EXPANDING REGULATED INTERSWITCHING? BAD FOR SUPPLY CHAINS. BAD FOR EVERYONE.

Interswitching is the transfer of traffic between two railways. The Canadian Transportation Agency ("Agency") regulates two types of interswitching:

REGULATED INTERSWITCHING | LONG-HAUL INTERSWITCHING

Recent years have tested global supply chains. In Canada, it's become clear that maximizing existing capacity through collaboration and investing to meet increased demand must be key priorities. Yet in October 2022, the National Supply Chain Task Force recommended more regulation, including extending the limits of regulated interswitching, an option which was tried in 2014 and quickly abandoned in 2017. The reasons for rejecting this option are simple.

Regulated Interswitching (also referred to as 'zone switching' by railways or 'regular interswitching' by the Agency) first came to Canada in 1904 to limit the proliferation in urban centres of rail lines serving manufacturing industries. Shippers who are within 30km (or "reasonably close," as defined by the Agency) are eligible for this type of interswitching. The Agency sets rates for Regulated Interswitching each year on the basis of cost (which derives rates significantly below commercial rates).

Long-Haul Interswitching (LHI) was introduced in 2018 after extensive consultation with shippers, railways, and other stakeholders. It allows shippers to ask one railway to interchange a shipment to a second railway for movements of up to 1200 km. Rates for LHI are determined by the Agency based on market prices for similar shipments.

While LHI was championed by shippers to give them more service options and stronger negotiating power, this provision has rarely been accessed. This is likely because Canadian rail rates are amongst the world's lowest and shippers understand that the logistical complexities of forced interswitching do not lead to more efficient rail service.

Despite already having access to competitive options and to other rate remedies under the current regulatory framework, some shippers want the 30km rate for Regulated Interswitching expanded to longer distances. They don't say publicly what distance. Essentially, they want LHI rates to be cost-based, like 30km Regulated Interswitching, not market-based.

Proposed Extended Regulated Interswitching first came about in 2014. Facing a massively larger than expected grain harvest, the federal government extended Regulated Interswitching zones from 30km to 160km in Alberta, Saskatchewan and Manitoba. The market distortions were immediate: costs of these movements weren't covered; railways in the U.S. took business away from Canada with no reciprocity; and private grain companies suddenly took precedence over other customers, including ones with existing contracts. It also added 1-2 days or 25% to the average movement. It's inefficient and gives unfair advantage to U.S. railways over Canadian ones.

In 2016, an independent report (The Emerson Report) recommended that Extended Regulated Interswitching "sunset" (or, go away.) The government agreed that Extended Regulated Interswitching was a mistake and allowed it to expire, replacing it with the more commercially based LHI discussed above.

Recalling the results of the 2014 experiment, revisiting Extended Regulated Interswitching would be deeply damaging to Canada's competitiveness, disrupt supply chains, and degrade service for all. Importantly, it would reduce railways' revenue capacity and disincentivize investments at a time where investments (not re-regulation) should be our collective priority.

RESURRECTING EXTENDED REGULATED INTERSWITCHING WOULD NEGATIVELY IMPACT ALL SHIPPERS, ALL CONSUMERS. IT WOULD BE BAD FOR EVERYONE.