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Grain and Feed

CWB, Grain Industry Troubled by Transportation

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Report Highlights:

The tug-of-war between the CWB and the grain companies continues as the CWB announced that as shipper it would be pay all grain freight charges. Grain companies continue to pay freight charges without reimbursement from the CWB. A backlog of vessels at the Port of Vancouver has cost the board $3.7 million in demurrage in the crop year to-date, with the possibility of reaching $7.2 million by year end. The CWB blames over-allocation of cars to non-board grains for the loading delays.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Ottawa [CA1], CA

WHEAT BOARD ESCALATES TRANSPORT COLD WAR

The following was taken from the November 20 edition of Agriweek. Please note that all values are in Canadian dollar currency.

Some in the western grain trade were still in a state of shock after the Canadian Wheat Board (CWB) announced it would henceforth pay the freight on grain shipments to terminals. The announcement and the change occurred more or less simultaneously with apparently no formal notice. One day the grain companies were the shippers, the next day the Board was. The change applies to all railways, including the CPR and CNR and short lines.

The change, which the Board apparently has the legal right to make, means that all rebates and discounts offered by the railways now go to the Board. This comes after another equally-dictatorial change: assignment of cars to specific delivery points. Effective Dec. 1 the Board will send cars to the locations that producers making deliveries to contract calls have designated on their permit books.

This means that the grain companies are no longer in control of any of the variables that could allow them to reduce rail costs. They cannot arrange shipments in half-train and full-train strings. They can no longer predict which delivery points will get cars or when. And they cannot very well participate in the CPR's new car ordering and scheduling system or benefit from the rate reductions for Board grains.

The change is plainly seen as the latest Wheat Board tactic in the continuing struggle for control of the transportation system. Few can accept that the Board actually thinks these changes will benefit farmers; many believe the Board wants to precipitate a crisis that will force the elevator companies and the railways to accept it as the controller of the system. The Board has assumed war-time powers that it will relinquish if the other players in the system unconditionally accept its terms.

In the meantime the whole system has been destabilized. Grain companies which have invested upwards of $600 million over the last five years in high-efficiency elevators feel the investment is at extreme risk because they have lost the ability to make maximum use of these facilities. The strategy was to close small, marginal elevators and funnel most grain through a small number of very-low-cost points. Now all the benefits appear to be going to the Board. If the Board remains the shipper and receives the freight discounts and rebates, the money will go into the usual Board pool accounts and will end up redistributed to all producers. Producers will lose the incentive to haul grain further to high-volume points because the grain will not be able to offer incentives previously made possible by freight savings. Elevator charges could also increase.

The Board said it was responding to Canadian Pacific's `MaxTrax' system for car ordering and scheduling. It said that under the terms of the new plan it could not capture freight savings unless it was the shipper of record. (However, the Wheat Board is now also the shipper of record with the CNR, which has made no move in the direction of a MaxTrax system). Therein lie all the points of contention in the present dispute. The grain companies and the railways thought that, even with the Wheat Board still heavily involved in the nuts and bolts of grain transportation, they could work more closely at a lower level to achieve cost savings that could be passed on to grain producers. The Wheat Board apparently has other ideas.

A sign of the extent to which relations between the Wheat Board and the trade have deteriorated came out at the United Grain Growers annual meeting in Edmonton on November 15. UGG officials announced that their company has been sending in bids to the Board's port tenders all along, while the Board was saying that no major grain company had submitted such offers. Board CEO Arason, a guest at the UGG meeting, was obliged to admit that it was indeed so. UGG did not correct the Board sooner because it did not want to further ``inflame" the situation. By the start of last week the Board got a handle on the issue and announced that while UGG had in fact responded to the tender calls, it also altered the terms in ways that the Board found unacceptable. Presto: the bids became non-bids and UGG a member of what the Board considers an industry boycott.

Meanwhile there were no formal negotiations last week between the Wheat Board and the grain trade to resolve half a dozen contentious grain transport and handling issues still outstanding from new legislation passed in July. Government intervention appears the only solution, Last week the Western Canadian Wheat Growers Association, urged wheat minister Goodale to name an arbitrator to settle these disputes, warning of a complete system breakdown if the two sides don't start working together more smoothly.

Comments

Despite a November 22 CWB news release stating that the grain handling system is operating effectively, according to the November 24 edition of Agriweek, severe congestion continues to be the case at Vancouver export terminals. Fifteen to twenty ships are anchored at Vancouver on a typical day, collecting demurrage at $10,000 a day or more. Year-to-date unloads are up at Vancouver only because fewer cars have been sent to Thunder Bay and Prince Rupert, which was shut down until recently. A November 24 Agriline Daily reported that a grain ship that had been waiting to load at Vancouver for 39 days finally cleared port on November 23.

The November 30 Agriline Daily notes that Western Canadian grain companies continue to pay grain freight charges to the railways despite the CWB announcement of assuming freight charge payments. The article states that the CWB is deducting freight charges from settlements and is not refunding freight costs paid by shippers. At least one firm (Agricore) is getting legal advice.

The same Agriline Daily reports the CWB as saying that demurrage charges at the west coast could total $7.2 million in the ‘00-01 crop year because of Vancouver congestion. As of November 20, net demurrage was about $3.7 million. The CWB blames over-allocation of cars to non-board grains.

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