

Policy Position

April 2015

The Impact of Rail Access on Saskatchewan's Export Potential

Background

In 2014, the Saskatchewan Chamber of Commerce contracted the Conference Board of Canada to complete its first Saskatchewan Research Campaign project: *The Impact of Rail Access on Export Potential*. The project was designed to provide an outline of the current situation, an analysis of future demand, and recommended changes. On March 30, 2015 the report was released with nine recommendations.

Issue

Saskatchewan boasts a strong and growing economy; over the last decade, Saskatchewan's growth has exceeded the national average seven times. The Conference Board of Canada has forecasted that Saskatchewan's long-term growth will continue to be greater than Canada overall between 2014 and 2035. This growth, however, depends upon international exports. For example, in 2013 Saskatchewan had over \$32 billion in exports, or the equivalent of 40 per cent its nominal GDP. While exports are critically important to Saskatchewan's economy, getting them to market is a great challenge. Ocean transport is the cheapest form of bulk freight transport, but as a landlocked province Saskatchewan is thousands of kilometers away from major international ports. As such, rail transportation is heavily relied upon.

There are challenges with railway transportation, however. Often, the availability of rail transportation does not meet shipper demand. For example, 2013-14 was a record year for crop production, but railway capacity was unable to meet the significant increase in shipper demand and farmers had to keep a large portion of the 2013 harvest in on-farm storage as grain elevators had also reached maximum capacity. This translated into a loss of anticipated income for farmers and reduced value of harvested crops.

Saskatchewan Chamber of Commerce Recommendations

- 1) That the Government of Canada review the full impact of the Maximum Revenue Entitlement (MRE). It has been 15 years since the MRE was implemented. (The MRE is a limit on the average revenue per tonne that railways can earn on the shipment of regulated grains from Western Canada to the Port of Thunder Bay or to ports in British Columbia.)
- 2) That the Government of Saskatchewan reduce fuel taxes to bring them in line with other provinces. Railways pay nearly \$40 million in fuel taxes annually to the Saskatchewan government as a result of a particularly high provincial fuel tax per litre (15 cents per

litre). Producers rely on railways to get products to market, and this could reduce the cost of shipping products to and from the province by rail.

- 3) That private businesses focus on greater and timelier communication across the logistics supply chain. Better and timelier sharing of information can help shippers and railways prepare for disruptions.
- 4) That the Government of Saskatchewan increase their coordination with governments and infrastructure providers outside of the province. Saskatchewan and its economy has as direct an interest in investments and efficiencies at Port Metro Vancouver, Prince Rupert and Thunder Bay as it does in investments in freight infrastructure within the province. As a result, the Government of Saskatchewan has as much interest in being involved in supporting those investments either directly or indirectly.
- 5) That the Government of Saskatchewan, Government of Canada and private businesses, increase supply chain options and redundancy. For Saskatchewan – a province that is more landlocked than any other – any increased redundancy in terms of routing options to export markets is valuable.
- 6) That the Government of Saskatchewan and Government of Canada consider the full effects of legislative solutions while focussing efforts on long-term rather than short-term solutions. Government policies that dictate the minimum amount of grain to be moved may have unintended consequences. The possibility of such unintended consequences undermining supply chain efficiency should be considered and monitored.
- 7) That the Government of Saskatchewan and Government of Canada should investigate the barriers, financial or otherwise, to investing in more on-farm storage in order to determine the value in some solutions. The total capacity of on-farm grain storage is currently unknown, but the need for storage was quite evident during the 2013-14 crop year.
- 8) That the Government of Saskatchewan and Government of Canada make a concentrated effort to work through the political intricacies that have bottlenecked pipeline expansions and determine the impact, if any, on rail service for other commodities. The growing role played by rail transporting crude oil is largely as a result of current pipeline access becoming increasingly constrained.
- 9) That the Government of Saskatchewan and Government of Canada identify and remove the barriers to new hopper car purchasing, as it relates to potential ownership by railways, shippers, or third-parties. The grain hopper car fleet in Canada is aging and in need of replacement. Newer cars are both shorter and lighter and as a result contribute to an increase in the carrying capacity of approximately 25 per cent per train.