



APRIL 24, 2014

The Chartered Institute
of Logistics & Transport
North America
CILTNA

CILTNA LUNCHEON ON MARCH 27th
**Railway and Port Capacity to Capture our
Resource Export Opportunities**

COLLABORATIVE CONTRIBUTION
By Student Volunteers

Tommy Pham & Haven Li
*British Columbia's Institute of
Technology*

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April 24

2014

On March 27th, 2014, the Pacific Chapter of the Chartered Institute of Logistics and Transportation held a luncheon meeting at the Terminal City Club in Vancouver. The meeting was attended by over 120 members and prospective members of the Institute. All were active in the transport and logistics profession. Some 40 of the participants were industry-sponsored students from the British Columbia Institute of Technology, Capilano University, and the University of British Columbia.

Catalogue

A. Sponsorship Acknowledgment

B. Luncheon Programme

C. Key Speaker's Biography

D. Speech Document

E. Question and Answer Summary

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For CILTNA Luncheon with Roger Larson
March 27, 2014 – Terminal City Club, Vancouver

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Luncheon Programme (11:45 am - 1:00 pm)

Key Events

- Marian Robson, Chair of FCILT, opens the luncheon
- Will Tiefenbacher of Capilano University introduces the speaker Roger Larson
- Roger Larson, President of CFI, speaks about "Railway and Port Capacity to Capture our Resource Export Opportunities"
- Jane McIvor of BC Shipping News interviews Roger Larson
- Sydney Ying-Yi Ren and Rachel Li from University of British Columbia prepares to take notes for Question and Answer period
- Tommy Pham from British Columbia's Institute of Technology initiates a question for follow up
- Rest of Question and Answers session for audiences
- Michael Berlinguette thanks Roger Larson on behalf of CITLNA
- Marian Robson closes luncheon



CANADIAN FERTILIZER INSTITUTE
INSTITUT CANADIEN DES ENGRAIS

Key Speaker **Roger Larson**

**PAg., FCILT,
CFI President**

Roger Larson was appointed President of the Canadian Fertilizer Institute (CFI) in 1998 after joining the organization in 1986. As President, Mr. Larson leads a team responsible for building consensus and establishing policy on critical issues facing the fertilizer industry in areas such as environment, transportation, climate change, security, energy supply, and international trade.

Mr. Larson's industry experience started with a family-owned farm and farm supply business in Saskatchewan. Prior to joining CFI, he was with CFI-member Cominco (now Agrium). He holds a Bachelor of Commerce in Economics and Finance from the University of Saskatchewan and received the Professional Agrologist (P. Ag.) standing with the Agricultural Institute of Canada/ Ontario Institute of Agrologists in 1990. He was elected a Fellow of the Chartered Institute of Logistics and Transport (FCILT) in 2006, is a past Chair of the Ottawa Branch and a former Board member of CILT in North America.

Roger represents the fertilizer industry on a number of coalitions, working in cooperation with other stakeholder groups to address major public policy issues and raise the industry's profile with key government officials. Mr. Larson represents the mining community as a member of the Nominating Committee for Port Metro Vancouver. He is a member of several industry coalitions addressing environment, trade, energy, transportation and economic policy. In 2007 Roger was elected to the Board of Directors of the Government Relations Institute of Canada, where he served as Treasurer and Executive Committee member in 2009-10. In 2008 & 2009 CFI was recognized by the *Hill Times* as one of the 100 top lobbyists (50 leading industry association lobby organizations).

In 2012 Canada's commercial farmers nominated Roger to receive the Queen's Diamond Jubilee Medal for his contribution to Canadian Agriculture.



CANADIAN FERTILIZER INSTITUTE
INSTITUT CANADIEN DES ENGRAIS

Railway and Port Capacity to Capture our Resource Export Opportunities

**Speech to the
Chartered Institute of Logistics & Transport in North America
Vancouver, BC
March 27 2014**

Roger Larson, President
350 Sparks St. Suite 907
Ottawa, ON K1R 7S8

Good afternoon.

On behalf of the Canadian Fertilizer Institute, I would like to thank you for the invitation to speak with you today on ***Railway and Port Capacity to Capture our Resource Export Opportunities.***

The Chartered Institute of Logistics & Transport – North America is an important organization which fosters key discussions and dialogue around the world. At a time when economies, businesses and governments alike are under tremendous pressure to perform, and given the rapid growth of global trade, the necessity of having an effective and efficient logistics and transportation supply chain is more critical now than ever before.

At the outset, ***there are three points that I would like to make:***

- **This winter's backlog of grain and other rail shipments does not represent a blip. Canada's commodity export pipeline is hitting the limits of capacity.**
- **Canada stands ready to reap economic benefits from massive investments in key commodity industries and from the new wave of free trade agreements being signed by the federal government, but only if our commodity export pipeline is up to the task.**

- **Only a strategic partnership of governments, ports, railways, labour and shippers can ensure that Canada's place as an export powerhouse will be realized.**

Increased trade and commerce between international partners is a key priority for most national governments including Canada's. The ability to fully enable this growth is dependent on the vitality and efficiency of our key trade routes and the systems that support them. We have new and exciting opportunities in front of us. If industry fails to partner on developing a truly efficient supply chain network, this opportunity for the Canadian economy will be missed. As such, the discussions being led and facilitated by CILT are of real significance to informing the understanding of industry, government and academia related to building the best possible logistics and transportation supply chain.

With over 45 member companies, the Canadian Fertilizer Institute is an industry association representing manufacturers, wholesale and retail distributors of nitrogen, phosphate and potash fertilizers. Canada is a significant player in this space, supplying approximately 12 per cent of the world's fertilizer materials. CFI's members produce over 25 million metric tonnes of fertilizers annually, 80 per cent of which is exported. Our industry contributes over \$12 billion annually to the Canadian economy and employs over 12,000 Canadians. I should note that CFI is a trade association not engaged in any direct commercial dealings itself, but is focused on contributing to effective public policy development impacting on the fertilizer industry.

I am here with you today to discuss the current situation facing Canada's rail and port infrastructure, how we as a country are using our existing network capacity and how we must work together to address both current and future capacity challenges.

To my first point earlier regarding the disastrous winter backlog of grain and other rail shipments, it is important to note that the crisis in rail shipments is not a perfect storm of bad winter weather, record grain harvest and a lack of customer focus by the railways. Rather it is a wakeup call. The warning signs of an over-taxed system have been clear for some time. In 2012, the railways' workload increased by 7.3 per cent - up about 14 per cent from the average in the previous five years.

The frustration of shippers who simply cannot get their goods to market has been boiling for years. This is not a power struggle with the railways. It is about farmers, miners and manufacturers who are losing markets and losing money because of inadequate rail service. It is about Canada eroding its image as a reliable supplier to world markets. Simply, there is too much conflict in our commodity export pipeline.

As you can appreciate, given the location of our members' production sites, coupled with our primary export destinations, access to a reliable and safe logistics system is of huge importance to the fertilizer industry in Canada.

CFI continues to be an active participant in both industry and government-led discussions and policy development initiatives looking at how to best optimize the Canadian logistics network. In recent years, significant work has been undertaken by both sectors to highlight how the logistics chain – and specifically the rail system – can be better-managed. A noteworthy example is the work undertaken by the

Government of Canada as part of its recent Rail Freight Service Review. Government heard the responses received from railway customers and acted. The amendments to the *Canada Transportation Act* which passed in June 2013 enacted new protections for rail customers. Specifically the right to a service agreement and arbitration related to that agreement. However, as we are slowly finding out, these might not have gone far enough.

It is important to consider the original and clearly-stated purpose - to generate real improvements in the "predictability, clarity and reliability of rail freight service across Canada ¹." This commitment to service is important to many industries, including the fertilizer sector. Ours is a resource-based industry, dependent on rail to move our products to our domestic, U.S., and offshore markets. Our customers are farmers - delivering fertilizers to them in a timely and efficient manner is critical to helping them feed not only our country, but the entire world.

A crucial component of ensuring an effective national logistics and transportation system is building strong commercial partnerships. At the end of the day, it is the most important ingredient in driving actual change and real improvement. This enhanced cooperation can be achieved through various changes, many of which CFI has been recommending for a decade. How can increased transparency and

¹ Minister Lebel comments on Royal Assent to Bill C-52
(<http://www.tc.gc.ca/eng/mediaroom/releases-2013-h084e-7234.html>)

accountability be achieved? One example is increased sharing of information and shipment data by major railways with government (including local communities).

My second point concerns the major economic benefits for Canada IF we are up to the task of supporting new traffic with a fully-optimized logistics network.

In the last seven years, Canada's potash industry has invested \$15 billion modernizing and expanding our capacity to deliver another 10 million tonnes to foreign markets. Most of that new production will be shipped out of the Pacific Coast. If anyone thinks that last fall's bumper harvest of grains and oilseeds in Western Canada was a fluke, think again. The Saskatchewan government set an ambitious target of boosting exports of agri-food products by 40 per cent by 2015 – an ambitious target that it has already exceeded. Similarly, the Transportation Safety Board is now saying that crude oil shipments by train have grown to 160,000 car loads in 2013 from 500 car loads in 2009!

CFI, like many others in Canada, was very pleased to see the recent signing of a new trade agreement between Canada and South Korea. With binational annual trade between our two countries already totaling over \$10 billion, this new deal will only enhance this important trade relationship. Likewise, we were equally pleased to see the signing in principle of the Canada-EU free trade agreement, which gives Canada access to the world's largest economy (already generating approximately \$17 trillion in economic activity each year). But to the federal government's trade agenda extends even further. Canada is actively engaged in the negotiations on the Trans-

Pacific Partnership, which represents a huge opportunity for our country and especially Western Canada. I should note that any deals focused on enhancing trade with Asia represent significant opportunity for the fertilizer industry in Canada. Our five largest offshore customers are located in Asia, with China, India, Indonesia and Malaysia accounting for fifty per cent of Canadian potash exports outside of North America.

This represents huge potential for Canada, its key industries including the fertilizer sector and, most importantly, hard-working Canadians.

This new trade engagement with countries around the world is happening in tandem to major shifts within the agriculture sector itself. Take a look at Saskatchewan as an example. Farmers there have harvested the largest crop in the province's history, already surpassing the 2020 target set out in the Saskatchewan Plan for Growth. The 2013 Western Canadian crop, amazingly, is at 76 million tonnes of grain.

We need to pause and consider: with all this new trade volume, will our logistics and transportation system – in particular the Canadian rail network – be ready and able to respond, given the new demands that will be put upon it? I have spoken a fair bit about the need for a strong and fully-enabled rail network in Canada, both for today and for the future. Let me briefly touch on an equally important need for a best-in-class port logistics network to support Canada's future export growth. I suppose that you as British Columbians do not need me to tell you about the importance of port capacity and supporting infrastructure to truly realize economic growth. At this moment, we are only a few blocks away from Canada's largest port and indeed one

of the world's leading ports – Port Metro Vancouver. This incredible enterprise moves approximately \$43 billion worth of goods – in a single year. It receives and manages commercial traffic from over 90 countries. It is a critically-important asset and serves as an economic generator not just for Vancouver and British Columbia, but indeed for Canada as a whole. With so many of our members' products destined for Asia as I mentioned previously, the Canadian Fertilizer Institute fully appreciates the importance of ports like Vancouver and Prince Rupert, but also Saint John (New Brunswick), Montreal, Que' bec and Hamilton, and outside of North America. As an economy which is increasingly export-focused, and ensuring the long-term sustainability of our port network and integrating that with an effective Canadian rail supply chain should remain a fundamental goal for all involved in the transportation system. While government has a clear role to play (and is doing so through initiatives including the Asia-Pacific Gateway and the newly-relaunched Building Canada Fund), business does too. Not just to pay the user-fees such as the GIF, to financial ports, we need to play a key role in policy discussions and deliberations taking place looking at strengthening intra-modal logistics networks (including rail and port) to facilitate continued economic growth.

My third point is a call to all – government, logistics partners like ports and railways, shippers – to strike a strategic partnership that can ensure Canada's place as a global export powerhouse is realized.

We as logistics and transportation system stakeholders need to pause and consider: with all this new trade and the increased volumes of goods which will be moved

through and out Canada as a result, will our logistics and transportation system – in particular the Canadian rail network – be ready and able to respond given the new pressures that will be put upon it? With the Canadian government looking to aggressively grow Canada's trade with key markets in Asia, the clock is ticking on the readiness of the Canadian logistics and supply chain to accommodate the huge surge in traffic which will be seen and felt on our railways, on our highways, and through our ports. We need to act now, through the regulatory and legislative exercises being initiated by Ministers Raitt and Ritz, to actually optimize our existing framework so that we are enabled as a country and as an economy for the future. In doing so, however, we must ensure that the focus on moving specific products such as grain does not supplant the movement of other commodities. This approach would only further stagnate the serious backlogs our logistics supply chain is trying to come to grips with. While we need to stay focused on addressing existing backlogs and minimizing the potential long-term economic damage that they can cause, we need to realize that fixing these problems – through collaboration and commercially-driven solutions – is not just important to the present. It is even more important to our future transportation needs. The Canadian fertilizer industry is committed to standing with other key logistics stakeholders to push for results-focused cooperation. In light of the new trade liberalization on the horizon, we as a logistics and transportation chain cannot waste time in addressing the challenges we are collectively facing.

There is a multitude of important questions that need to be asked and which stakeholders including CFI are committed to working with other partners to develop strategic responses to:

- 1) How are we going to finance the massive capital investments required to build the rail capacity needed to get Canadian products to our ports and terminals so we can take advantage of the investment we have all made in PMV?
- 2) How can we create a new cooperative spirit in our commodity export pipeline where efficiency is everyone's goal?
- 3) How can we avoid the need for government to regulate solutions in the absence of industry leadership?

This need for collaboration has likely never been as urgent in Canada as it is today. I hope you will join with CFI and others in pushing for reforms that will support the system we need moving forward. As I mentioned previously, we need to be fully aware of the current situation facing Canada's rail and port infrastructure, how we as a country are using our existing network capacity and, most importantly, how we must work together to address both current and future capacity challenges. *Thank you very much for your time and attention.*

****Roger to be invited to join Q&A session****

A photograph of a large, ornate stained glass dome ceiling, likely from a historical building. The dome is composed of numerous triangular and circular panels, each filled with intricate patterns and colors including gold, red, green, and blue. The structure is supported by dark wooden beams that radiate from a central point at the top.

CILTNA March 2014 Luncheon: Q&A Summary Report

University of British Columbia
Sauder School of Business

Rachel Li
Sydney Ying-Yi Ren

In this report, we summarize the Q&A session between Roger Larson, President of Canadian Fertilizer Institute, Jane McIvor, Editor of BC Shipping News Magazine, and CILTNA Pacific Chapter members consisting industry professionals and students studying Transportation and Logistics. The Q&A session was held at the CILTNA Pacific Chapter Luncheon on March 27th, 2014 at the Terminal City Club.

This report has not been reviewed for accuracy by the luncheon speaker Roger Larson. The authors take responsibility for any errors and omissions.

Questions from Jane McIvor, Editor of BC Shipping News Magazine

1. What kinds of investments have the fertilizer industry made to contribute to the effectiveness of the transportation system?

Larson: In addition to the investment of our member companies in expanding their production capacity at the mines, the industry is also focused on expanding their capacity in other parts of the supply chain. We've invested in North America's second largest railcar fleet (5200 railcars). Neptune Bulk Terminals has invested in terminal capacity. The industry has invested in terminal capacity at the port, and we are also paying our fair share of the Gateway Improvement fee.

Matt Albrecht, Canpotex Limited: Canpotex Limited has also invested in 20+ ships to move products to global markets outside Canada. We have built a rail car maintenance facility to maintain our own cars, which helps maintain efficiency of the system.

2a. Where are infrastructure challenges most acute, including the range from physical, operational, and ability to increase capacity?

Larson: Infrastructure challenges are most acute in the rail system due to capacity challenges. There is a huge investment of \$570 million in Port Metro Vancouver to expand infrastructure here. There are immediate investments needs. Railways need to invest in expanded sidings across the Prairies and in selective double-tracking to improve fluidity and efficiency of the network. We need to be able to accommodate the new large, 170 unit trains of potash and other commodities. We need to see investment in locomotives and other things not traditionally considered "infrastructure", like operating crews and personnel operating train systems. There needs to be thought on how to take advantage of different industries because customers around the world have increased their demand.

2b. Are you seeing improvements in these infrastructure challenges?

Larson: Not sufficiently. The investment to date has not been sufficient to meet the pressure of where we need to go in order to take advantage of the investments that different industries have made to increase their capacity. When our customers are ready to buy more potash, we need to be able to get it to them today, or we will lose these markets.

3a. How will the proposed Bill C-30 (Fair Rail for Grain Farmers Act) impact the capacity for other industries given that railways are now required to meet a capacity of 500,000 tonnes of grain movement per week? How do we address the needs of grain in conjunction with those other industries?

Larson: There are huge logistical challenges with grain. We do want to see the grain sector grow and take advantage of global markets. Rail infrastructure needs to expand to meet demands of the growing grain industry and other commodities as well. How that allocation will be met will depend on the other provisions of Bill C-30 and whether they can be strengthened to ensure no re-allocation of capacity. We need to “grow the pie”.

3b. Will you be able to provide input before Bill C-30 to government officials?

Larson: We had concerns over the Fair Rail Act, and we did get some accommodation for our concerns over local agreements and asked for several amendments that were not included. The government also identified some amendments that are not in the legislation but are in the intention of government officials. We will need to work through the consultation period with the government so that it reflects the industry’s interests and concerns.

Open-Floor Questions

1. Tommy Pham, BCIT student: What has the fertilizer industry done to date to foster positive business partnerships?

Larson: Our industry has worked closely with customers and suppliers. For example, the Science Cluster Research Fund has spent \$1.2 million on agronomics research to help farmers use their products more efficiently and focus on the right source, time, and place of nutrients. Our partnerships are brought on by investments in sidings, potash railcar fleets, 12,000 liquid fertilizer cars in North America, tens of thousands of part-time leases on cars across North America with around 3,000 of them based in Canada. We do make financial commitments to the railways in moving our product and look to have them provide the pulling power and network to move fertilizer to the ports and our customers' destinations.

2. Colin Laughlan, Logico Carbo Solutions Inc.: What threats/opportunities do the current relations with Russia pose?

Larson: This is a very serious geopolitical issue. We all have personal views and questions, but there are very few answers right now. It is a global crisis.

3. Joe Sulmona, Sky Blue Sea Enterprises Ltd.: Should we consider running rights more seriously?

Larson: CFI has not supported running rights. We need to look at the objective: To have the most efficient rail network possible. How do we deliver that efficiency? If we use a single operator, you need to remember their common carrier obligation. We can deliver better economic solutions.

4. Marian Robson, True North Public Affairs & CILTNA Pacific Chapter Chair: Shippers often have thorny relations with railways. Do you have some thoughts on how to improve communication and cooperation between the potash member companies and railways at both the policy and operating level?

Larson: First step in developing better outcomes has to do with keeping the tone right; Focus on the business objectives and to not engage in excessive characterization of other parties. It is critical to focus on the agreement between

the customer and railway, on the goods they need to move, terms and conditions, as well as service level. There should be a good measurement not just on a single customer basis, but also on a network basis. Bill C-30 improves data gathering on grain - so why not gather data on all commodities? If you don't have a measurement, you have no idea how to improve it.

5. Mayor Lois Jackson, Corporation of Delta: How do local governments have influence over CNR and CPR to ensure efficiencies in shortening and strengthening the supply chain? Where can we help?

Question deferred to Jean-Jacques Ruest, Executive Vice President and Chief Marketing Officer of CN, who is speaking at the April 24th 2014 CILTNA Luncheon

6. Mayor Lois Jackson, Corporation of Delta: Do we have a national rail transportation strategy? Should it be reviewed and strengthened?

Larson: The National Transportation Policy very clearly states responsibilities and objectives of the transportation legislation. It addresses objective of moving Canadian goods to global markets and that the transportation system should be focused on serving Canadian economic growth. The industry has lobbied in the past to strengthen Section 5 of the Transportation Act.

7. David College, College Transportation Consulting: How much of a factor is growth by rail on capacity, specifically regarding shipment of crude oil?

Larson: It is a very small part of capacity utilization. There has been tremendous growth since 2009; we should not be spending time on whether we as society/public/government should be voting for or against one commodity or another. It is a very important part of the free enterprise system that railways be allowed to pursue business opportunities where they take place. For example, choosing between oil by rail or intermodal imports - we need to avoid picking winners and losers in commodities; policy should be the backbone to encourage railways to be accountable for their contracts and grow capacity to meet the needs.

8. Amir Ghassem, BCIT student: What effect does the proposed T2 terminal have on capacity?

Noting that terminal 2 is a container terminal, Mr. Larson declined to address the question.

9. Michael Guillo, Railway Association of Canada: What type of information and data will be needed to improve efficiency and dialogue between the industry and railway associations? Where do you see opportunities to clarify issues around supply and demand?

Larson: First step is to have an agreement that the railway will supply data to the government. The type of information needed will need to be discussed. Our members make commitments to provide that information to their railway partners, and that's an important part of our discussion and negotiations. It's critical to recognize that while a large grain crop could be hard to forecast, the plans and objectives of the industries need to be clear. Industries are involved in terms of huge investments they are making like capital commitments and growth in technology - It's the potential for accelerating growth in the agriculture industry.

10. Rachel Li, UBC student: What group of stakeholders do you feel get overlooked in terms of rail and port infrastructure needs?

Larson: The customer, surprisingly. There is discussion with Transport Canada, with the industries involved, and about transportation policy in general, but nobody will ask the customer on their interests and concerns.