

RAIL: THE LINK TO TRADE.

The real question the CTA review needs to address on behalf of Canadian stakeholders, in defining future transportation logistics for Canada is
WHO IS MANAGING THE STORE:
railroads or national stakeholders.

-Vicki Dutton

The goals of the act and National policy

NATIONAL TRANSPORTATION POLICY

Marginal note: Declaration

5. It is declared that a competitive, economic and efficient national transportation system that meets the highest practicable safety and security standards and contributes to a sustainable environment and makes the best use of all modes of transportation at the lowest total cost is essential to serve the needs of its users, advance the well-being of Canadians and enable competitiveness and economic growth in both urban and rural areas throughout Canada. Those objectives are most likely to be achieved when

- (a) competition and market forces, both within and among the various modes of transportation, are the prime agents in providing viable and effective transportation services;
- (b) regulation and strategic public intervention are used to achieve economic, safety, security, environmental or social outcomes that cannot be achieved satisfactorily by competition and market forces and do not unduly favour, or reduce the inherent advantages of, any particular mode of transportation;
- (c) rates and conditions do not constitute an undue obstacle to the movement of traffic within Canada or to the export of goods from Canada;
- (d) the transportation system is accessible without undue obstacle to the mobility of persons, including persons with disabilities; and
- (e) governments and the private sector work together for an integrated transportation system.

1996, c. 10, s. 5; 2007, c. 19, s. 2.

Givens

- ❖ The Railway as part of the National Policy of Settlement is as intrinsic force in operating the nation, as it was in the making of the country.
- ❖ Western Canada is a landlocked region dependant upon the rail for export access.
- ❖ Canada is a global exporter of commodities: supply of primary resources is key to our prosperity.
- ❖ As a nation we depend upon trade. Given as taxpayers, everyone is a indirectly a stakeholder, not just the shareholders of rail companies; stakeholders are all Canadians who thrive or fail within an export agenda.
- ❖ The railways are a private company with a public responsibility.
- ❖ There is no single fix, there is only a process of continuous proactive measures to insure the changing needs of the
- ❖ Canadian exporter and importers and producers are served with a high degree of consistency
- ❖ Each business unit, and all commodities require equitable, efficient service which is essential to success.
- ❖ Inefficiencies result in a decrease of Canadian competitiveness and erode our competitive advantage as a trading nation.
- ❖ Net to market income for producers in western Canada is at historically low levels continued erosion of producer % of market income will create an unsustainable environment over the long term eroding the sector.

Crisis 2013: the ink was barely dry on the last review.

- ❖ The 2009 review documented system dysfunction. The review recommended stronger commercial relationships in lieu of regulation as a solution to Canada's shipping malaise documented in the paper. Solutions were recommended in an effort to create the environment for commercial relationships. 2013 as the lack of rail service led to a near break down in agricultural trade from Canada where cargos were delayed for months on end to deliver to export contracts both bulk vessels & containers. This crisis was failure of the commercial relationship in action. Finally in February legislation was deemed necessary: a Federal order in council was announced in order to move grain. While the railway is a private company it has a public responsibility not the same but similar to a private utility operating in the public domain. If a commercial relationship is to carry any currency the railroad will need to embrace the process of responsibility in being a service provider.
- ❖ While Canada promotes an international trade agenda clearly the logistics to deliver to the market fails on the global stage as chronic evidence of shipping delays exist. However in 2013 Canadian leaders on the national stage in 2013 met with buyers whose simple reaction was: "if you want to increase trade, please ship our grain on time" The problem is real and requires a solution.
- ❖ If regulation is to be avoided it is essential to establish the commercial balance for shippers with the railway that is dependable.
- ❖ Finally it is essential to insure the net to market income of primary producers is established at a level which enables global competition, this can only be achieved when access creates a competitive environment for trade with farmers and with the world.

ENABLING DIVERSITY REQUIRES SERVICE & ACCESS

- ❖ Production statistics over the last 30 years show a decrease in wheat production, and an increase in canola and special crops . This market diversity is reflected in special crop handling facilities which depend upon car allocations smaller than 100 cars.
- ❖ Diverse crop rotations depend upon a diverse network of market players, serving both containers and bulk vessel demand. Disabling competitive advantage of smaller shippers by forcing them to use higher costs alternatives such as inter modals and inland containers, made necessary due to chronic shortfalls in bulk railcars to facilities under 100 cars in addition to forcing the market to specific corridors chosen by the railway ie Vancouver versus the USA ,Mexico and Montreal will erode this sector.
- ❖ Producers require diversity of crops to be economically viable therefore
MAINTAINING THE COMPETITIVE ADVANTAGE OF SMALLER PLAYERS IS KEY TO ENABLING MARKET DIVERSITY.

MONITORING SERVICE

- ❖ The transportation review of 2009 recommended commercial relationships versus regulation.
- ❖ However the crisis of 2013 made legislation/ regulation necessary.
- ❖ The lesson of 2013 commercial relationship for grain in the presence of competition for volume & direction (oil or other) will not function. However we believe that INSTITUTIONALIZED MONITORING OF THE SERVICE LEVELS PROVIDED BY THE RAILWAY TO LEGISLATORS & SHIPPERS TO LEGISLATORS REPORTING HOW THE SYSTEM IS WORKING CONTINUOUSLY is the a key part of the actions necessary to preserve the commercial relationship into the future: Two report cards with transparent and timely published results.
- ❖ RECOMMEND: THE REVIEW DEFINES and INSTITUTIONALIZES A PROCESS TO MONITOR SERVICE IS LIEU OF REGULATING LEVEL OF SERVICE.
- ❖ With the arbitration process proven to be inadequate a mechanism to police service levels, the act must be challenged to provide A SIMPLIFIED MECHANISM TO MONITOR SERVICE LEVELS TO INSURE ENABLING LOGISTICS FOR COMMERCE and A FAST TRACK TO ARBITRATION IN EVENT OF A FRACTURE IN SERVICE.
- ❖ Given the level of employment of arbitration in dealing with overall system issues, it is also clear that individual shippers do not see this mechanism as enabling to address service level failure. While arbitration will remain a measure of last resort, monitoring service levels and simplifying the avenue to arbitration should be developed with the intent for monitoring to enable arbitration in event of the return to systemic deterioration of service or crisis level service as was evidenced in 2013,

SERVICE LEVEL AGREEMENTS

- ❖ Should reflect the service required to maintain and grow the business.
- ❖ Reciprocal negotiation with reciprocal penalties reflecting the duality of the client relationship for clients of all levels to access the most competitive avenue to export clients.
- ❖ The expanded roll of the CTA is to monitor Service Levels for performance measures thereby enabling a simpler arbitration process.

The Report Cards

- ❖ INDUSTRY: FACILITY REPORTING
- ❖ RAILWAY PERFORMANCE REPORTS
- ❖ MAPPING SERVICE & SUPPLY & DEMAND:
 - ❖ BY FACILITY
 - ❖ BY CORRIDOR
- ❖ EFFICIENCY OF DELIVERY & SERVICE
- ❖ PERFORMANCE LEVELS
- ❖ TRANSPARENCY OF RESULTS

System snapshot report card data provides.

- ❖ Quick list: A system of reporting is institutionalized with shippers & railways.
- ❖ A quick step to arbitration when service fracture is evidenced by data monitoring.
- ❖ Capacity requirements will be mapped by monitoring data over time.
- ❖ The compilation of data overtime assist in forecasting corridor volume to enable efficiency and define capacity shortfalls.

WHO CHECKS THE REPORT CARDS:

OVERSEEING THE SYSTEM

WE NEED A CENTRAL BODY
TO MONITOR CANADIAN
LOGISTICS FROM RAIL
PERFORMANCE TO PORTS.

TARIFFS

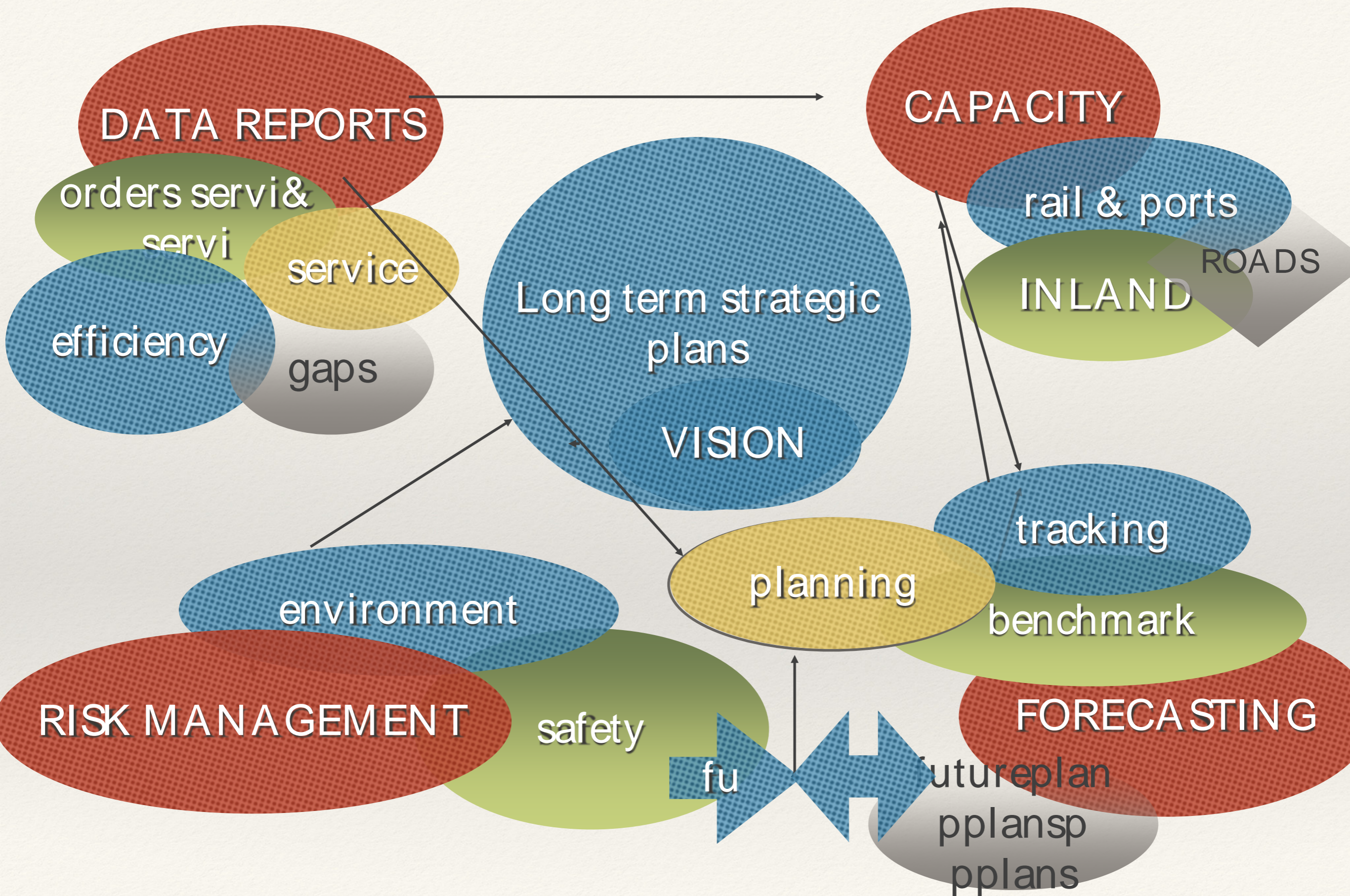
NOT JUST DECLARATION, NEGOTIATION.

- ❖ ALL RAILROAD TARIFFS TO BE REVIEWED AND NEGOTIATED BY A DEFINED PROCESS
- ❖ REVIEW demurrage tariffs and all ancillary charges and install reciprocal penalties for non performance including failure to deliver to ordered corridor.
- ❖ Set up a process whereby new TARIFFS have a procedure to implementation that requires negotiation with the CTA on behalf of shipper.



ANCILLARY CHARGES

- ❖ Institutionalized in 2006, demurrage and ancillary charges are one sided without reciprocal penalties for railway non performance.
- ❖ Railways can: cancel cars, fail to deliver all or some of the orders as required, failure to deliver on day advised, not deliver during the business week resulting in additional demurrage on the weekends or at the very minimal staffing issues, fail to accept orders to the destination of choice for the shipper, failure to pick up and deliver in a timely fashion to port, failure to deliver the amount of cars orders for any given length of time, failure to provide adequate equipment in particular box cars, favouring of intermodal traffic at at higher delivery cost that boxcars forcing the use of higher cost equipment, all at no penalty.
- ❖ It is a different case for shippers, When railcar finally arrive on any day of the week, even weekends, hoppers are given 24 hours to load and unload at port (this was once 48 hours) or daily penalties arise.
- ❖ If we cancel orders we pay a penalty. If we over order we pay a penalty. If we cancel orders shippers pay a penalty. If we change direction of an ordered car we must pay a penalty.
- ❖ THERE IS ZERO RECIPROCAL RESPONSIBILITY FOR NON PERFORMANCE ON THE RAILWAY.
- ❖ IF THE SUPPLIER SHIPPER RELATIONSHIP IS EXPECTED TO REST ON A COMMERCIAL RELATIONSHIP THEN RECIPROCAL PENALTIES TO BOTH SIDES OF THE BALANCE SHEET MUST APPLY, and A SIMPLIFIED DISPUTE MECHANISM APPLIED.
- ❖ ACCOUNTING PRACTICES NEED TO insure railways balance sheet clearly states revenue obtained by ancillary charges,



Future investment: Where?

- ❖ Most countries have strategic investment zones which attract and service new business. Given rail access new investment is challenged to find locations to build new factory outlets with rail service.
- ❖ The intent of the National Transportation Policy which built the railway was to enable growth. In 2014 Canada's challenge to growth is still rail service.
- ❖ PROVIDE investment corridors for new investment with RAIL ACCESS for value-add business to build and attain LOS that will support commercial development of value add.
- ❖ Current investment must secure a contract with a railroad for service in order to build.



ETC.

- ❖ A BENCHMARK PROCESS SHOULD REVIEW SAFETY HAZARDS AND MAKE RECOMMENDATIONS.
- ❖ Safety will define infrastructure needs in the first round: controlled intersections, overpasses, assessing the location of rail yards in urban communities.
- ❖ Efficiency of traffic continuously defines infrastructure: double tracking.
- ❖ Coordinating projects like inland staging, trans-loading inland from the Vancouver port area, to achieve maximum capacity and efficiency at our one major port.
- ❖ Roads are necessary infrastructure especially in regards to port access and primary weights to achieve maximum payloads in all seasons.
- ❖ Targeted Federal incentives driving infrastructure may indeed play a role in defining the system for the nation: PRINCE RUPERT PORT?
- ❖ Private infrastructure upgrading is continual project, including the use of lease cars, weather proofing, & safety upgrades.
- ❖ The review process should clarify the process of enabling new investment in infrastructure and assets: can new business find a location to build.

Higher rates or REVENUE entitlement

- ❖ USA data & service levels supports the principal that higher rates did not translate into more dependable access to service.
- ❖ The Rail car coalition data proved the same, as higher priced freight did not have higher performance reliability within Canadian shippers.
- ❖ Unlike the USA where 80% of production is domestically consumed Canada exports about 80% of the commodities as a result access to market and freight rates are critical to long term business success. Without the Mississippi, Canada is reliant on rail to access markets. Cost of freight is a major component of Canadian competitiveness in global trade.
- ❖ This presentation makes the case that not only the rate of transportation is critical to a competitive agricultural industry, but efficiency is equally important as any inefficiencies that incur from shipping, from demurrage to contractual performance impact the value of the production to producers.
- ❖ Insure that efficiencies provided BY THE RURAL TAXPAYER & FARMERS are factored into the costing formula: farmers cost to market from farm to terminal have increased decreasing the number of stops for rail.
- ❖ As a % of overall production Canadian farmers likely pay the highest transportation costs in the world this is a factor in maintaining global competitiveness of primary industry.

Revenue to Rail

- ❖ Insuring the rail has adequate revenue for reinvestment and delivery is key to maintaining the overall system.
- ❖ The Revenue Entitlement must reflect the efficiency gains.
- ❖ Increasing revenue to the rail can be accomplished by a rate increase or it can be addressed by methods including tax reduction (fuel) and tax policy to reward investment in capacity.
- ❖ Canadian primary producers must remain competitive globally with the final cost.

COST TO MARKET

- ❖ NET of MARKET to producers has decreased as a % of overall revenue.
- ❖ Farmers are currently paying in wider basis the full cost of an inefficient system the net return to farmers from the market place is at a dysfunctional imbalance.
- ❖ At every point of inefficiency dwell charges occur: from vessels, containers, inter modals, & railcars these costs are all part of the formula exporters must cost in final sale the more variable and unpredictable they are the wider the basis required.

PORT CAPACITY

- ❖ Where does port capacity fit in analysis of creating a competitive environment.
- ❖ Australia has mandated 30% of capacity of all port terminals be available for loading by competition.
- ❖ This may not be within the capacity of this review but failure to insure a higher % of revenue to farmers in the net to market equation has potential to create long term issues for primary production.
- ❖ Do we have a key hole at the ports? Can we conceivably achieve better delivery logistics and still have basis issues which originate in the hands of the few who own terminal capacity, as key to market competition.
- ❖ If the competitive environment fails to materialize will we need FEDERAL investment to insure “OPEN” port capacity?

Enabling export because,

the Canadian brand

should mean a competitive supply chain beginning with the primary producer which enables the delivery of competitive Canadian exports on time, every time.





The solution is urgent,
necessary and it is a
process.

Thank you!

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