

# Background

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August 2016

## Port of Churchill

**Core Issue:** On August 8, 2016 the Port of Churchill ceased operations. The surprising closure has left the local community, the province of Manitoba and the federal government scrambling to evaluate the situation and determine future actions. The purpose of this backgrounder is to prepare the Saskatchewan Chamber of Commerce for the upcoming discussions.

### Introduction

The Port of Churchill began operations in the fall of 1931. Owned by the federal government originally, OmniTrax, Denver-based company, purchased the port in 1997 along with the connected 1,000km Hudson Bay Railway. Due to its northern location, the Port of Churchill has a short shipping season, operating for approximately 13 weeks each year.

Based on the structural capacity of the elevator system at the Port of Churchill, the Port could move an annual tonnage of 735,930, however it has been moving much less than that. The Port has handled a long-term average of more than 500,000 tonnes but for the 2015 shipping season only approximately 184,000 tonnes of grain were loaded onto tankers. Initial sources indicate that for the 2016 shipping season the Port had only been able to confirm about 35,000 tonnes of grain.

The end of the Canadian Wheat Board (CWB) grain monopoly seriously eroded grain shipments through Churchill. Previously, the CWB was Churchill's single biggest customer, responsible for almost 95% of the grain going through the port. However, under the open market system, grain companies prefer to ship grain through their own terminals, maximizing their own assets first while capturing the value earned from grain blending and screenings. This has left the Port of Churchill at a considerable disadvantage.

Due to the Port of Churchill's disadvantage in an open grain market, Ottawa has been subsidizing the Port since 2012. The annual payment, equivalent to \$9.20 per tonne of grain shipped through the port, was scheduled to expire in 2017. In addition to this subsidy from Ottawa, the Government of Manitoba provided more than \$800,000 from the province to help cover operating costs associated with the 2015 shipping season (about \$3 per tonne). Manitoba had indicated prior to the closure that it would not renew its subsidy this year.

Last December Omnitrix announced it wanted to sell the Port and its attached rail line. Negotiations had been ongoing with local investors, but no deal was reached. Then, surprisingly, as of August 8th, the Port of Churchill ceased operations and about 70 employees were laid off.

The Port of Churchill has merited special consideration in the past because of its importance to Canadian sovereignty in the North, its value has been more strategic than economic. Without the Port of Churchill

Canada will have no deepwater link between Canada's Arctic waters and its railroad network., as such the federal government has considerable interest in its fate.

### **Challenges for the Port of Churchill**

The short shipping season is one of the most pronounced challenges facing the Port of Churchill. Averaging only 13 weeks, the Port struggles to move enough grain through to make it viable in a market environment where the CWB no longer holds grain back to fill Churchill in late winter and give the port a running start when its season began in August.

In addition to a short season, the rail line to Churchill, built on shifting permafrost, is weak. In fact, the rail line is in such poor shape that grain cars can only be half-filled due to weight restrictions and trains have to move at about 10 km/hr in many places. These considerations reduce the cost benefits of shipping through Churchill which is still is the closest, and cheapest, port to the Prairies.

The condition of the terminal, which opened in 1931, also presents a challenge for the Port of Churchill. Although it has had some upgrades over the years the port facility is outdated, rundown and inefficient. It is estimated that it will need millions of dollars in upgrades. Omnitrax's appears to have invested very little into it, not even spending enough to trigger an additional \$30 million offered in federal government support.

Government support has been a cornerstone of Churchill's operations over the last five years, however; the agreement with the federal government is expiring next year and the Government of Manitoba has withdrawn its support already. The loss of these cash influxes present another challenge for the Port.

### **Opportunities for the Port of Churchill**

Grain handling no longer appears to be in the future for the Port of Churchill. The grain shipments that had been going through Churchill can easily be absorbed by the Port of Thunder Bay; a Port that grain companies are much more inclined to use because of their assets there. The Port of Thunder Bay handled 8.2 million tonnes of grain in the 2014-15 crop year dwarfing the less than 500,000 that went through Churchill.

Looking beyond grain, the Port of Churchill has imported fertilizer in recent years, and there has been talk of moving phosphate or possibly oil through the Port as well. The development of mines in Nunavut and elsewhere in the North also pose shipping opportunities, however the challenges with the rail line and terminal facility will still require a major investment in this scenario.

As Arctic ice covers less and less area due to climate change, Churchill could be in a strategic position to ship goods to Europe and Asia from the Prairies. With proper land access, the Port of Churchill could be used to bolster Canada's Arctic presence but the effort would likely have to be government led at this point in time because of a significant delay in any return on investment.