Railway Association of Canada

COMMITTEE OPENING REMARKS (NFFN) – RAC – INTERSWITCHING

Mr. Chair, thank you for inviting us.

The Canadian rail system is world-class. It is efficient, reliable, and cost-competitive. Extended interswitching threatens this system.

Canada's railways join transportation experts, industry leaders, unions, and others in strongly opposing the extended interswitching proposal in Bill C-47.

To quote Murad Al-Katib, CEO of grain processing giant AGT:

"We're not in favour of supply chain measures that benefit very few shippers yet can have a very serious impact on the supply chain."

Each switch adds to transit time. The more switches you do, the bigger the slowdowns.

The more you handle a car, the longer it takes to get moving. Extended interswitching adds – on average – one to two days to rail transit times. It also adds unnecessary greenhouse gas emissions.

Extended interswitching was tried between 2014 and 2017 and failed.

It was abandoned by this government after a statutory review of the *Canada Transportation Act*.

Then-Transport Minister Marc Garneau acknowledged the policy was always meant to be temporary.

Nothing has changed that would justify going back to extended interswitching.

Let's review why the policy was sunset.

First, <u>lack of reciprocity in the U.S.</u>

Regulated interswitching does not exist in the United States.

Under the government's proposal, U.S. railways can solicit Canadian traffic at below market rates, without any reciprocity for CN and CPKC to do the same in the U.S.

That means fewer available carloads for Canadian railroaders to move across Canada. It may also mean less available work for port workers if shipments end up in Seattle rather than Vancouver, for example.

These are good-paying, overwhelmingly union jobs. The Teamsters and others have expressed concern.

Why would Parliament intentionally disadvantage Canadian railways in favour of American ones?

Helena Borges (BORE-jes), former ADM at Transport Canada, told Parliament in 2017 that extended interswitching was – quote – "having unintended consequences on the competitiveness of our railways vis-à-vis the U.S. railways."

Long-Haul Interswitching was the government's response. This gives shippers access to competing railways up to 1200 kilometres at essentially commercial rates based on comparable traffic – without the damaging consequences we saw with extended interswitching previously.

Now, the government wants to resurrect a policy it already recognized was a failure.

The second reason for sunsetting was **the non-compensatory rate.**

Bill C-47 will force Canadian railways to move traffic, sometimes in the wrong direction, and, always, at below-market rates.

The 2016 review found that below-market rates hurt railways' ability to reinvest.

Everything railways purchase is at market rates – from steel to locomotives to labour.

Railways cannot be the only part of our supply chain **not** operating at market rates.

The National Supply Chain Task Force never consulted railways on the complicated subject of interswitching before making this poorly thought-out recommendation. It also did not speak with any rail operations experts.

Grain rates are already regulated through the Maximum Revenue Entitlement. Any shipper can challenge a railway rate or service offering through arbitration at the Canadian Transportation Agency under existing regulatory processes. Rail is already one of the most regulated industries in the country.

All grain starts in a truck. All major grain companies have elevators on both CN and CPKC lines – another form of competition for our railways.

To move one ton of grain one mile in Canada, it costs on average just 2.97 U.S. cents.

Our Class 1 railways both set records for grain movements during this crop year.

This was made possible by a $1 billion investment in new hopper cars built in Hamilton, and tens of billions of dollars of investment in capacity and technology over the last decade.

An independent study in January found that Canadian freight rates are, on average, the lowest among market economies – 11 per cent lower than the U.S.

These rates support the competitiveness of **all** Canadian railway shippers.

Extended interswitching is a cure in search of a disease.

There is no justification for even more market intervention – particularly through such an irresponsible policy.

The government's decision to sunset this policy was the right one as this decision was based on facts and evidence.

What those asking for this policy want is a cheaper rate. It is not about improving service. Nor will it improve competitiveness.

Extended interswitching will do the exact opposite.

Division 22 must be deleted entirely or at least amended.

Honourable Senators, we're asking – at minimum – that rates be market-based and applicable only to Canadian origins and destinations.

You will find more details in our brief submitted to this Committee.

Mr. Chair, it is collaboration – not more economic regulation – that moves supply chains.