



October 31, 2014

Canada Transportation Act Review Secretariat  
350 Albert Street, Suite 330  
Ottawa, Ontario  
K1A 0N5

Re: P&H Submission to CTA

Dear Sir:

As you are well aware, P&H has been heavily involved in issues relating to rail transportation within Canada, both on its own and via the Western Grain Elevator Association. (WGEA). We have served on numerous committees, provided testimony many times as well as being involved in several FOA's and LOS complaints (some successful, some not,) arbitrated private contracts, service level agreements and battled in court over issues such as inter-switching rights. Through it all we have steadfastly maintained that the railways should be meeting all demand (traffic offerings) of shippers. In technical terms, define "suitable and adequate" within the Act as just that, meeting all demand. We believe that this requirement goes as part of the "quid pro quo" for the railways being granted a legislative backed monopoly. (The recent CTA ruling has all but substantiated this view). The recommendations for how the railways should meet customer demand as well as what the shipper protections are that should accompany the recommendations are well documented and do not need to be re-iterated here. Rather we felt that it might be important to offer some suggestions as to how we could co-opt the railway into agreeing to these principles versus forcing them to comply.

The railways have suggested that the main problem with being able to meet shipper demand "all the time" is that the cyclical nature of the grain business requires the railway to have more crews and assets available during certain times of the year but at other times of the year those assets and crews remain idle, thereby causing the railway to incur additional costs and hence damage their profitability. Their solution has been to attempt to artificially control the supply of cars during the peak times (not meet demand) to in effect smooth shipping and hence improve asset and crew utilization thereby avoiding those costs and by default defend their profit model.

We believe that the first step towards improving the system should be to define what those aforementioned costs actually are. That is, the actual cost of crew lay-offs/recalls, and underutilization of the assets. Once these costs are established we should create an environment that will assist the railway in being able to relieve themselves of a good portion of these costs (most but perhaps not all). If this can be accomplished, then the vast majority of the problems which flow from the current system structure (those related to not properly meeting demand at peak periods) would become inconsequential.

We think that there are several key areas that the government should consider changing in order to accomplish this.

1. Establish a new category for “tax depreciation” for the construction of new railcars and engines” We believe that newly constructed equipment should be entitled to 100% write off in year one. Obviously the Act would not need to be altered to reflect this, the change would occur at the Department of Finance. The creation of these special categories are generally speaking easy to accomplish and well used within Canada in many different industries.
2. Allow railway workers to be treated as seasonal thereby allowing them to bypass the red-tape associated with collecting EI during times of lay off. Again, this change would not flow through the Transportation Act.
3. Assuming the railway was meeting shipper demand at peak periods, we think that the railways should be able to charge a premium above the revenue entitlement rate during a certain portion of the year. (This change does not eliminate the cap). That amount per MT would be roughly commensurate with implied cost of redundancy of railway assets, net of the depreciation opportunity (described in point 1). This would require a change in the current Act but would be fairly easy to do especially if all parties concerned agreed.

Obviously the Canadian government must feel that it is in Canada’s best interest as an exporting nation to have a logistics system based on the concept of private monopolies. P&H’s believes that in order for Canada to meet the strategic objectives within the context of private monopolies the current structure must be changed. The aforementioned approach creates a blend of revenue, tax and regulatory changes balanced in such a way that it should appease both the railways, farmers and shippers, plus stimulate exports, as well as manufacturing which will create jobs and taxation opportunities.

We look forward to discussing these ideas at your convenience

Regards

John Heimbecker