RESPONSE TO THE NATIONAL SUPPLY CHAIN TASK FORCE FINAL REPORT

Railway Association of Canada

RIGHT TRACK

NOVEMBER 2022

INTRODUCTION

In March 2022, the Minister of Transport announced the creation of an independent National Supply Chain Task Force (“**Task Force**”) with a mandate to examine the key pressures affecting Canada’s supply chain operations. The Task Force was mandated to provide advice and recommendations on actions that could be taken by all levels of government and industry with the objectives of increasing competition, access, reliability, resiliency, efficiency, and investment in the national transportation system and supply chain.

Canada’s railways were pleased to participate in the Task Force’s work and provided a formal submission in July 2022.

However, when the Final Report of the National Supply Chain Task Force (“**Task Force Report**”) was delivered to the Minister of Transport on October 6, 2022, railways were surprised that the Task Force Report did not represent the critical and overwhelmingly positive role of Canada’s railways in complex, global supply chains. In addition, some the Task Force Report’s recommendations show a fundamental misunderstanding of rail operations. Others single out rail for onerous reporting and operational requirements at the expense of other supply chain partners. The most egregious of these proposals risk making supply chain slowdowns and barriers to growth worse, not better.

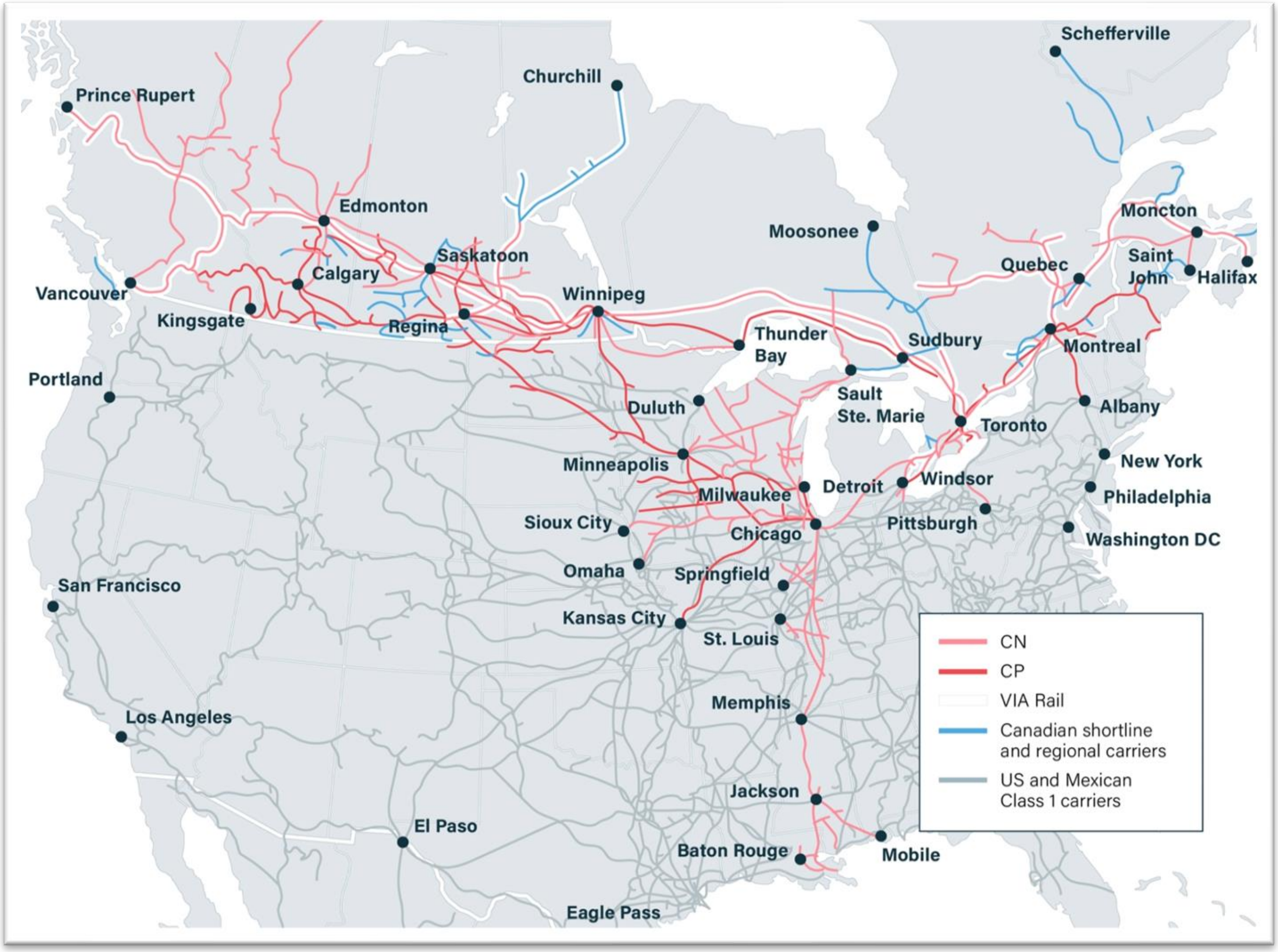
While we understand that such reports are the product of extensive consultations and engagements with a broad range of stakeholders, business leaders and transportation industry experts across Canada, we also believe that some assumptions made and conclusions reached by the Task Force do not have valid underpinning. We are compelled to respond with fact-based and unequivocal opposition to those recommendations that threaten railways' ability to continue delivering for Canada and Canadians.

Despite the foregoing, Canada's railways wish to reiterate their commitment to working with the Minister, federal officials, and all supply chain partners to find workable and acceptable solutions – some of which may be alternate actions to some of the recommendations in the Task Force Report – ones that ultimately deliver same or better results for all who are counting upon us to get these important matters right.

Marc Brazeau

President & CEO
Railway Association of Canada

FACTS ABOUT CANADA'S STRONG AND HEALTHY FREIGHT RAIL NETWORK



- Fifth largest network in the world
- Twelve percent larger than highway system
- Both Class I railways, CN and CP, operate large U.S. networks

CANADA’S RAILWAYS DELIVER MYRIAD ECONOMIC BENEFITS

42,730
kilometers of freight track operated and upkept.

$1.9 B
paid in taxes in 2020.

182,000
jobs supported by rail.

452.3B
revenue tonne-kilometers.

$2.6B
in private capital in 2020.

CANADA’S RAILWAYS DELIVER POSITIVE BENEFITS TO COMMUNITIES ACROSS CANADA

	Atlantic Canada	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia
Freight track operated (Kilometres)	1,835	5,782	9,761	4,553	7,777	6,302	6,598
Total taxes paid to provincial authorities	20,988	162,067	165,756	94,560	154,452	116,007	260,759
Total jobs supported	5,036	40,987	47,099	19,259	10,913	31,478	27,206
Revenue tonnes kilometres (000)	6,269,187	29,878,531	98,386,188	40,402,258	72,151,243	79,758,814	122,945,421
Total Investments ($000)	39,840	492,248	740,887	143,774	209,658	417,092	585,799

1,023,595
Carloads originated on shortlines in Canada.

8,289KM
Of track operated by shortlines.

$98,000
The national average salary of a shortline rail employee.

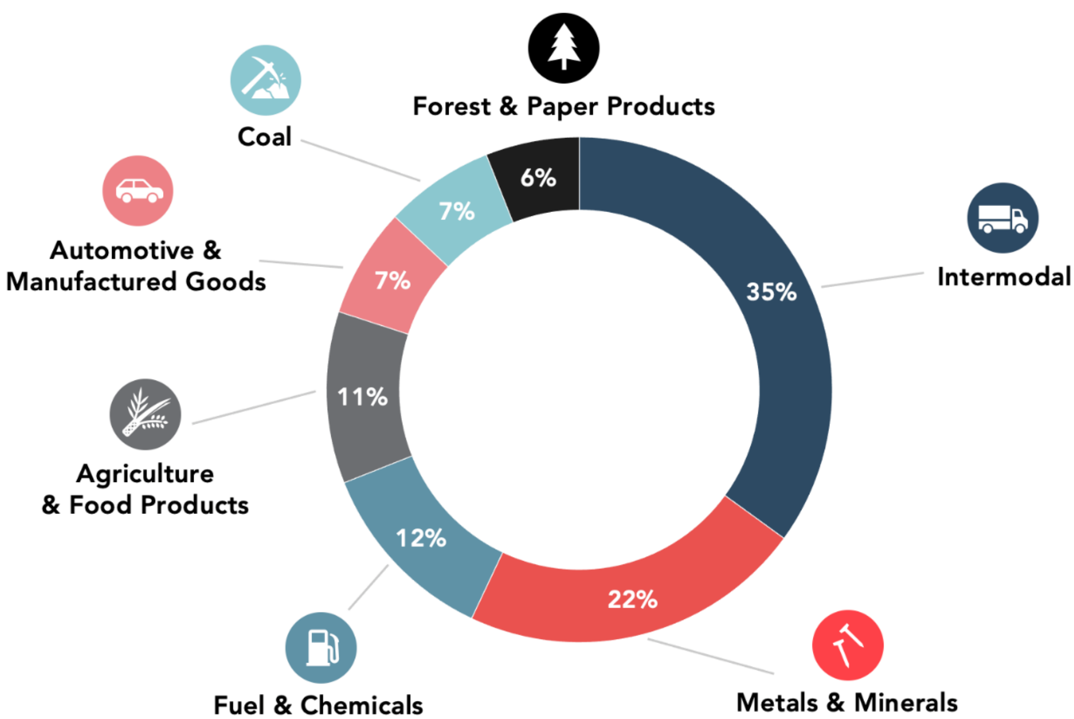
$60.7M
In provincial taxes paid by shortlines.

$35B
Of goods originate on shortlines in Canada.

CANADA'S RAILWAYS DELIVER FOR ALL SECTORS OF THE ECONOMY

NATIONAL FREIGHT PORTFOLIO: ORIGINATED CARLOAD PROFILE

Canada's railways deliver important environmental benefits over trucking



CANADA'S RAILWAYS DELIVER IMPORTANT ENVIRONMENTAL BENEFITS OVER TRUCKING

3-4X	**1 = 300**	**1L**	**10%**
On average, railroads are 3-4 times more fuel-efficient than trucks.	One locomotive-powered train can remove up to 300 trucks from publicly funded highways and roads.	Locomotives move one tonne of freight more than 200km on a single litre of fuel.	Can be avoided if just 10 per cent of truck traffic is shipped by rail instead.

It should be noted that successive federal governments have recognized rail's many benefits to Canada and our contributions to Canada's economy with important and deeply appreciated investments in critical infrastructure pieces. Canada's railways also welcome recent commitments that will benefit the entire rail network. Our submission to the National Supply Chain Task Force in July 2022 (appended) may serve as a guide for additional investments going forward.

With all of these facts at hand, the RAC respectfully submits the following response to the National Supply Chain Task Force's final report.

RAILWAYS RESPOND: DETAILED RECOMMENDATION-BY-RECOMMENDATION RESPONSES

TASK FORCE REPORT RECOMMENDATION:

Expand the 30 km interswitch distance across Canada to give shippers more rail options and to address shipper – railway power balance issues. The switch zone rates should be mileage-based and set annually by the Canadian Transportation Agency (CTA). The CTA should also monitor and review the effectiveness of this change.

RAC RESPONSE:

Calls to expand the 30 km interswitch distance across Canada are not appropriate to address a congestion problem since interswitching doubles the number of local railway movements necessary to transport the same volumes and increases dwell time. Both adverse consequences are well-documented in quite recent history.

The federal government recognized these negative aspects of longer interswitching rules with important changes included in Bill C-49, *An Act to amend the Canada Transportation Act and other Acts respecting transportation and to make related and consequential amendments to other Acts.*

Reverting course now and expanding interswitch distances again would only serve to increase inflationary pressures by driving up transportation costs to rail customers and, by extension, to consumers.

As cited in Patenaude (2016), the 2001 review of the CTA found that: "expanding the interswitching limits would worsen the market-distorting aspects of the interswitching rate regime and would be a step backward."[1] It was the case then, and it is still the case today.

Importantly, the last review of the *Canada Transportation Act* (the "**Act**") identified serious issues associated with extended interswitching introduced by the previous government in 2013 and implemented in 2014. The review concluded that cost-based interswitching rates did not provide adequate returns to railways and unduly exposed Canadian traffic to U.S. carriers.

[1] https://ctrf.ca/wp-content/uploads/2016/05/CTRF2016PatenaudeRailTransport.pdf

This led to the introduction of Long-Haul Interswitching in Bill C-49, with rates established under that remedy based on market comparison.

Expanding interswitching limits would create more congestion and opportunities for disruption throughout the rail network, not less. Logistical misalignments could cause dwell times to balloon as more players are introduced into shippers' transactions, slowing supply chains, and causing delays for Canadian shippers and consumers alike. Further, an expansion to 160 km (as some have proposed) would also mark a major departure for Canadian transportation policymaking by privileging U.S. rail companies over Canadian ones.

For these reasons and others, we submit that this recommendation goes against the very goals of the Task Force's review.

TASK FORCE REPORT RECOMMENDATION:

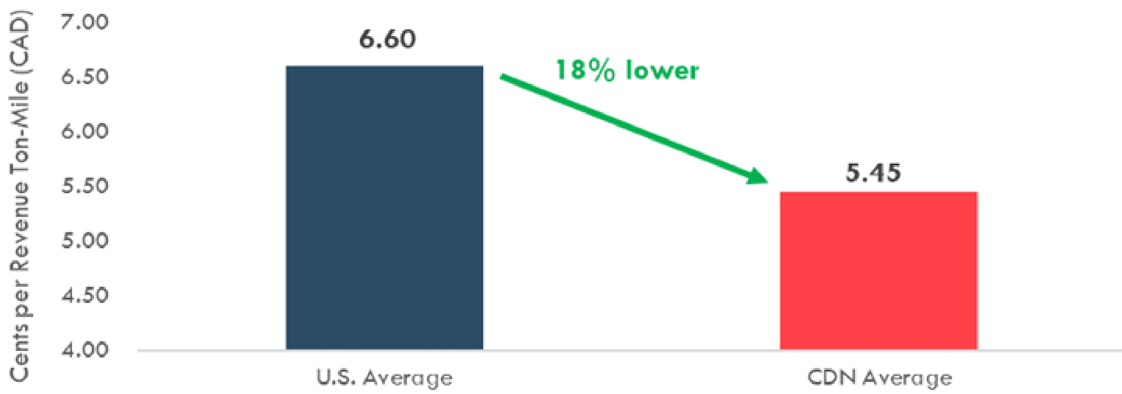
Revise the Canadian Transportation Agency's mandate and provide it in the independence, authority and commensurate funding needed todeliver on that mandate.

RAC RESPONSE:

The Task Force says this recommendation would increase competition, lower rates, and lead to "more balanced negotiating power." It proposes bureaucratic and onerous administrative practices to achieve supposed end goal, which is – we submit – entirely unnecessary when looking at the facts.

Firstly, it is important to remember that Class I rail freight rates are already lower on average in Canada than in the U.S., which the Task Force points to as a model.

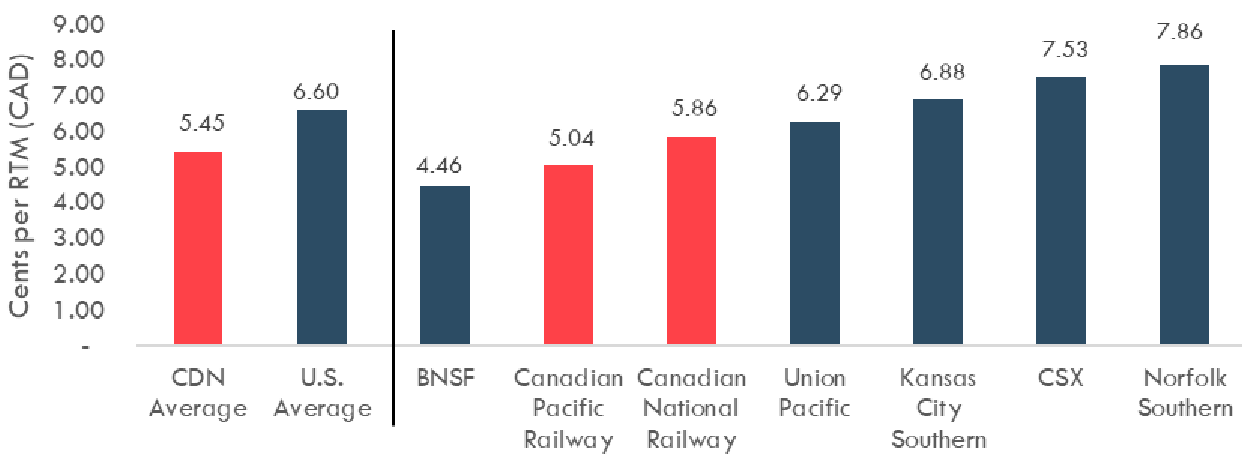
NORTH AMERICAN CLASS 1 RAIL FREIGHT RATES, 2019-2021 AVERAGE



Sources: Railway Association of Canada analysis based on Class 1 public reports; Bank of Canada Average Annual Exchange Rate.

This breaks down as follows:

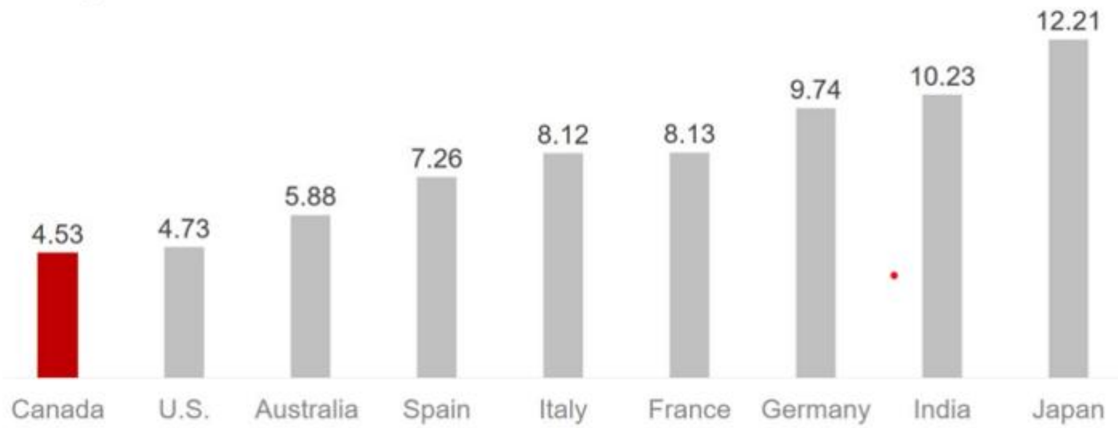
NORTH AMERICAN CLASS 1 RAIL FREIGHT RATES, 2019-2021 AVERAGE



Sources: Railway Association of Canada analysis based on Class 1 public reports; Bank of Canada Average Annual Exchange Rate.

In fact, Canada has some of the lowest rail freight rates in the world.

Revenue/Revenue Ton-Mile ("USD"), adjusted for Purchasing Power Parity ("PPP"), ("$USD-cents"), 2021



Why is this the case? Largely, because of intense and healthy competition that exists amongst Canadian Class I railways for market share in an economy 1/10th the size of our southern neighbour and largest trading partner. Indeed, these market forces have served has the ingredients for a strong and healthy freight rail system in the past; and will need to be present for it to be so, going forward.

The 2000 review of the Act found that 75% of productivity gains were shared with shippers, a trend which continued well into this century. Dr. Malcolm Cairns (2013) found that between 2009 and 2012 some 45% of productivity gains were also shared with shippers.[2]

[2]https://tc.canada.ca/sites/default/files/migrated/cairns_20research_20and_20consulting_20___20freight_20rail_20paper.pdf

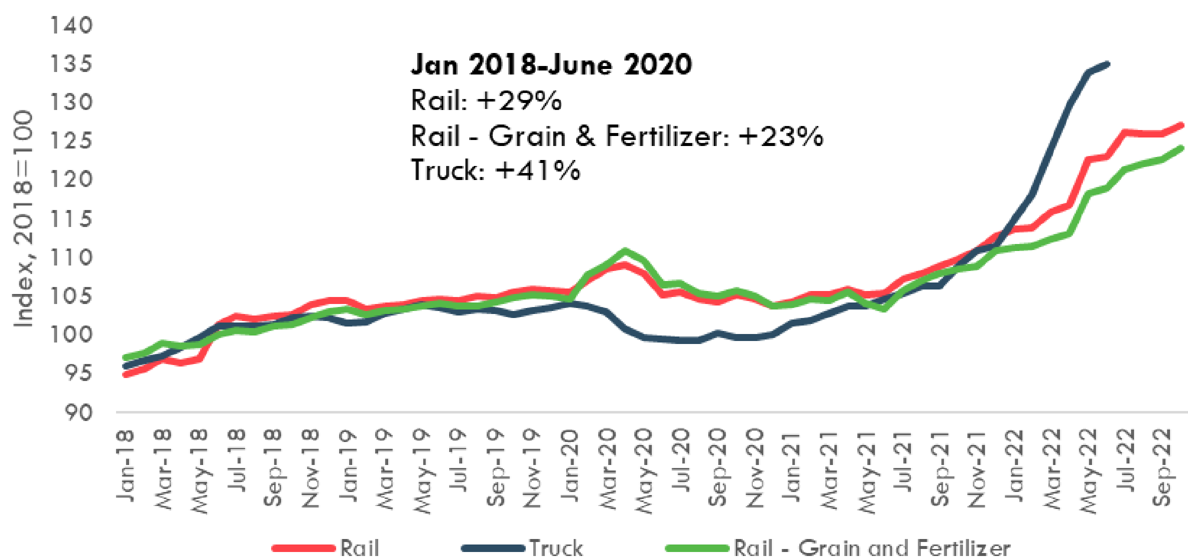
That same report details the various forms of competition that Canadian railways face:

- First, 40% of rail freight traffic in Canada has direct rail competition between CP and CN: that is both railways can carry the traffic between origin and destination without one route being significantly disadvantaged by distance or terrain.
- Of the balance of traffic served directly by only one carrier, a further 20% has competitive access to the other carrier through the use of a transload facility. For example, a short haul truck movement from an origin will take it to a loading facility on the other carrier for furtherance to destination: this combination is particularly applicable to forest products, and industrial products such as steel.
- A further 20% is subject to geographic or product competition. For example, CP moves metallurgical coal traffic from British Columbia to Vancouver for shipment to Asia, in competition with Australian coal destined for the same markets.
- The freight rates in Canada are constrained by this competition.
- Countervailing shipper power from large corporations can also ensure competition for some 5% of traffic. For example, a new plant location can be made conditional on the right of access to the other rail carrier.
- 5% of rail traffic is subject to direct competition from truck/marine transport. E.g., high-value, time-sensitive retail products by long-haul truck; competition against short-haul truck in Montreal & Toronto; competition against marine's Great Lakes St. Lawrence System and Mississippi River System.
- Railways' potential ability to abuse a position of market dominance relates to less than 10% of traffic – of which the CTA legislates in three areas impacting competition and pricing.
- A further 5% of traffic is subject to rail competition through interswitching

As Mulder, Toner, and Cartwright (2015) found, evidence indicates that both railways and shippers generally benefitted from the deregulation and rate setting flexibility.[3] Indeed, as the authors note, any discussion of rail competition in Canada should include competition either among railways, between railways and other modes, or in the market for particular commodities.

In that vein, it should also be noted that rail freight rate growth has been lower than rates charged by Canadian trucking in the post-pandemic period:

RAIL VS TRUCK FREIGHT RATES



Source: Statistics Canada, CANSIM Tables 18-10-0043-01 & 18-10-0212-01

Introducing a Canadian Transportation Agency ("**CTA**") with an expanded mandate into the mix risks upsetting a free-market balancing act that is benefitting all parties. Canada's railways believe that expanded authorities for the CTA could have substantial negative unintended consequences, which would drastically reduce the efficiency of Canada's supply chains. We also remain deeply concerned with the lack of railway knowledge and experience within the CTA ranks which

[3] https://ctrf.ca/wp-content/uploads/2015/05/CTRF2015MulderTonerCartwrightFreightRail.pdf

results in decisions and actions that fail to take into consideration the realities of day-to-day railway operations.

The proposal for more oversight of railway operations is misguided because the current problems faced in the supply chain are not railway related. The most significant problem of the CTA's current mandate is that they provide no power to the CTA to investigate and sanction other parties in the supply chain. This is because they are focused exclusively on rail.

The reference to the U.S. Surface Transportation Board's own motion processes troubles us because the remedies currently available in Canada to shippers are effective and appropriate for our market. In fact, those same remedies are absent from the aforementioned U.S. framework.

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The Task Force Report suggestion that rail should report on additional Key Performance Indicators ("**KPIs**") is unnecessary and redundant. Over the last two years, Canada's railways have dedicated time, resources, and energy to working collaboratively with your officials in the development of amendments to the *Transportation Information Regulations*. These regulations will require Canadian railways to report data on a large number of metrics. Many of these metrics are doubly included in the potential KPIs listed by the Task Force Report. This overlap is unnecessary. This recommendation would cause undue bureaucratic inefficiencies. Changes to reporting criteria should be as unintrusive as possible to railways' daily operations – again so as not to upset the delicate balance that exists in the current competitive environment.

Finally, we do not support the Task Force Report's recommendation to remove ministerial approval and oversight to CTA investigations. This safeguard was implemented in 2018 to avoid unfettered market reviews and interventions by the CTA. For this reason, we believe it should be retained.

TASK FORCE REPORT RECOMMENDATION:

Establish, fund and hire staff for a Supply Chain Office.

RAC RESPONSE:

RAC members are not opposed to this recommendation outright and it is an option we are prepared to explore. In fact, we would welcome the opportunity to input on such an Office's creation and design. If the goal of such an Office would be to compel from all supply chain partners the level of reporting and transparency that rail already provides (or, soon will through recent changes to the *Transportation Information Regulations*), we believe this Office could be a useful addition to Canada's supply chain ecosystem and, properly established, could play a valuable role in ensuring fluidity.

Indeed, all supply chain partners – from ocean carriers, to port authorities, to transloaders, to trucker, shippers/producers, storage facilities, and others – have a responsibility to step up and deliver for Canada and Canadians as we face the complex challenges of today and tomorrow. Canada's railways are already leading the way on accountability and reporting, in many respects. We encourage others to follow suit and be held to the same account.

Further, Canada's railways will always welcome opportunities to clarify for all involved in managing and overseeing supply chain matters the difference between rail capacity and service performance. Regrettably, all too often, these intricate operational matters are discussed interchangeably and confusedly.

CONCLUSION

We deeply respect the Minister of Transport's role and goal of devising good public policy that delivers supply chain fluidity while serving Canadians from coast to coast to coast. To best address the actual root causes for supply chain slowdowns, we respectfully submit that the government first look elsewhere than rail. Supply chain disruptions, at large, are not due to inadequacies, inefficiencies, or perceived "market pressures" emanating from the rail industry. There are low-hanging fruits to be picked and quick wins to be had elsewhere.

As but one example, two of our largest members, CP, and CN, are both reporting record grain movements this fall. Yet, at port in Vancouver - Canada's wettest major city - the practice of loading ocean-bound vessels with grain in rainy weather has been halted since January. An immediate action from the Government to relieve congestion at the Port of Vancouver and enhance supply chain fluidity would be to require loading of grain even when it rains. (This is what happens in nearby Seattle, another rainy port city and direct competitor to the Port of Vancouver.)

Dwell times have grown unacceptably over recent years, and this costs everyone. The railway industry remains committed to doing its part to ensure that the supply chain is meeting the needs of Canadians, but we feel that the railways are being unfairly targeted at times by those who elect to use false narratives.

We look forward to working collaboratively with you and your department toward the shared goal of addressing Canada's transportation supply chain challenges. And we want to work with all stakeholders to ensure that these conversations remain fact-based, and that the facts are clearly understood.