



Bunge-Viterra Merger

Transport Canada Public Interest Review Submission



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Executive Summary

In response to Transport Canada's inquiry regarding the potential acquisition of Viterra by Bunge, APAS appreciates the opportunity to contribute insights into the economic impact on the national transportation, grain handling, and canola crushing systems and the Canadian economy.

In examining the Bunge-Viterra merger, Transport Canada should carefully assess various public interest concerns to ensure the acquisition aligns with national economic, social, and environmental goals. The Agricultural Producers of Saskatchewan has identified key public interest concerns that Transport Canada should examine in this review, including:

1. **Market Competition and Monopoly Risk:**

- Assess, evaluate, and determine the impact of the merger on market competition within the grain handling, transportation, port, and crushing industries.
- Assess the risk of potential monopolistic behavior that could lead to increased prices and reduced choices for producers.
- Assess the implications of the merger on access to essential infrastructure, such as elevators and port facilities.
- Ensure that the acquisition does not hinder fair access for other industry players and maintains a competitive landscape.

2. **Impact on Local Agricultural Economies and Facility Closure & Abandonment:**

- Examine the potential effects on local agricultural economies, especially in regions where Viterra holds a significant presence.
- Evaluate the merger's impact on local businesses, farmers, and the overall economic health of rural communities.
- Examine the risk of closures or abandonment of smaller facilities and elevators, especially in rural areas and the impact on rural communities and adverse effects on public transportation infrastructure.

3. **Employment and Labor Market Impact:**

- Evaluate the potential impact on employment in the transportation and agricultural sectors.
- Examine any potential job losses, reassignments, or changes in employment conditions resulting from the merger.

4. **Railway Transportation Costs and Efficiency:**

- Examine the effect of the merger on transportation costs for agricultural goods.
- Ensure that the consolidated entity does not have undue influence over transportation costs, which could impact the competitiveness of Canadian agricultural products.
- Grain shippers' reliance on rail services, coupled with limited alternative transportation options, creates incentives for grain handling consolidation to achieve economies of scale and negotiate favorable terms with railways. In Saskatchewan, this pattern is beginning to materialize along the main rail lines and will have significant implications for Saskatchewan's public road infrastructure.



- The regulatory environment, including measures like the Maximum Revenue Entitlement, and infrastructure investments by railways shape the consolidation landscape, impacting the competitiveness of Canadian grain in global markets.

By thoroughly investigating these public interest concerns, Transport Canada can make informed decisions that prioritize the overall well-being of the Canadian public, Saskatchewan's agricultural sector, and the national economy. This submission provides further background information and recommended approaches to help inform Transport Canada's ongoing review process.



Economic Impact

The magnitude of this acquisition necessitates an in-depth analysis, and we emphasize the significance of Transport Canada and the Competition Bureau reviews. These assessments must provide a thorough analysis and risk assessment to ascertain the economic impacts on transportation, grain handling and canola crushing systems and the broader Canadian economy.

APAS's commitment to this evaluation extends beyond this initial response. APAS and other Saskatchewan farm organizations are actively engaged in further research to augment the depth of information available for this assessment. Additionally, the Government of Saskatchewan's submission offers valuable insights into the requisite methodology for evaluating impacts on local markets within Saskatchewan's agricultural sector, using accepted tools such as Four Firm Concentration Ratio (CR4) and the Herfindahl-Hirschman Index.

Key Areas of Concern:

1. Producer Delivery Opportunities:

- The review process must consider the impact on producer delivery opportunities, encompassing elevators and crush plants.
- Pricing dynamics within local and regional markets at these crucial junctures also merit careful consideration to assess potential ramifications on the broader agricultural sector.

2. Market Power and Barriers for New Entrants

- An essential aspect of the review process is a nuanced examination of the potential for the consolidated entity to wield market power through access to preferential service rates and service terms, consolidation of grain gathering facilities on mainline track.
- Special attention should be given to understanding and mitigating any increase in barriers for new entrants.

Port & Inland Terminal Operations

Transport Canada's review needs to examine the impact on both port and in-country grain elevation and oilseed processing sectors. Research by Saskatchewan farm organizations, anticipated for completion by mid-February, will also address these aspects in further detail. We also wish to highlight the recommendations from the Government of Saskatchewan as an important contribution to this ongoing assessment.

Clarification on Bunge's 25% ownership in G3, both inland and at port positions, is imperative. Transport Canada and the Competition Bureau's guidance on the criteria defining Bunge as an "arm's length" partner in operational decisions is crucial for informed analysis. This determination will guide subsequent research phases and the key areas of concern we identify below.



Key Areas of Concern:

1. Reduced Access to Grain Handling Opportunities:

- A critical concern is the potential focus of the new entity on oilseeds, risking reduced access for cereal, pulse, and minor oilseeds crops.
- Viterra currently holds the largest ownership share of capacity in Saskatchewan with 31 elevators and 27% of licensed elevator capacity, located throughout all regions of the province and handling the majority of crop types that Saskatchewan farmers produce to ensure a balanced and agronomically sound crop rotation.
- A singular focus on limited crop types, coupled with elevator closure, would escalate transportation costs for producers, increase traffic and maintenance costs on public roads, and could impact Saskatchewan's international market standing.

2. Elevator Closures and Regulatory Oversight:

- The heightened risk of elevator closures demands stronger regulatory oversight to prevent adverse impacts on local markets, longer hauls, and increased costs on infrastructure.
- Canada currently does not have an abandonment process for elevators that is equivalent to the legislated abandonment process for rail lines, which requires a de-commissioning process, consultation with affected communities, and a competitive tendering process to guide the purchase of the asset to interested parties.
- Regulatory changes are recommended to ensure interested parties have meaningful opportunities to purchase elevators slated for closure.
- This review should also consider the potential opportunities associated with other regulatory transportation reforms currently underway, such as extended interswitching and increased investment in shortline rail, to improve the viability of smaller facilities on grain dependent branch lines.

3. Market Power and Competition:

- The combined influence of Bunge's acquisition of Viterra and a 25% ownership share in G3 could significantly impact the grain handling industry's competitive landscape.
- Access to transportation and freight costs are key factors that serve as barriers to entry and reduce the competitiveness of firms and new entrants.
- The monopolistic position of rail service providers offers railways significant flexibility in establishing rate and service terms that can act as barriers to entry, hinder fair competition, and consolidate facilities in accordance with railway cost and efficiency objectives.
- Transport Canada review should assess the influence of railway rate and service terms on the competitive profile of the industry and consider regulatory tools and information requirements to improve transparency and access to transportation services through competitive tools such as interswitching and regulated rate protections.

4. Vertical Integration in Canadian Ports:

- Access to port loading facilities is an important factor in determining the business viability of grain handling firms in Canada.
- The vertically integrated nature of grain handling and loading services at Canadian ports, compared to the US and Australia, requires further consideration in this review.



- Transport Canada's assessment should assess the applicability of regulated port "codes of conduct" that are used in other jurisdiction to ensure equitable and transparent access to port terminal services.
- Increased data and information requirements for vessel loading and port terminal operations should also be considered to ensure decision-makers, farmers, and market participants can monitor system performance, efficiency, and competitiveness in a transparent manner.

Transportation Efficiencies and Routing of Goods

The impact of Canadian railways on driving grain handling consolidation is multifaceted. The market dynamics, regulatory environment, and infrastructure considerations all contribute to shaping the decisions of grain handling entities in response to the influence of railways on transportation and logistics. Understanding these factors is essential for policymakers and industry stakeholders when assessing the overall structure of the grain handling industry in Canada and the potential competitive implications of the Bunge-Viterra merger. Several key aspects contribute to understanding this relationship and its potential implications.

Key Areas of Concern

- 1. Rail Transportation Dominance:**
 - Canadian railways have significant influence on the transportation of agricultural commodities.
 - The limited number of rail service providers creates a concentrated market, giving these companies substantial pricing flexibility and control over transportation routes.
- 2. Transportation Costs and Efficiency:**
 - The cost and efficiency of rail transportation play a crucial role in shaping grain handling consolidation.
 - High transportation costs, particularly in regions with limited rail competition, can drive consolidation as larger entities seek economies of scale to offset these expenses.
- 3. Dependency on Rail Services:**
 - Grain shippers in Saskatchewan are often dependent on rail services due to the vast geographical distances and the absence of alternative transportation options.
 - This dependency can contribute to the consolidation of grain handling facilities, as larger entities may have more negotiating power with railways and can secure preferential rates.
- 4. Market Power and Pricing Dynamics:**
 - The market power held by Canadian railways can impact pricing dynamics in the grain handling industry.
 - Large grain handling entities may consolidate to enhance their negotiating position with railways, seeking favorable rates and service terms that could contribute to a



5. Infrastructure Investments and Access:

- The level of infrastructure investments by railways in grain handling facilities and transportation networks can influence consolidation trends.
- Entities with strong railway partnerships or ownership stakes may have better access to efficient transportation routes and facilities.

6. Global Competitiveness:

- The competitiveness of Canadian grain in global markets is influenced by transportation costs and efficiency.
- Consolidation may be driven by the need for a streamlined and efficient supply chain to maintain competitiveness on the international stage.

7. Branch line and Shortline Rail Considerations:

- Regulatory changes, such as extended interswitching and support for shortline rail operations, can support the viability of smaller grain handling facilities located on branch lines.
- Regulatory reforms can influence the decision-making process for consolidation, as entities assess the economic feasibility of maintaining smaller facilities.

Trade, Innovation, and Investment

Canada's economy depends on robust trade yet faces substantial logistical impediments due to geographical and market structural challenges. APAS advocates for federal oversight of regulatory and funding avenues to alleviate bottlenecks, improve supply-chain resilience, and enhance transparency. Initiatives such as the Trade Corridor Fund and ongoing development of a National Supply-Chain Strategy underscore our commitment to addressing these challenges. The key areas outlined include:

Elevator Closures Impacts

- Transport Canada should diligently assess the potential ramifications of elevator closures, recognizing the associated risks of diminished delivery opportunities for diverse crop types. This scrutiny is crucial in safeguarding Saskatchewan's access to global markets.

Augmented Data and Transparency

- A pivotal step toward efficiency involves amplifying information reporting on international sales and port terminal operations. This augmentation will facilitate real-time monitoring of goods movements to global markets, providing enhanced transparency for decision-makers, farmers, and other stakeholders on a proactive and continual basis.

For more information

Thank you for the opportunity to provide comments to Transport Canada review of Bunge's proposed acquisition of Viterra. We look forward to continuing to provide input to subsequent phases of this review. For more information, please contact the APAS Policy Department, phone (306)-789-7774 or email: policy@apas.ca