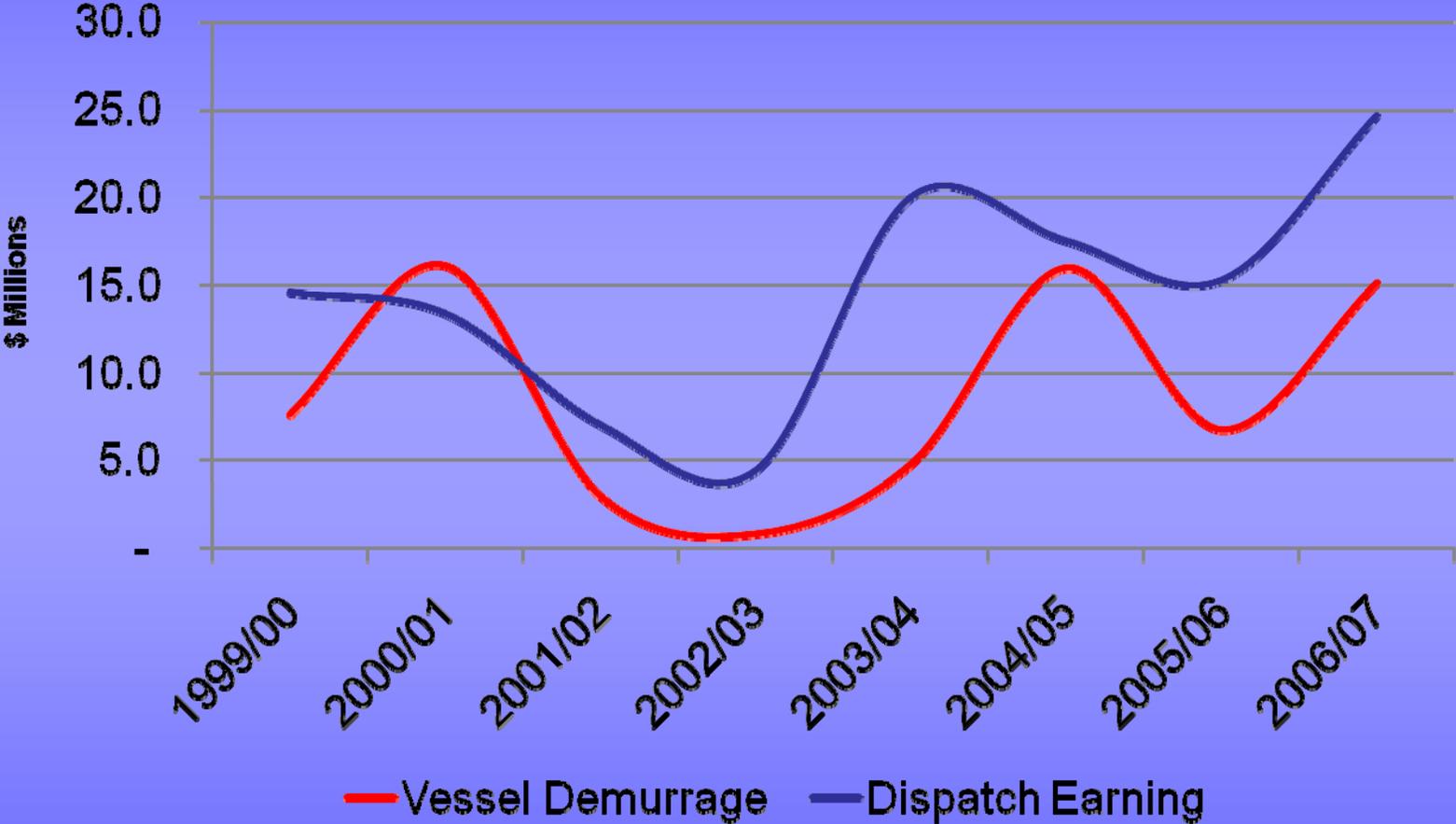
Industry structure is changing

- Impact of recent consolidation not seen to date
- Producers have options for grain delivery
 - Large integrated companies
 - Medium/small companies
 - Producer cars
- Trucking premiums have continued to grow
 - Wheat from \$2.32 to \$5.15 per tonne
 - Durum from \$3.14 to \$5.42 per tonne

Vessel Waiting Time

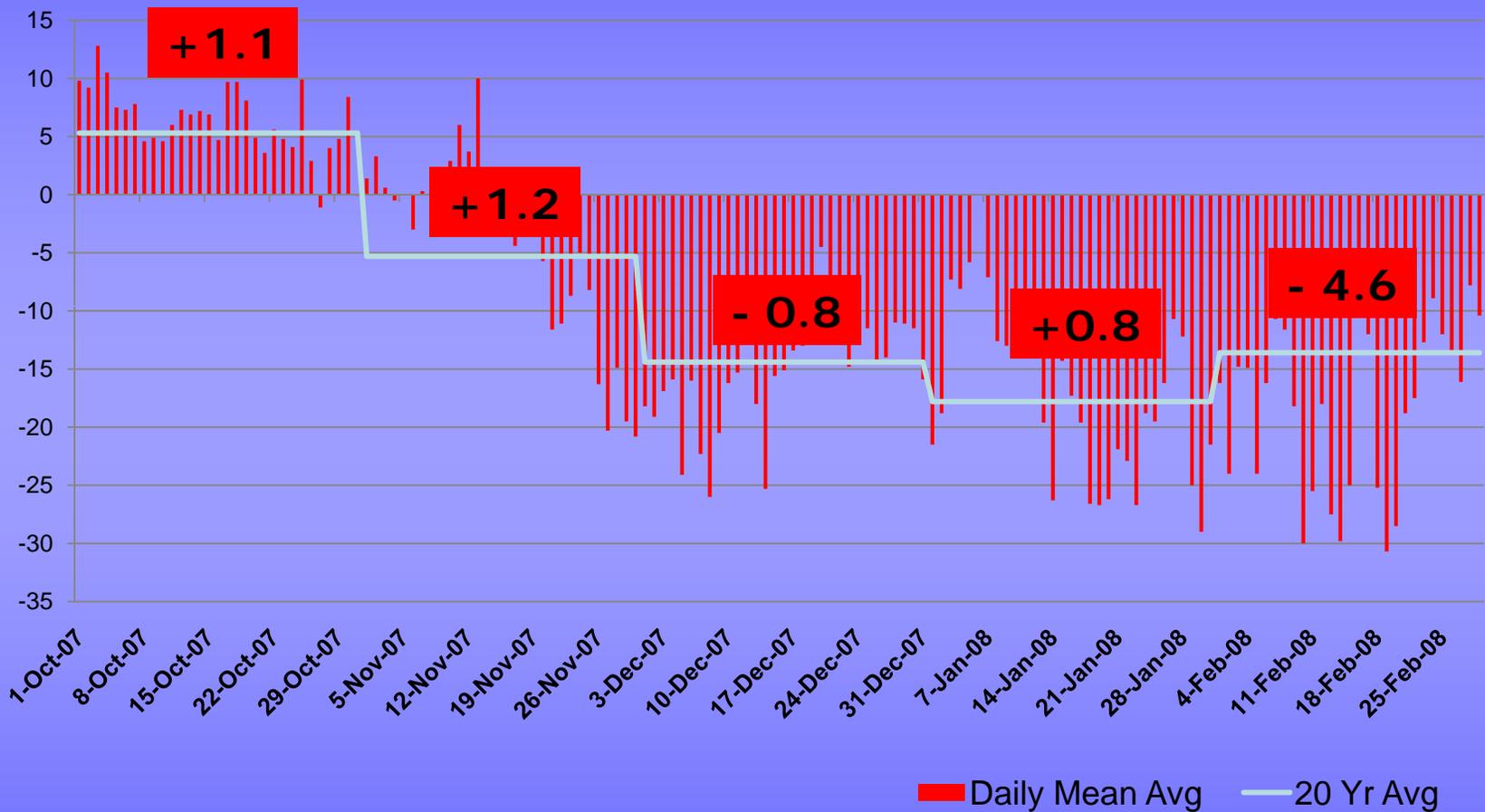


Demurrage / Dispatch

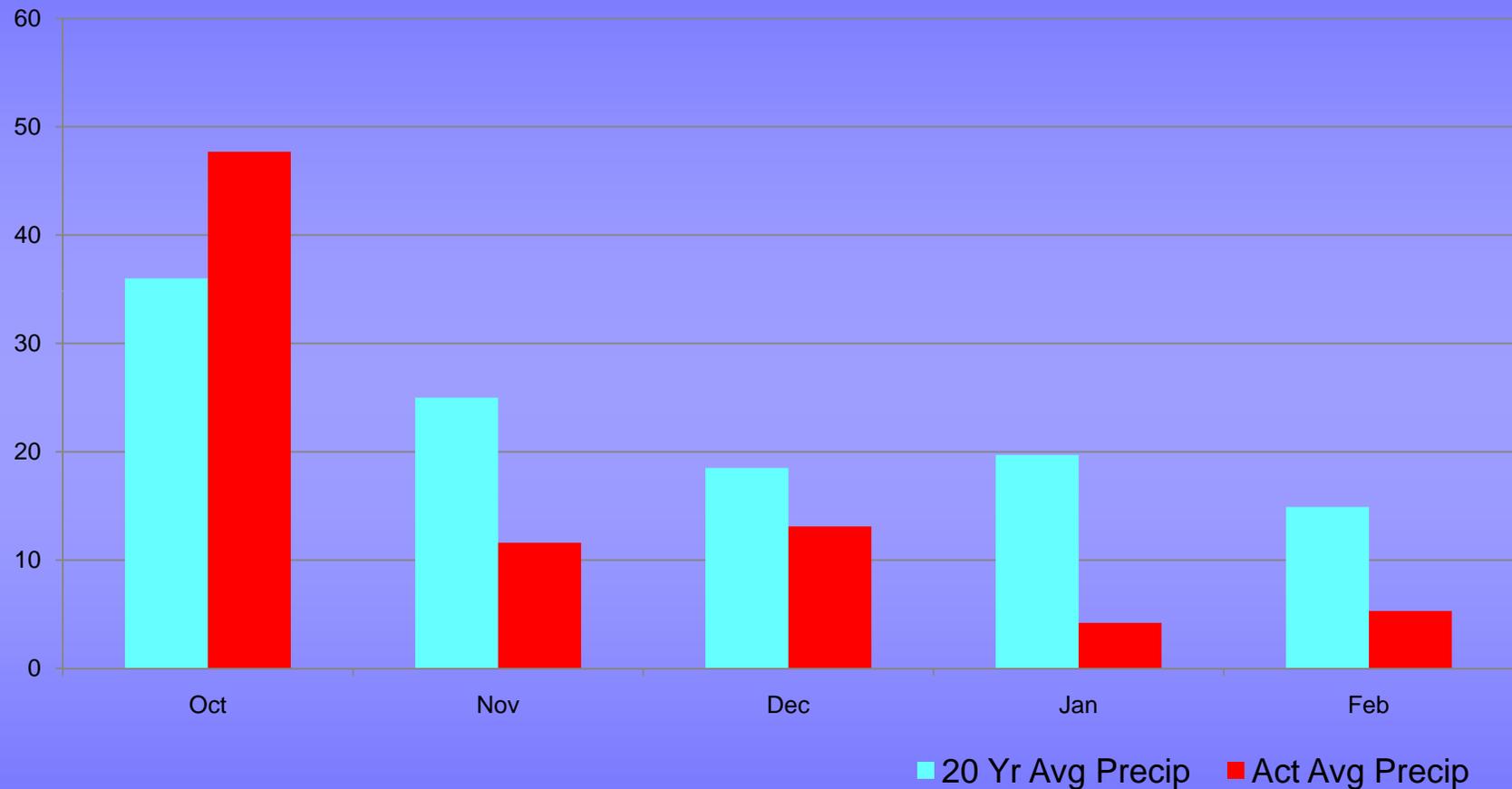


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Winter ... Winnipeg Temperatures



Winter ... Winnipeg Precipitation



Do you want a World Class system?

- Winter operational problems will continue
- Demand peaks will happen
- System failures a reality (port, rail, country)

- What kind of contingency planning makes sense?
- What defines a reasonable “recovery” period?
 - Trade off with the cost of excess capacity
 - Country and terminal storage, rail capacity, enhanced JIT system

What is a World Class system?

The leader in reliability and efficiency! The model for others to follow!

- Origin – Destination pairs
 - 268 delivery points, 4 ports, US, Mexico, E. Canada...
- Do we need 268 delivery points?
 - What should the physical dimensions be?
- What kind of service is required to support such a system?



April 2008

Another Challenge

- Canada produces world class products
- We have the world class talent and resources
- In many ways we have a “commercial” system
 - Participants’ behavior is in their commercial interest
- Challenge is to avoid sub-optimization of the overall process!



**Monitoring the Canadian
Grain Handling and
Transportation System**

Thank You



**Speaking notes for Presentation to Canada Grains Council
As given by Bruce McFadden on behalf of Quorum Corporation
April 7, 2008**

Slide one:

Good afternoon, I would like to thank the CGC for the opportunity to address your conference today.

Slide two:

I'll start with some of the good news. The GMP measures the overall time that grain spends in the commercial supply chain. That is the combination of time in country storage, rail transit and storage at terminal position. As can be seen here, over the course of eight years, that time has declined by about 10 days, from just over 70 days in total, to just over 60 days.

Slide three:

An improving trend is seen in our measure of car cycle times, which despite significant fluctuation, is declining. Note the cycles in Q1 of the 2007-08 crop year. They are some of the lowest achieved. They correspond to the heaviest quarter in terms of volumes moved. Unfortunately, subsequent quarters of this year are not going to show such favourable numbers.

Slide four:

During the course of the GMP, we have seen the proportion of movement in multi-car blocks increase substantially. From approximately 25% moving in blocks for 50 and larger at the beginning of the program, last year over 75% moved in blocks of 50 cars or greater.

Slide five:

The capacity turnover in the country elevator system has increased by nearly two turns over the course of the GMP, largely driven by a reduction in storage capacity. At the ports, the terminal capacity turnover has fluctuated with volume handled, as the infrastructure has remained static over the course of the program.

Slide six:

The most dramatic change is seen in the country infrastructure. In 1999, at the start of the GMP, there were over 1,000 elevators in 685 communities across the prairies.

Slide seven:

By August 2007, those numbers had been reduced to 367 elevators in 268 communities.

Slide eight:

Changes in the railway infrastructure have been much more modest. The overall reduction has been just under five percent, declining from about 19,500 route-miles to 18,600 route-miles. The other interesting point illustrated by this slide is the re-acquisition of lines by Class One carriers that had previously been spun off to shortlines.

Slide nine:

But, are these improvements good enough? Given the significant changes in system infrastructure, should we expect to be seeing greater improvements in system performance?

Slide ten:

The industry continues to evolve. Although the impact of recent consolidation is not yet seen in the GMP data, producers do have a variety of options for grain delivery – large integrated companies, medium or smaller sized grain companies, producer cars, etc. Competition for producers' grain continues. Trucking premiums for wheat have more than doubled over the period that we have been measuring, from \$2.32 to \$5.15 per tonne. For durum they have increased from \$3.14 to \$5.42 per tonne.

Slide eleven:

But, the time vessels spend waiting and loading grain at port has remained high, climbing to over seven days in aggregate at Vancouver last year.

Slide twelve:

Demurrage charges for vessels delayed at port show significant fluctuation, but also have been at the high end of the scale of late.

Slides thirteen:

Now I'd like to focus on more recent operational problems. Much discussion has occurred regarding winter operations this year. Yes, there was some cold weather during February, but other months were not unusually cold. In fact, based on a review of Environment Canada statistics for Western Canada, they were either at or above 20 year average levels.

Slide fourteen

Based on that same data we found that precipitation in western Canada was not unusually high this year, other than during October, which was prior to operational problems. In fact, it was far below the 20 year average for most of the winter.

Slide fifteen:

Anyone who has worked in the grain industry for any length of time (the speaker having over 20 years experience), has heard cold weather/winter operations being used a multitude of times as an excuse for a lack of railway performance. Just last year, periods of heavy rain and snowfall impacted performance. That excuse is not valid, when used in perpetuity without adequate measures being taken to deal with the larger problem. Contingency planning and measures to achieve an appropriate recover from inevitable system failures should be in place.

System failures may occur at any point in the supply chain – at port, during rail transit, in the country system. Some amount of buffer capacity should be available in all segments. Determining the appropriate buffer is no easy task, given the inevitable cost of its provision. But, having little or no capacity to recover is not acceptable in a critical supply chain such as the grain handling and transportation system.

A properly running system must include contingency planning. A “reasonable” recovery period is a reasonable expectation for shippers. Some extra cost is expected, and is acceptable, in order to provide some excess capacity and the ability to return to normal operations.

Slide sixteen:

What would it mean to have a “world class” grain handling and transportation system? Would that be the leader in reliability and efficiency? Would it be the model for others to follow?

Currently, we cannot count the origin and destination pairs for grain shipments, with 268 delivery points shipping to four ports, US, Mexican and Eastern Canadian destinations. Do we need all of these delivery points? What should be the physical dimensions of the system?

And every bit as important, what kind of service is required to support such a system? How do we define a “reasonable” level of service?

Slide seventeen:

Canada produces world class grains, oilseeds and special crops. We have the talent and resources to support that production. In many ways we have a “commercial” grain handling and transportation system. Participants are behaving in their commercial interests.

An outstanding challenge in this environment is to avoid individual stakeholder actions which sub-optimize the overall process.

Slide eighteen:

Thank you.