Cargill

January 14, 2015

The Honourable David Emerson
Chair, Canada Transportation Act Review
350 Albert Street, Suite 330
Ottawa, Ontario
K1A 0N5

Dear Mr. Emerson:

On behalf of Cargill Limited, we would like to thank you for the opportunity to submit a response to the Canada Transportation Act (CTA) Review Advisors and Secretariat. Our submission is specific to the movement of grain by rail as part of the overall review of the CTA. These written comments are a follow-up to the discussion held on September 10, 2014 with members of the CTA Executive Team, including Mr. Murad Al-Katib, Ms. Marcella Szel and Cargill Limited. The comments are submitted as initial comments.

Our intention in submitting comment is not to duplicate what has been put forward by the various associations we are members of; such as the Western Grain Elevators Association (WGEA), Canadian Oilseed Processor Association (COPA), Barley Council of Canada (BCC), Canadian National Millers Association (CNMA), etc. Rather, given the unique diversity of our handling across various commodities and corridors, we will share fact-based background and recommendations for your consideration. We believe these recommendations are beneficial in the overall improvement of rail car allocation and transportation efficiencies in Canada that are necessary to support Canada's economic development and prosperity.

The Review is encouraged to contact Cargill Limited for any further information, and we would be pleased to engage in further discussion throughout the review period in 2015.

Canada's Unique Supply Chain

Canada is blessed to have a wide range of crops/value-added products, and to produce more than we consume. However, all of this variety combined with distance to market makes for a complex supply chain. We fully recognize that in order to become an effective "demand-pull" system all links of the supply chain need to continue to invest so that we can all meet the needs of our customers domestically and around the world.

In a "demand-pull" system it all starts with understanding the needs of our end-use customers domestically and around the world. This understanding sets in motion a chain reaction that requires the coordination and planning with all partners throughout the supply chain to ensure we

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can efficiently and effectively meet customer needs. This means appropriately investing in each link of the supply chain. We need to be able to handle surges in production. We also need to be careful not to over-capitalize in any one area of the supply chain. It's a fine balance – over investment could mean we are inefficient and over capitalized, but we do need to be able to handle production surges.

We need to recognize that product will find the most economical flow to meet demand, in order to maximize value/profitability in the supply chain. We believe this should dictate how grain flows, not legislation or regulation. However, we also need to recognize that without balanced accountability and competition amongst players, product is not necessarily flowing in the most economical route.

Without a market/demand driven rail freight system that has balanced accountability, Canada will continue to be challenged to meet current and future demands. It is absolutely critical to note that in many cases the rail freight market is not one that delivers a competitive environment. At Cargill Limited, we have made and will continue to make efforts to create this competitive environment. For example, our Canola Crushing plants have been built in areas where we have access to Canadian National (CN) and Canadian Pacific (CP) rail. Unfortunately, this is not the case for all existing assets, or even for all future assets.

We all have a responsibility to ensure Canada is a leader in meeting the demands of our customers. It's more than being good at managing the supply chain. We must cooperate and effectively communicate. If we do not find the right balance, we will not be able to be globally competitive. Currently, Canada's reputation with our customers is not one of being reliable when it comes to transportation and supply chain performance. Historical challenges, such as rail strikes, container strikes in Vancouver, rail disruptions, etc. continue to plague us.

About Cargill Limited

Cargill Limited is headquartered in Winnipeg, Manitoba and employs over 8,000 people across Canada. Cargill Limited is a subsidiary of Minneapolis-based Cargill Incorporated, an international provider of food, agriculture and risk management products and services.

Cargill Limited is one of Canada's largest merchandisers and processors. Our interests include the processing of meat, eggs, malt and oilseed, and the manufacturing of livestock feed and salt. In addition, we are involved in crop input product retailing, as well as grain handling, milling and merchandising. The comments included in our submission represent our AgHorizons (bulk grain) business in Canada, and our value-added businesses.

Cargill Limited ships approximately 2,000 railcars per week of bulk grain and other value-added products every week, this does not include any fertilizer shipping. It should be noted that this product is moving into all corridors; however, approximately 50% of this shipping is via the Port of Vancouver.

The scope of Cargill's Canadian bulk grain and value-added businesses, as well as impact and reliance on efficient rail services are uniquely presented below.

As a global company, Cargill recognizes the importance of trade and that efficient trade will support Canada's future growth and prosperity. However, we need to recognize that markets such as Korea, Japan, the United States, and others all have choice of suppliers and without a competitive and accountable supply chain Canada will lose opportunity to compete. This will limit the value that Canada receives from current and potential future trade agreements.

Bulk Grain Handling and Exporting

Cargill Limited operates over 70 inland grain elevators, storage facilities, and farm service centers across Canada. Our port terminals are located in Baie Comeau, Québec; Thunder-Bay and Sarnia, Ontario and Vancouver, British Columbia. In our fertilizer operations across Canada we handle over 800,000 metric tonnes per year – the majority of this is handled by truck.

There is an evolution occurring on the prairie landscape. While there has been significant rationalization in elevators, the storage and handling capacity of these assets has increased dramatically. Prairie elevator storage may look different, but it is returning to the level it once was, creating a more efficient supply chain in the process. The majority of our inland elevators have 100-car capabilities and this number continues to grow. There are some great examples of commercial agreements between railroads and grain handlers working together to create an efficient supply chain through increased unit train capabilities.

A very important piece of our supply chain picture is the amount of on-farm storage that exists in Canada. We need to recognize that in Canada, only ~12% of storage is in the commercial system, versus 50-70% in the United States and Australia. This makes us unique while also reinforcing the need for predictability in the supply chain, supported by transparent communication.

There has also been a significant investment in on-farm storage at inland terminals in various efficiency levels – primarily increased railcar loading capacity. There has also been a significant amount of investment in our export terminals, primarily at the Port of Vancouver, where we see demands exceed capacity; this is currently and without, significant investment and coordination, a continued pinch point in future growth.

At Cargill, we recognize that to maximize our opportunity we need balanced investment in the supply chain. In the past five years, Cargill has invested ~$145 million in our inland and export assets, and we are likely to invest a similar amount for the next five years. It should be noted a significant portion of this investment is directed towards our Vancouver export terminal, as we foresee continued sustained demand in this corridor.

Canola Crushing

Cargill Limited operates one canola crushing facility in Clavet, Saskatchewan and is completing the construction of its second crush facility in Camrose, Alberta. Our current annual production in Clavet is approximately 1.4 million metric tonnes of crushed seed production. Both of these sites are serviced by CN and CP.

In 2013, Cargill shipped 7,844 canola meal/pellets cars and 6,295 oil cars out of Clavet. Once the Camrose crush plant is commissioned our annual shipments will be over 22,000 cars per year. These cars are shipped to various destinations; however, the United States and Vancouver are the two primary corridors. Our crushing plants are strategically positioned in significant canola production areas – as a result the inbound seed is primarily trucked in.

Our crushing business is fixed and predictable, based on the consistent schedule of the processing facility rail service requirements. Demand is fixed from the production side, each week and we depend on consistent rail service to maximize our efficiencies. Inadequate rail service can result in lost capacity – this is a permanent lost opportunity when capacity is lost.

Cargill recognizes our lower volumes/smaller units of shipping are not as desirable for the railways, so we work with them to reduce the burden we put on them. We have taken significant efforts to locate our facilities on sites with dual rail service and we have invested in our own cars and lease cars. Ultimately, we are doing everything we can to make sure we can fulfill end-use customer sale obligations within their contracted delivery windows to ensure our consumers have access to our products consistently throughout the year.

Malting

Cargill Limited operates one malting facility in Biggar, Saskatchewan. It is currently malting approximately 130,000mt barley seed per year; in the spring/summer of 2015, this will increase to approximately 201,000mt per year. It is solely serviced by CN.

Current annual shipments from this plant are approximately ~1,360 cars per year, increasing to approximately 1,550 per year in the spring/summer 2015. The vast majority of the malt is shipped via railcar, and these cars are mostly leased/owned equipment. These cars are shipped to various destinations; however, the United States and Vancouver are the two primary corridors. Our malting plant is strategically positioned in a significant barley production area – as a result the inbound seed is primarily trucked in. However, it should be noted that a significant volume of malt barley is shipped to our "sister" plant in North Dakota.

Our malting business is fixed and predictable. Our customers demand is consistent and we know well ahead of time that our customers need access consistent shipments throughout the year. We recognize that malt shipments are quite small in relation to other commodities; however, we have commitments to global customers that rely on our product.

Milling

Cargill's joint venture business, Ardent Mills operates three grain processing facilities in Canada – Burlington, ON; Montreal, PQ and Saskatoon, SK. The milling business for Cargill is somewhat unique when compared to our other businesses, in that the rail demand we have is primarily on inbound wheat, versus the processed product. However, we do ship approximately

75-100 containers of processed product a week via rail from Saskatoon. For receiving grain, Saskatoon is a truck mill, while Montreal is rail served and receives 80% its wheat by rail.

Our Montreal mill grinds approximately 30,000 BU of wheat per day - 80% of that wheat is sourced by rail via CN. Annually our Montreal mill grinds roughly 190,507 metric tonnes of wheat or nearly 1,700 car loads of wheat. This wheat is sourced primarily from Western Canada.

Like our malting business, we have demands for wheat in our mills in the United States. Our milling demand varies very little throughout the year. Our milling business also serves as a great example of another one of our value-added business that is highly integrated with assets in the United States and has a consistent and predictable demand.

Beef Processing

Cargill is deeply rooted in beef processing and further value added in Canada. One may assume that given the industry, rail would not have a significant impact on this business, but it does. For context, Cargill operates two significant harvest facilities for cattle – High River, Alberta and Guelph, Ontario. The facility at High River alone processes approximately 41% of the cattle harvested in Canada.

High River's operation ships approximately 15-35 cars per week of rendered byproducts via CP rail, and is switched three times per week. Although these volumes seem minimal and the value of the byproduct is not as great as other value-added products Cargill ships, they are vital to the continued operations of the facility. Rail is needed to move the volume of byproduct we produce to markets that demand it.

When High River faces unpredictable service, coupled with poor communication, we risk shutting this facility down. This has an immediate impact on a significant portion of the cattle industry in Canada and to our international brand of Canada as a reliable beef supplier.

Looking Forward & Key Recommendations

Canada and Cargill's agriculture and food supply chains are complex. We need to become a nation that can effectively respond to customers domestically and globally, in a "demand-pull" environment. The rail transportation system is one of the critical links in our supply chain.

Without a market/demand driven rail freight system that has balanced accountability, Canada will continue to be challenged to meet current and future demands. Ideally this accountability comes through commercial agreements between shipper and railway, not regulation or legislation. However, despite all efforts, this does not appear to be an option for Cargill Limited.

Accountability can only be achieved if performance expectations are well-defined, balanced, measured and transparent. In this case, it is best addressed through a tighter definition of adequate and suitable accommodation of traffic and proper consequences for failure to perform.

It is within this very important backdrop that we present the following ideas, which echo the recommendations of the associations we are members of. Government has the ability to correct the current imbalance in the shipper-railway relationship caused by the dual monopoly environment by requiring accountability through five elements:

1) Enhancements to the Level of Service provisions to maximize capacity for all industries. This solution is rooted in clarifying the definition of "adequate and suitable accommodation" to ensure the needs of shippers are met.

2) Financial consequences for poor rail performance. This can be addressed by altering the Service Level Agreement (SLA) provisions to allow the arbitrator to include two-way performance penalties within SLA's.

3) Effective and timely dispute resolution when a matter arises where the parties cannot agree on a solution. Similar to point two above, this solution can be addressed through the arbitration process leading up to an SLA.

4) Proper notification or communication procedures for an event that might have an impact on service, as well as enhanced transparency through better information and monitoring processes.

5) Designation of grain transportation via rail transportation as an essential service with respect to potential labour disruptions.

It is absolutely imperative that we create an environment of accountability when it comes to rail transportation in Canada. Without this, Canada will continue to be challenged to meet current and future demands; thus, limiting our ability to grow and prosper.

In closing, we would like to provide you with additional thoughts as you continue in this review:

- There will continue to be growth in production, handling, and ideally value-added. We need to plan for this growth and recognize each business model is unique and brings different value to the economy. It is the proper balance of higher throughput business streams and value-added that maximizes return to the agriculture value chain and Canadians. We cannot lose sight of the fact that many of these streams are interconnected.
- As illustrated throughout our submission, all corridors of movement are important. However, the current and future demands at the Port of Vancouver are such that without significant investment and coordination, growth may be limited. Ultimately, this will limit the value Canada receives from current and potential trade agreements.
- There is going to need to be significant effort and likely investment in the Port of Vancouver to debottleneck the infrastructure that supports the shipping facilities. Without this, current capacity will be underutilized.
- It cannot go unrecognized that in value-added agriculture investment in Canada, for Cargill, these businesses are run in the context of a North American environment. Hence, the mutual dependence on rail moving between Canada and the United States. Without,

an efficient Canada-United States rail corridor, future value-added investment in Canada could be limited.

Canada is a great country to conduct our business in. Cargill's agriculture and food asset footprint alone, has grown over 450% in Canada in the last 20 years. Our desire is to continue to grow, in handling and value-added. We cannot stress enough that transparent, predictable, reliable, and accountable railway service is a necessity for this future investment.

Once again, thank-you in advance for considering our submission. If you would like additional details or to discuss this issue further, please feel free to contact myself directly at (204) 947-6370 or email Chantelle_Donahue@cargill.com.

Kind regards,

Chantelle Donahue
Vice President, Corporate Affairs
Cargill Limited