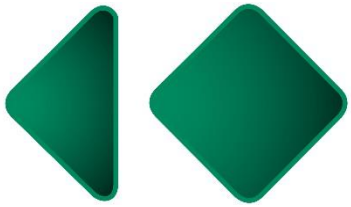

Canpotex

2014 Canada Transportation Act Review

December 30, 2014

Canpotex Limited

Canpotex Limited (Canpotex) has a significant stake in Canada's national transportation system. We rely on Canada's rail companies/railways (Canadian National Railway and Canadian Pacific Railway) to ship more than 10 million metric tons of potash per year from Saskatchewan to our primary ports in Vancouver, British Columbia (Port Metro Vancouver) and Portland, Oregon (Port of Portland). Canpotex has committed to an efficient supply chain, with investments in infrastructure and equipment in both "the first mile and the last mile," including:

- a custom designed exclusive and dedicated fleet of 5,400 potash railcars resulting in more volume and faster loading/unloading;
- a state-of-the-art railcar maintenance facility at Lanigan, Saskatchewan resulting in routine, regular maintenance to improve safety, minimize failures and reduce downtime of the Canpotex railcar fleet; and
- approximately $350 million investment at our terminals in Vancouver, British Columbia and Portland, Oregon resulting in faster unloading of trains, faster turnaround of trains, more storage at the terminals and more efficient loading of vessels.

Canpotex's investment in its supply chain has resulted in a near doubling of our volumes shipped by rail since 2000, without adding an additional train into the rail system. Our investments allow Canpotex trains to carry more potash and have improved Canpotex trains' cycle times to/from our west coast terminals. The use of 170-car Canpotex railcar unit train shipments eliminates the need for any railway equipment (other than locomotives), increases the efficient use of the western rail corridors, and increases Canpotex's volumes.

In 2012, the potash we sold and delivered indirectly generated approximately $450 million in revenues for the federal and provincial governments. Canpotex is important to Canada, as the overseas exporter of the country's largest mineral export by value and Canada's single largest exporter to six markets, including a 30% share of Canada's total exports to Brazil. Our global customers associate Canpotex with Canada, and we are viewed as a long-term reliable supplier.

However, this past year has been a difficult one due to the effects of congestion and unpredictability in the Western Canadian rail system. As a result we have, for the first time in our 42-year history, long-term customers questioning Canpotex's ability to reliably deliver product on time. Predictability, efficiency and reliability of the rail system must improve, and quickly.

Issues Facing Canada's Transportation System

In evaluating the current state of the national transportation system, Canpotex has identified several issues that are restricting Canada from successfully achieving the goal of a world class, commercially based, market-driven, multi-modal transportation system.

1. Accountability & Transparency

Canpotex, like other shippers, provides "full visibility" into our inland transportation operations to the rail companies, but this level of transparency is not reciprocated. This past year, Canpotex experienced periods of poor, inconsistent service with little to no advance notice from the railways. When we have advance warning of coming challenges in terms of railway capability, we are better able to revise our supply chain plans and maximize the railway capacity that is available. There have also been instances when Canpotex has been denied rail service due to the railways' internal analysis of our requirements. For example, Canpotex experienced situations in which we requested more railcars to move potash, but the rail companies deferred our request to a later date as they deemed it was not necessary.

In addition, Bill C-52, the *Fair Rail Freight Service Act*, which targeted a commercial balance between rail companies and shippers, did not seem to result in improved rail service. According to the Canadian Fertilizer Institute (CFI), service levels continued to be inadequate even after Bill C-52 came in effect.

Recommendations

1) ***Assess the Canada Transportation Act (CTA) to ensure it focuses on shippers' individual needs for rail services***
   The CTA provides that a rail company's duty is to provide adequate and suitable accommodation for all traffic ordered for carriage. Canpotex supports the CFI's recommendation that the CTA must be assessed to consider the shipper's specific individual needs for rail service, not simply according to the rail company's requirements.

2) ***Create incentives for transparent, two-way exchange of information between rail companies and shippers***
   The federal government could require rail companies and shippers, through incentives, and confidentially, to exchange information regarding their operations. This information could include:
   - from rail companies – number of railcars on track, location, service, etc.
   - from shippers – assets (expansions, disposals of railcars, etc.)

   The information exchange will reduce shipper errors, performance issues on the rail lines and avoid congestion. Communicating this information will also allow rail companies and shippers to plan and manage their respective yards/equipment more efficiently. The United States Department of Transportation requires a much greater level of disclosure from railways operating in the U.S., than is required in Canada by Transport Canada. Canpotex's view is that the Canadian government could require the same level of disclosure from railways operating in Canada as does the U.S. from railways operating there.

3) ***Create a new department within Transport Canada to deal with shipper and railway issues***
   Canpotex supports the CFI's position that a shipper perspective is often overlooked in the transportation industry. Creating a new department with a strategic, shipper-oriented mandate can be responsible for:

- monitoring the regular reporting of rail performance data; and
- reviewing contingency plans to forecast requirements provided by shippers.

The new department would foster better communication of plans between rail companies and shippers. Once the department is fully established, it can roll out its services to the entire transportation industry.

4) ***Assemble an advisory council to identify issues and develop plans to improve the Western Canadian rail system***
Existing advisory bodies and associations should be reviewed to identify a high-level, strategic council of industry leaders and government transportation representatives. Made up of a small, select group of executive leaders from the federal government, leading logistics/shipping companies, and industry associations, the advisory council could report to the federal Minister of Transport with a mandate to provide recommendations on:
    - evaluating and improving overall supply chain efficiencies;
    - increasing safety; and
    - identifying and implementing new infrastructure and technology, for example to improve operations in extreme weather.

2. Increasing Capacity

Significantly increasing the physical capacity of Western Canada's rail system could alleviate congestion and improve efficiency on the rails.

Recommendations

1) ***Develop and implement a long-term plan to increase rail capacity***
Western Canada needs a long-term (minimum 10-year) "master plan" that identifies the specific infrastructure improvements needed to significantly increase its rail capacity. As a first step, we recommend a government study – which includes a review of existing analyses – to determine the long-term requirement for rail capacity. A "master plan" for infrastructure development is critical because without an agreed-upon plan, it is unlikely that the necessary infrastructure to increase rail capacity will ever be built. Rail companies must instigate the plan and identify the requirements necessary to accomplish the required growth for the duration of the plan. Attention should be given to "new" west coast gateways such as Prince Rupert and Kitimat.

2) ***Encourage rail companies to invest in expanding infrastructure***
The federal government should encourage rail companies, through incentives or other mechanisms at their disposal, to spend a specified percentage of their annual revenue on infrastructure that improves and increases rail capacity and efficiency (e.g., rail sidings, rail bridges, etc.). The federal government and provincial governments could have a cost-sharing role in this initiative.

a) **Provide incentive for rail companies to build rail infrastructure**
With assistance from the federal and provincial governments, rail companies have incentive to invest in the necessary capacity improvements in the Western Canadian rail system. The federal government could also explore P3 approaches to capital projects at every stage of the rail pipeline.

b) **Increase transparency in railway investments**
A distinction would have to be made in the plan between the railways' investments in routine annual maintenance and their investments in new capacity/efficiency. Spending announcements by rail companies often mix these two different types of investments, leaving shippers (like Canpotex) unclear about the actual extent that rail companies are adding capacity versus conducting regular maintenance. The distinction must be settled by establishing clear and focused capital capacity spending under the plan.

3) ***Encourage shippers to invest in infrastructure in "the first mile and the last mile"***
In addition to encouraging rail companies to invest in expanding infrastructure, the federal government can also encourage shippers to invest in infrastructure through the same means (i.e., cost-sharing with federal and provincial governments). Shippers will need to accommodate any expanding infrastructure by investing in both "the first mile and the last mile."

4) ***Finance construction in west coast gateways***
The federal government, British Columbia government and rail companies should finance the construction of much needed infrastructure in the lower British Columbia mainland and address the current "choke points" in the Vancouver transportation corridor. They could also look at supporting the construction of new gateway infrastructure in Prince Rupert and Kitimat. This program could be modeled after the recent Asia-Pacific Gateway program, with all parties seeking to recover costs on a fee-per-service basis (i.e., a set fee per railcar) for all shippers using the improved system.

3. Equal Service

The federal government has amended the CTA to "address the issues of western grain movement and improve shipper access"; however, addressing the issue (i.e. Bill C-30) has impacted the railways' service to Canada's other shippers.

According to *Figure A.4 – Bulk Commodity Exports – Projected* in the Discussion Paper, exports for bulk commodities (including potash) are expected to increase until 2025 and the railways need to provide reliable service to all of Canada's shippers to accommodate this growth.

Service is also a concern in relation to the labour force in Canada. With rail and terminal service not deemed as "essential", railways and terminals are subject to unionized work stoppages which threaten to slow or halt shipments of potash. As a result, rail companies and terminals are challenged in these situations to meet adequate levels of service as expected from shippers.

Recommendations

1) ***Address the federal legislation and policies that may create an uneven playing field***
   In general, Canpotex's view is that less government intervention and less "picking winners and losers" in the rail system should create a more level playing field and create incentives for private investments in capacity and efficiency.

2) ***Introduce legislation that prohibits work stoppages for the purpose of rail and terminal service***
   Canpotex supports the CFI's position that government needs to take steps to introduce legislation that prohibits work stoppages for the purpose of rail and terminal service for product movement. Rail and terminal service should be recognized as "essential services," along with all segments of the logistics chain.

4. Winter Preparation

Canada's severe weather conditions are challenging to operate in and rail companies often appear to be reactive – not proactive – in their approach to preparing for winter weather operations.

For Canpotex, winter is often the busiest period with shipments of 800,000 – 1,000,000 metric tons of potash per month (projected to increase in 2015), and we require steady, predictable service despite extreme weather conditions. We acknowledge and fully understand the challenges of winter operations; however, our growing export business and the customers it serves requires and deserves better service than the railways' current reactive approach and their annual efforts to lower our expectations.

Recommendations

1) ***Create incentives for rail companies to better prepare for winter conditions***
   The federal government could encourage rail companies, through incentives, to be prepared with standby capacity – locomotives and crews – when extreme conditions are expected. Rail companies could be incented to be much better prepared instead of the current approach we have observed, which seems to generate a reactive 'scramble' to find additional locomotives, crews and equipment resulting in considerable delays and poor, unpredictable service.

2) ***Create incentives for shippers to improve their winter operations and preparedness***
   The federal government could implement an incentive for shippers to meet their schedules and obligations in winter conditions. To keep trains on schedule and service predictable, shippers must have plans and operations in place to ensure their shipments are prepared, ready and on time (as scheduled/agreed upon with rail companies) in winter operating conditions.