Railway Association of Canada

EXTENDED INTERSWITCHING WILL DRIVE AWAY CANADIAN JOBS AND INVESTMENT

Action: Amend Division 22 in Bill C-47 to limit the application to Canadian carriers only.

PROPOSED AMENDMENT

Proposed new 127 (5): "if the Agency prescribes a greater distance under paragraph 128(1)(c), interswitching shall be available to or from any point of origin or destination beyond 30km only if the entire rail movement of the traffic originates and terminates in Canada."

ISSUE

Extended interswitching under Bill C-47 will allow U.S. railways to solicit Canadian traffic without reciprocity because there is no regulated interswitching in the U.S. The policy forces Canadian railways to move Canadian freight to U.S. railways at a cost-based rate. By extending the regulated interswitching distance from 30km to 160km, the federal government is knowingly disadvantaging Canadian railways to the direct benefit of U.S. railways. This will harm Canada's economic sovereignty by diverting jobs and investment dollars south of the border.

A FAILED POLICY

Extended interswitching was hastily introduced in 2014 in reaction to supply chain challenges and was sunset in 2017 based on the Emerson Report. That report recognized the harms of this policy and recommended its elimination. Its reasoning included concerns about unfair U.S. competition.

UNEVEN PLAYING FIELD

Unlike CPKC and CN, U.S. railways have no stake in Canada's success. Canada's railways welcome intense competition, but this requires a level playing field. Canadian railways cannot effectively compete against U.S. carriers when Canadian law is designed to put them at a disadvantage.

HURTS CANADIAN WORKERS

Railways employ over 34,000 Canadians. These are good-paying and, in most cases, union jobs. Extended interswitching puts Canadian jobs at risk by incentivizing the diversion of Canadian traffic from the Prairie region to U.S. railways.

DISINCENTIVIZES INVESTMENT

Canadian Class 1 railways reinvest 20-25 cents of every dollar earned back into their networks to improve safety and capacity. CPKC and CN's billion-dollar investment in high-capacity hopper cars, for instance, enabled both to move record amounts of grain during the 2022 bumper crop.

If railways cannot make a reasonable return, Canada will lose investment. Canadian grain rates are already regulated through the Maximum Revenue Entitlement and all shippers have the right to file for Final Offer Arbitration among other remedies such as Long-Haul Interswitching (LHI). The difference between LHI and extended regulated interswitching is the rate paid. One is cost-based and the other is market-based. Cost-based rates deter railway investment in capacity-enhancing infrastructure.

ERODES INVESTMENT AND INNOVATION IN PRAIRIE SUPPLY CHAINS

A consequence of Prairie traffic moving to U.S. railways under extended interswitching is that supply chain investments risk moving south. This policy will increase transit and dwell times, which will ultimately harm all shippers and consumers. It will also raise costs and could lower provincial fuel and excise tax revenues given the reduction in Canadian movements.

Canadian rail markets are functioning well, with strong performance and the lowest freight rates among market economies as independently verified in January (echoing 2016 OECD results).