Submission to the Statutory Review of the *Canada Transportation Act*

Canadian Steel Producers Association (CSPA)

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Vision:

The Canadian Steel Producers Association (CSPA) and its member companies believe fundamentally that the long-term policy and program focus of the Government of Canada related to this review should be a framework for enabling and maintaining of an efficient, high-performing, and cost-effective national freight transportation system. The right approach will enhance the profitability, global competitiveness, and long-term viability of the entire Canadian manufacturing supply chain, including steel producers, in relation to shipping within domestic and international markets.

Overview:

The Canadian Steel Producing Industry

The CSPA is the national voice of Canada's $14B primary steel production industry. CSPA works with governments and industry partners to advance public policies that enable a globally competitive business environment for its member companies and supply chain stakeholders.

For more than a century, Canada's steel industry has been a significant force in the nation's economy, a major employer, and an important contributor to many communities across the country. With a highly-skilled workforce and innovative processes, Canada's steel industry is positioned to serve the ever-changing economic and social needs of Canadians, and to contribute to Canada's export success.

Canada's domestic steel industry is an important foundational component of Canada's economy. It directly employs upwards of 18,000 Canadians in well-paid jobs throughout many communities across the country while indirectly supporting another 100,000. Steel is an essential material for meeting the needs of Canada and the world by effectively supplying industrial and consumer product manufacturing, supporting the development and delivery of oil, gas, and renewable energy; natural resource extraction and processing; and the construction of the buildings and physical infrastructure on which society depends.

Steel is an integral component of major Canadian industrial supply chains and clusters in addition to being a major consumer of raw materials that are extracted from domestic sources. This industry the lynchpin of many economic sectors on which our economy and our exports to the rest of the world depend.

Steel producers are major employers and contributors to their local economies and municipalities, with companies and employees actively contributing their time and financial support. Canada's steel future will be shaped by many forces, beginning with our industry's own investments in highly-skilled people, advanced technologies, continuous environmental improvement, and operational efficiency. But the sustainable success of Canada's steel industry also depends on a range of supportive public policies that can contribute to competitiveness.

Steel Producers and the Canadian Transportation System

Customers and suppliers of Canada's steel industry span from coast to coast to coast. Vast distances between input supplies, production facilities, and end-users/customers present distinct challenges for the Canadian steel producing industry with transportation-related costs and service levels being particularly detrimental.

To remain globally competitive, CSPA member companies require a reliable, flexible, and cost-effective national transportation system combining the three primary modes -- rail, marine vessel, and road. The rail situation is of particular priority, given it is best suited to transport heavy and bulky steel products and raw materials over Canada's expansive geography, but this transportation method brings with it its own unique challenges that need to be addressed.

In Canada, freight transportation, including both inbound shipments of input supplies such as iron ore and outbound shipments of primary and finished products, comprises ~8-15% of total steel production costs. Significantly, these shipping costs are greater than the profit margins which steel producers are receiving from the sale of these products and therefore any increase in prices being paid for related services have a major impact on their bottom lines.

Effective competition, service level standards, and balanced regulations are essential for major goods producers. To enhance the Canadian steel industry's ability to profitably serve both domestic and export markets, we also require sufficient, cost effective and modern transportation infrastructure for the efficient delivery of input materials and shipment of manufactured products to markets within Canada and abroad.

Most customers of Canadian steel producers require just in time delivery that is coordinated with their manufacturing or construction schedules. Most business models do not include the maintenance of large inventories which can be utilized as demand fluctuates over the course of a year. This situation makes it critically important for producers to have access to a timely, reliable system of transportation that ensure their products can be integrated into a demanding, modern supply chain that is competitive with that of foreign suppliers, especially in Asia. Some of these Asian producers, such as in South Korea and Japan, have access to very robust rail systems and compact geographic areas that allow them to get product to market extremely quickly and efficiently.

Rail

Given the large-scale, heavy, and bulky nature of steel shipments, rail transportation is generally the most cost-effective mode of transportation over long-distances. On a per kilometer basis, for most Canadian steel producers, shipping by rail starts to become cost-effective at distances of around 300km depending on the product. However, railcar availability, timelines of shipments, and other pricing and service variables remain a challenge that can alter this calculus.

The experience of our member companies leaves us with the opinion that Canada's two main rail freight companies dominate the market in a basic duopoly system. The behaviour of CN and CP in relation to their customers makes it quite evident that these two firms have no real competitive forces acting on their provision of reasonable service levels and setting of pricing structures. While this situation can be traced back largely to historical government ownership/control of Canada's railroads along with the great geographic expanses of the country, it has not come without consequences for those who depend on transporting their products by rail, Canadian steel producers being primary amongst them. In many ways, we believe Canada's rail system essentially functions as a public utility with true little competition and fixed infrastructure that cannot be reasonably duplicated and should be approached by government as such where appropriate.

For the Canadian steel industry, this lack of a robust competitive marketplace combined with low-levels of investment in infrastructure and equipment relative to the demands the rail system has entailed rapidly increasing costs, substandard service levels, and significant capacity constraints. We are of the view that in comparison to the countries of our major competitors, our rail networks are greatly under-resourced in terms of both public and private funding.

In several instances, it can actually be less expensive to ship a given steel product by marine vessel all the way from Asia or even as far as Northern Russia to Canada's West Coast than it is to transport the same products manufactured in Ontario or Quebec to the same customer. While it is by no means cost-prohibitive for domestic producers to participate in the Western Canadian market, it does put them at a disadvantage when competing with imports or trying to increase their share of foreign markets where long-distance shipments are required.

Finding a way to close this rail transportation competitiveness gap is critically important for Canadian steel producers to be able to remain competitive in the global market and take full advantage of opportunities emanating from new and emerging Free Trade Agreements including the Comprehensive Economic and Trade Agreement (CETA) with the EU and the Trans-Pacific Partnership (TPP). It also means sustaining thousands of well-paying jobs and the spurring significant industrial investment from firms all along the domestic steel supply chain.

Several of our member companies have seen major increases in shipping costs imposed by the rail companies with little to no justification provided that are far and beyond the rate of inflation or other plausible factors. Steel producers have virtually no recourse in situations where there is no viable alternative shipping method. While there is the potential to seek arbitration related to service-level agreements, individual companies may be hesitant to take this action under the specter of perceived strained relations with rail companies, and potential threat of receiving reduced service levels.

A prime example of challenges facing Canadian steel producers related to rail service levels is a member company who chooses to ship their primary steel forms to their processing plants by rail even though it would be most cost-effective to use truck or marine vessel. This decision is

taken because the service levels they receive dictates that they have no other way of guaranteeing that sufficient rail cars will be available to ship their finished products to outbound customers once complete. This is simply not acceptable.

Seasonal variation in rail service levels is another major challenge being faced by Canadian steel producers. In the winter several of our member companies have seen up to 20% of their shipments not arriving to their customers by the agreed-to delivery date that has been promised in service agreements with the railways. In addition, necessary rail cars are either not available due to a shortage of equipment or simply not provided by rail companies when needed, often 10-20% of the time during the cold-weather months. A real lack of choice guides many shipping related decisions for Canadian steel producers, including choosing more expensive modes, which have significant financial consequences.

Given the uncompetitive marketplace which Canada's major rail companies are allowed to operate, it only seems reasonable that they would be subject to certain parameters involving service levels and price increases as check and balance to ensure their market power is not abused. A good example of this is the on time reporting that is required by airlines in the U.S. that are justified by similar market variables and something that CSPA believes should apply to national rail companies in Canada.

Current oil and gas pipeline capacity constraints as well as increased demand for moving western Canadian grain are leading to extensive use of rail transport to ship these products within North America, and to seaports. Few public or private investments in strategic rail infrastructure has exacerbated the situation and harmed the capacity, efficiency, and cost-effectiveness of moving Canadian steel goods both within Canada and into the US. We urge the Government of Canada to consider the current and future impact of large scale increases in demand for rail transport and the impact on the availability of rolling stock and rail infrastructure for existing freight users including steel products where there are already supply shortages for necessary equipment.

Also, with the lessons learned through the recent case of federal regulation of rail shipments of grain from Western Canada, we believe that legislating rail companies to prioritize the movement of one commodity over all others will have an inevitable negative impact on shippers of other products and is a significant disadvantage to steel producers as well as their suppliers and customers.

Finally, it must be acknowledged that there is a significant power imbalance between Canadian shippers and the two national rail companies. The current system combined with the fixed shipping requirements of steel producers gives overwhelming market power to the railways and causes these producers to be captive buyers of rail services where no real alternatives exist. This reality is very frustrating and detrimental for our member companies and in our opinion, cannot remain the status quo.

Recommendations:

1. Enhancing service levels and reducing cost increases through greater transparency, accountability, and regulated pricing activities to mitigate and/or justify price increases by rail companies.

- Regular review of the Canadian Transportation Agency arbitration process for service level agreements. The review should take into account the frequency with which the process is being accessed by shippers, possible barriers to engagement of the process and desired public policy outcomes.

- Mandatory public reporting by rail companies of several performance metrics which Transport Canada will benchmark against relevant global competitors (such as US, Russia, Japan, and Korea) on an annual basis including:
    - Capital expenditures including those for enhancing system capacity and performance, reducing choke-points, and undertaking necessary maintenance.
    - on-time delivery
    - availability of necessary and appropriate rail cars
    - railway-caused disruptions
    - average cost-per-mile

- The government must continue to engage shippers and the railways on an ongoing basis to ensure service standards are maintained at an acceptable level system wide.

- Development of regulated performance standards in critical areas and penalties for chronic underperformance/other service issues. |*While we believe this element to be very important, it should be noted that we not asking for the federal government to intervene in prescriptively regulating the operation of trains themselves including mandating higher average velocities, longer trains, etc. Any related requirements should be outcome-based and left to the rail companies to find the best way to achieve them.

- Strong consideration of implementing restrictions for maximum price increases and/or a mechanism where the rail companies would have to seek and justify price increases such as is the case of electricity and natural gas utilities.

- Initiation of a formal follow-up mechanism such as annual or bi-annual assessment of the national freight transportation system whereby Transport Canada reviews the outcome of provisions/recommendations implemented though the CTA review process and publishes a report card detailing both government and industry performance.

2. Reducing capacity constraints though strategic investments in rail infrastructure and equipment

- Government must invest where necessary in new or rebuilt bridges, ports, as well as other supportive infrastructure and border facilities.
- Expand/build more qualified trans-load facilities in some of the major Canadian hubs, capable of handling steel (overhead cranes which can lift 30tons+), managing steel inventory (environmentally controlled facility) and covered facilities to handle the trans-loading in inclement weather.
- Investments are needed for rail system in choke points such as Western grain handling areas to prevent gridlock.

3. Ensuring that all rail-related policies/regulations do no prioritize the needs of any one single business sector/commodity at the detriment of all others.

- The federal government should not implement and requirements which call for rail companies to ensure the greatest volume of movement though the system to any particular commodity/sector except in the case of a national emergency.

Marine (Vessel)

The Canadian steel industry generates the largest volume of freight on the St. Lawrence Seaway/Great Lakes system. Unfortunately, increasing end-user costs, environmental regulations, and challenges related to seasonality and availability of equipment is having a direct impact on the competitiveness of steel producers who utilize marine freight transportation for both inbound shipments of input supplies and outbound shipments of finished products. While steel producers are the most important stakeholders of the Seaway and Great Lakes system, we are and also disproportionately affected by many of its associated weaknesses and emerging regulatory requirements.

Ballast Water

In recent years, governments on both sides of the border have proposed new environmental standards for ballast water that we believe are uneconomic or technologically impossible to achieve with the existing fleet of vessels. It is important to arrive at a single set of consistent, manageable standards that will not jeopardize the competitiveness of these marine services. The right policies would directly benefit the Canadian steel industry and many other users of marine freight transportation.

The current rules are impractical and are not aligned between USA and Canada and there are currently no freshwater-based ballast water treatment systems approved to work in the waters of the Great Lakes or the St. Lawrence. The current regulations require this of Canadian domestic ships that never leave the Great Lakes St-Lawrence system.

Emission Control Area – ECA

The present North American Emission Control Area extends 200 nautical miles from the costs of United States and Canada with vessels operating in this zone mandated to operate with low-sulfur bunker fuel. We feel that a blanket approach was used by the government to assess emissions and set up this policy and the small number of short-sea vessels was not considered separately in this analysis. These vessels have much smaller engines and much smaller carbon footprint and which should be taken into account.

Marine Service Fees

The Canadian Coast Guard is currently reviewing their marine service fees, total costs and service levels. To increase their current level of cost recovery from Commercial users they are developing a framework to attribute costs to user groups, expected to be completed in 2015. Pushing these costs down to the final end users will hurt the competitiveness of marine transportation which is a green, viable alternative to rail.

Pilots, for Canadian vessel transits, are redundant and costly, impacting Canadian business detrimentally. Pilots should only be used for foreign ships to ensure they are guided through the Canadian waters effectively. With today's technology on all vessels, including dual GPS units with electronic charts, plus draft information systems to monitor under keel clearances, pilots are not needed for all legs of a St. Lawrence/inter-lake journey.

The St. Lawrence Seaway/Seasonality

The St. Lawrence Seaway Management Corporation effectively manages the locks during the 9 months of shipping to ensure that all vessel traffic can effectively transit. A late start to shipping seasons from severe winters brings with it penalties in the last weeks of operation of the locks. These penalties are unplanned and become a significant additional cost for Canadian businesses.

In addition, it is critical for the government to help ensure a sufficient quantity of necessary equipment is available to ensure that the needs of commercial shippers using Canadian waterways are met. For example, there are currently not enough ice breakers, nor are they capable or in the condition to meet the needs of steel industry shippers during the winter season. This is a major barrier to trade and commerce of many Canadian manufacturers.

<u>Recommendations:</u>

1. Support the harmonization of US and Canadian ballast water and air emissions standards for marine vessels on the St. Lawrence Seaway and Great Lakes

- Ballast Water
    - Implementation of practical bi-national harmonized and practical ballast water regulations between Canada and the US
- Emission Control Area – ECA
    - Related activities should consideration different vessel classes for ECA regulations

2. **Enable the reduction of marine service fees**

- Policies, regulations, and programs should aim to reduce pilotage and other mandated service fees that increase the costs of marine transport for end users and reduce its competitiveness.

3. Ensure the St. Lawrence Seaway is effectively managed, operated, and resourced.

- Collaborative engagement from all parties combined with significant public/private investments that will reduce overall costs of using the Seaway;
- Determine feasibility and resources required to keep the Seaway open for longer season (all year if possible) and appropriate necessary funds in partnership with the private sector.
- Pilotage reform to address the practicality of the Pilotage Act, the scope of influence and usage of pilots for foreign flagged and domestic ships.
- Improve the Canadian Coast Guard's service levels in ice-breaking.

4. Strategic expansion of port facilities

- Any expansion would offer and increase in flexibility for increased export demand for Canadian steel products in the future and where producers could receive more raw materials by vessel.

Road Transportation (Truck)

The significant price increases and decreased performance of the Canadian rail freight system has necessitated greater utilization of truck-based shipments road on certain routes and some products such as steel coil for the Ontario automotive sector are often best moved by this method given distances involved and availability of accessible road networks to customers.

The Canadian steel industry is facing ever-increasing logistical challenges due to the shortage in qualified truckers in this country. Incentives are needed to bring young people into this sector to ensure the needs of shippers are being met. There is a lack of new drivers and a lack of appropriate incentives to bring new drivers into the trucking and logistics trade. Mandatory government programs including requirements for SPIFF trailers, FAST approved (C-TPAT), have a high impact to both the carriers and individuals being able to afford the necessary training to becoming drivers.

Congestion on Canadian highways and border crossings due to lack of infrastructure is having a direct negative impact on driver hours and delivery times especially within the Southern Ontario Gateway. CSPA believes the federal Government should move more quickly to approve programs to improve the flow of goods throughout Canada, and Canada into the US whenever possible. There is a potential to lose business through lack of competitive advantage when a driver is waiting in traffic for a significant portion of time causing steel customers to receive delayed orders. Approximately 5% of trucking carriers cannot accept steel loads when needed

because of lack of drivers and between 10-20% of carriers are late. These factors can combine to cause Canadian steel producers to lose these customers to US or overseas competitors as well as complicating production schedules at the mills.

Provincial regulations related to the maximum weight allowance for individual trucks impacts steel shippers given the nature of products being loaded and forces the use of a greater number of vehicles than might actually be required to maintain road and driver safety. Also, while regulations addressing the maximum number of hours promote the safety of truck drivers are vital, they also impact the ability of drivers to meet their pick-up and delivery times and increases the number of drivers needed on the road. With fewer qualified drivers available, logistical planning and meeting customer commitments can break down quickly.

Strengthening the cost-competitiveness of truck transportation would also help give Canadian steel producers additional leverage in their dealings with rail service negotiations.

Recommendations:

1. Enhanced physical and regulatory infrastructure to increase the cost-effectiveness of utilizing truck freight transportation as a preferred shipping mode while fostering a continual growing pool of highly qualified truck drivers

- Greater investment in road and border infrastructure is needed to allow for the greater flow of goods throughout Canada and into the United States/Mexico. Consideration for freight-only routes/lanes/crossings where feasible to enhance the shipping efficiency of Canadian made goods.
- Related polices, legislation, regulations and programs should consider the impact of the current trucking regulatory requirements for the trucking industry are having on cost competitiveness of the mode, safety protocols, and what programs need to be in place to incent new, qualified drivers.
- Continue progress on harmonization of border-related regulations and systems with the United States to enhance movement of goods and ensure continued competitiveness of Canadian steel producers supplying the North American market.

Summary:

The domestic steel producing industry is an important foundational component of Canada's economy. It directly employs upwards of 18,000 Canadians in well-paid jobs throughout many communities across the country while indirectly supporting another 100,000. Steel is an essential material for supporting Canada's economic growth, feeding major industrial supply chains and oil, gas, and renewable energy production, while also being a primary consumer of raw materials that are extracted from domestic sources.

Vast distances between input-supplies, production facilities, and end-users/customers present distinct challenges for the Canadian steel producing industry with transportation-related costs and service-levels being particularly detrimental. Freight transportation makes-up ~8-15% of total costs of producing steel and is greater than the profit margins which Canadian producers are making from the products being sold.

To remain globally competitive, CSPA member companies need a reliable, flexible, and cost-effective national transportation system supported by rail, marine vessel, and road (truck) modes, with rail being especially important given it is best suited to transport heavy and bulky steel products and raw materials over Canada's expansive geography.

Canadian steel producers are facing major challenges in terms of their competitive position for shipping goods domestically and internationally and are at a significant disadvantage in relations to freight-related costs in comparison with overseas producers. This threatens domestic producers in terms of declining market share and ability to capture benefits from new and emerging free trade agreements which Canada is pursuing.

The CSPA has made several recommendation regarding all three transportation modes which, if acted upon in a comprehensive manner, we believe can enhance the profitability, global competitiveness, and long-term viability of the entire Canadian manufacturing supply chain, including steel producers, in relation to shipping within domestic and international markets.

For rail, CSPA proposes several steps that would lead to enhancing service levels and reducing cost increases through greater transparency, accountability, and regulated pricing activities; increasing rail capacity through strategic investments in infrastructure and equipment; as well as ensuring that all shippers are kept on equal footing when it comes to access to the national rail system.

For marine (vessel), we are calling for initiatives that can deliver the harmonization of US-Canadian ballast water and air emissions standards on the St. Lawrence Seaway/Great Lakes system along with expansion of service-levels and lowering of costs related to its use and greater investments in major ports to better support delivery of input supplies and export of finished products to international customers.

For road transportation (truck), CSPA is primarily concerned with obtaining a policy, legislative and regulatory environment which incentivizes a growing pool of highly-qualified truck drivers; reducing the financial impact of mandatory requirements currently imposed on the trucking industry; and building the necessary physical road and border infrastructure that will increase the cost-effectiveness of utilizing truck-freight transportation as a preferred shipping mode.

Properly addressing the above elements would go a long way in building a framework for enabling and maintaining of an efficient, high-performing, and cost-effective national freight transportation system for many generations to come.