



CURRENT CWB MONITOR ISSUE #45: CWB Director Has His Facts Wrong

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In a recent article in the Manitoba Co-operator (January 6, 2011), Canadian Wheat Board elected director Bill Woods, takes aim at the railways for what he calls "slick accounting". Unfortunately, Mr. Woods has his facts wrong, which makes his whole argument meaningless.

Here's a little background. The annual review of regulated rail rates and charges showed that the revenue of both railways – CNR and CPR – came in under the Revenue Cap for 2010. According to the Canadian Transportation Agency (CTA) in a Dec 21st release, the railways combined were \$5.4 million or 17 cents a tonne under the CTA Revenue Cap of almost \$923.4 million or \$28.93 a tonne. According to the article in the Co-operator, the Federal Grain Monitor (Quorum Corporation) reported that farmers paid an average of around \$35 per tonne in the same crop year, which works out to about \$6 per tonne over the Revenue Cap rate.

Mr. Woods' first mistake is assuming that what farmers pay is what the railways collect as revenue.

His second mistake concerns incentives for shipping in blocks of 50 and 100+ cars. Woods asserts that the railways charge grain companies the single car rate and then pay incentives back to the grain companies to ship blocks of 50 or 100+ cars in the form of "multicar incentives" of as much as \$8/tonne.

His argument is that the total railway revenue should be based on the \$35 per tonne average rate that farmers paid before any "multicar incentives". According to Woods, "There are about \$100 million paid out annually in multicar incentives. So that means, because the railroads are able to deduct that, their revenue can be \$100 million higher. So in reality they are well above the revenue cap."

Well, in reality, there are no "multicar incentives" paid back to grain companies. There used to be, up to about five years ago; but now, grain companies simply pay lower rates for shipping 50 and 100+ cars at a time.

For example, let's look at Rosetown, SK. The freight deduction on a cash ticket for CWB wheat is \$39.14 per tonne – this is what a farmer pays. This is based on the single car rate of \$3,562 per car to Vancouver and the assumption of 91 tonnes per car. But the railways also have rates for shipping in large blocks. The 50-car rate for Rosetown to Vancouver is \$3,198 per car, or \$35.14 per tonne. The 100-car rate is \$2,834 per car, or \$31.14 per tonne. So when a grain company ships a 100-car train of wheat from Rosetown to Vancouver, they don't pay the single car rate of \$3,562 per car (\$39.14 per tonne) and then receive a rebate payment from the railway (as Mr. Woods seems to think) - they simply pay \$2,834 per car. This works out to \$728 per car, or \$8.00 per tonne lower than the single car rate that is being deducted from farmers' cash tickets.

So, for the most part it seems that farmers, through cash ticket deductions, are paying more for freight than what the grain companies pay to actually move the grain. BUT - a more complete review of this shows that, in 2008-09, grain companies paid farmers an average trucking premium of \$6.17 per tonne – this comes right out of the lower freight rates they pay for shipping in 50 and 100 car blocks. In addition, the Grain Monitor reported CWB "transportation savings" of \$1.70 per tonne – some of which could be argued is available because of the lower rates for large blocks of cars. When you put all of this together, farmers in general are the greatest beneficiary of the efficiencies of multicar loading.

This all leads to Mr. Woods' third mistake – using his misunderstanding of the facts to argue that the railways' revenues are over the Revenue Cap.

Mr. Woods, please take note - there are no incentive rebates paid by the railways to grain companies for loading 50 or 100 car trains. Shippers simply pay a lower rate in the first place. Check for yourself at <http://www.cn.ca/en/shipping-grain-price-tariffs.htm> and look up tariff CN 512538-AK. I'm surprised that even Travacon, the CWB's consultant of choice on this matter, didn't seem to catch this.

Is this really "slick accounting" by the railways as Mr. Woods claims, or is it "fast and loose" analysis by a CWB director? The facts certainly don't support Mr. Woods' assertion that the railways are pulling a fast one. As a CWB director, Mr. Woods should certainly know these details.

Let's hope that this isn't the analysis that the CWB is using to support its call for a rail cost review.

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If you want the details behind the ideas in these emails, more information on these topics or you have ideas or questions on other topics, please drop me a line to cwb@depape.ca and just ask. If I can, I will dig and provide.