

December 23, 2014

The Honourable David L. Emerson, Chair
Canada Transportation Act Review Secretariat
350 Albert Street, Suite 330
Ottawa, ON K1A 0N5

Dear Hon. Emerson:

The Saskatchewan Chamber of Commerce (SCC) welcomes the opportunity to submit its recommendations to the Canada Transportation Act Review Secretariat with regard to the Canada Transportation Act review. As the Voice of Business in Saskatchewan, the Saskatchewan Chamber of Commerce represents the interests of over 10,000 businesses across the province through the Chamber Network.

The SCC has given careful consideration to the issue of transportation in Canada. As a landlocked province with significant resources to export, transportation plays a major role in our province and is a prime influence on our province's ability to grow. Based on 2012 data, exports accounted for approximately 40% of the province's GDP, and Saskatchewan has set a goal, through the Saskatchewan Plan for Growth, to double the value of its exports by 2020 (relative to 2011). The role of Canada's transportation infrastructure has never been more important.

We recognize that there are many elements within the Canada Transportation Act and understand the importance of all transportation infrastructure, however, because of the timely nature of the issue, our submission will primarily focus on rail transportation, although we will also briefly touch on the issue of funding airport security screening. Our intent is to present a balanced view of the concerns as they relate to rail transportation.

Rail

Saskatchewan's Projected Rail Demand

Rail is Saskatchewan's largest player when it comes to exporting resources. About 50% of Saskatchewan's export value travels by rail which means it is the single largest portal through which Saskatchewan exports can grow or be stifled. The soon-to-be-released Conference Board of Canada Report which we have commissioned, *The Impact of Rail Access on Saskatchewan's Export Potential*, studied the estimated growth in demand for Saskatchewan's ten main export commodities (representing 83% of the province's exports in 2012). For the export of these top ten commodities to achieve 71% of the Growth Plan's target for 2020, a realistic target from the Conference Board's forecasting perspective; the rail system will have to transport an additional 20 million tonnes of goods originating from the province annually relative to 2012. This represents almost a 50% increase in originating tonnage. Clearly the importance of rail capacity cannot be overstated in the province.

The rail backlog in late 2013 and early 2014 hit Saskatchewan's economy hard. Labour costs, demurrage, contract cancellations, product loss due to prolonged storage, and opportunity costs among others, took a heavy toll on provincial businesses. A single business jumped from paying \$1 to \$2 million per year in vessel demurrage, to over \$12 million last year. The grain industry

bore the brunt of these costs, but it was by no means exclusive to them; potash shipments last year alone were well behind where they could have been, triggering a decrease in production. The continuation of such logistical challenges could spark further disruptions across many sectors, even increasing inventories to the point of forcing plant shutdowns and additional layoffs, which would be a huge economic cost for the province to bear. This outcome is alarming as part of Saskatchewan's Plan for Growth is to increase crop production by 10 million tonnes and such an increase would put annual production every year at about 38 million tonnes, the same record amount produced in 2013.

Continually experiencing this type of transportation backlog would dramatically stifle Saskatchewan's economic growth. In fact, the Conference Board created two scenarios to illustrate the economic importance of the rail-based supply chain to Saskatchewan. In one case, the economic impact was calculated based on if the railways were able to move 90% of total forecasted 2020 demand, and the other was based on the railways only being able to meet 80%. The total negative GDP impact including direct, indirect and induced impacts, in the 90% scenario would be \$1.8 billion and in the 80% scenario the total negative GDP impact would be \$3.6 billion. Solving any economic growth barrier presented by the ability to move Saskatchewan exports by rail is one of the most pressing issues for the province going forward.

If the 2013/14 rail backlog illustrated anything, it is that the railways are not currently capable of rapid capacity and/or logistical changes; as such it is imperative that the planning for the growth Saskatchewan envisions needs to start now. It underlies the importance of the rail sector as part of the supply chain and that even with their best efforts, when demand for rail services changes or is impacted by weather; the system is challenged in many ways.

Opportunities for Change

The 2013/14 backlog brought to the forefront some fundamental underlying issues related to rail transportation. Communication amongst stakeholders, capacity of all parts of the supply chain, performance, transparency and fairness were just some of the concerns stakeholders in every sector expressed. The Saskatchewan Chamber of Commerce believes that assigning blame or preferential treatment to one stakeholder verses another will do very little to solve these concerns over the long term. A solution that encompasses industry, both public and private, is needed.

The SCC is confident that commercial entities are best suited to operate in the rail transportation environment, but we recognize that the unique and sometimes contradictory relationship these corporations have between public good and profitability necessitates a different regulatory environment than one found in a purely commercial relationship. The Saskatchewan Chamber believes in clear, concise and sensible regulations for business, and as such we recommend the following opportunities for change in the Canada Transportation Act.

1. Increase Supply Chain Coordination and Data Sharing

Singling out one element of the supply chain to focus on government regulations is not productive, each element is reliant on the others and any change to one - impacts all. Coordination between competing interests, while difficult, is the best way to generate better results over the long-term. The Saskatchewan Chamber of Commerce is encouraged by the development of Transport Canada's Commodity Supply Chain Working Group as we believe

bringing the stakeholders together regularly will help to build better communication and relationships.

Beyond this, however, more can be done to foster better communication, on both the shippers' and the transporters' behalf. Transparency of data on the performance of the railways as it relates to service disruptions, capacity distribution, and other relevant considerations would assist shippers in building an understanding of the larger transportation supply chain and allow them to perform their role more harmoniously. In addition to better data availability from the railways; some shippers also need to share better information regarding short and medium term volume forecasts so railways can prepare in advance to handle those volumes. At present railways will share data on a reciprocal basis, however; some shippers are concerned with the commercial sensitivity of this information at the micro level and are not always willing to supply it which means the railway does not reciprocate the information and communication within the system breaks down.

While we understand that federal monitoring has not always been deemed valid by rail-supply-chain participants, high quality analysis is needed and if the right resource allocation occurs the government can play a role in accurately and responsibly accumulating such data. To achieve this, the federal government could require or at least strongly encourage the provision of regular public rail performance reports, and the federal government could play a role in terms of collecting and protecting sensitive information in the process of aggregating it to the level that is required for the railways and other supply chain partners. It is also important that the stakeholders properly respect and utilize the data they are given access to.

In addition to facilitating better coordination, better data availability would provide a clearer understanding of how the logistics supply chain is performing and where challenges exist. This would eliminate much of the finger-pointing that occurred between stakeholders during the 2013/14 backlog and strengthen relationships between supply chain participants overall, while giving government better data on which to base regulatory decisions.

2. Create a Balanced Competitive Market

The unique nature of the railways combined with the essential role they play in providing a broader public good, and the dramatic impact their performance can have on sectors of the Canadian economy, makes it impossible for them to function on a purely competitive market basis. In this complex environment, the federal government has too often engaged in a piecemeal framework of interference. Shippers have a vague level of service provision and the enforcement of service standards can be lengthy and resource consuming; while railways face changing inter-switching rules, shipping quotas and the Maximum Grain Revenue Entitlement Program.

Enhancing the Level of Service Provision to properly define "adequate and suitable accommodation" in regulation, and establishing a way to guide the Canadian Transportation Agency (or appointed arbitrator) in their interpretation of the adequacy and suitability of the level of service provided, is one of the first ways to enable stakeholders to judge whether a balanced relationship is in place.

Shippers and railways have both indicated that their preference is to negotiate balanced commercial contracts, rather than having to rely on government to take unpredictable measures. However, an imbalance in negotiating power and a lack of incentives to participate has meant a failure of this approach in some sectors. Balancing the diverse demands of multiple

stakeholders is a difficult mandate for the federal government; should legislation and/or regulations instill the right to charge penalties to the railways in instances where the railways have failed to perform, or should the government make significant changes to the Maximum Grain Revenue Entitlement Program; should further changes be made to the interswitching rules? The SCC believes that the negotiation of such specifics should be left to the federal government and those directly impacted by their outcome, but these are impediments to the creation of a balanced competitive market and we encourage further analysis and discussion on each.

3. Build Capacity

Canada's railways need to match their shipment capacity to producers' production capacity. Nonetheless, the Saskatchewan Chamber of Commerce also recognizes that in addition to this, other partners in the extended supply chain (grain handlers/mines/oil suppliers/etc., terminal operators, ports, and ocean carriers among others) need to make investments and operational improvements to match that capacity as well. Within our own province we have seen a significant number of operators making these types of investments, however when demand unexpectedly or rapidly spikes it is unreasonable to expect one of the participants in the supply chain to assume the full burden of all that increase. It is also unreasonable to expect continued investment and improved performance from one participant in order to allow another to become less efficient than they should be.

As 2013/14 illustrated, supply chain constraints exist for increasing rail capacity over the short term. The Saskatchewan Chamber also understands that railways have a responsibility to stakeholders and that capacity investment decisions are made on the basis of their estimated rate of return. With this in mind, under Saskatchewan's Plan for Growth the rail system will have to transport an additional 20 million tonnes of goods originating from the province annually (relative to 2012) and we want this capacity expansion to become a part of core planning.

Clarifying shipper and transporter data, as our first recommendation outlined, will help better identify where the potential for capacity upgrades exist. We also encourage the federal government to examine where regulatory barriers to capacity upgrades exist and address those as an immediate priority.

4. Minimize Proximity Issues

Part of the concern around building capacity is the encroachment of developments beside transportation facilities. Proximity issues are increasingly constraining the ability of ports and railways from operating in a manner capable of serving global supply chains. Further, forcing companies to unexpectedly alter business practices because of complaints by nearby residents adds unexpected expenses and losses of efficiencies.

While municipal planning is a complicated issue, the federal government could play an important role in helping to ensure that rail or other transportation infrastructure traffic is not boxed in. Implementing requirements that require a municipality/developer to give notice to the railroads, terminals, ports, etc. when new developments happen near these facilities would provide an earlier opportunity to mediate solutions.

Clearly the issue of rail line proximity to residential and commercial areas also impacts safety and while that issue is well known we felt it worth noting here.

5. Strengthen Arbitration

The SCC supports the continued and where possible expanded use of mediation in the dispute resolutions system. This option reduces the costs to businesses and provides an opportunity for the parties to try to resolve their differences through communication and negotiation.

Unfortunately mediation does not work in every occasion so arbitration is another one of the Canadian Transportation Agency's options for dispute resolution. During arbitration, an arbitrator reviews the facts (or final offers) submitted by the parties and settles the dispute by making a decision which is confidential and legally binding. The Agency has established a roster of persons that can arbitrate rail disputes.

While arbitration by an outside party promotes an unbiased review, concerns also exist because their detachment from the system impacts the arbitrator's ability to fully understand the interconnectivity of the supply chain. The SCC believes it is possible to balance both of these concerns. Enhancing the Level of Service Provisions to properly define "adequate and suitable accommodation" is the first component necessary to build clear arbitration practices, but also allowing more of the issues to be dealt with by the Canadian Transportation Agency, will lend the necessary level of expertise to some of the decision making.

6. Enhance Workplace Safety

Supporting the continuous improvement of healthy and safe workplaces has been a consistent message of the Saskatchewan Chamber of Commerce. This dedication is founded on the principle that the effective management of health and safety is essential to the operation of a successful business and to ensuring that productivity is maximized. Our organization understands that safety, especially as it relates to crew fatigue, has been a recent source of contention within the industry. While we leave the particulars of the situation to the stakeholders more directly involved, the Saskatchewan Chamber of Commerce supports businesses in making sure that the health and safety of employees, contractors, visitors, and surrounding community are an integral part of a business's strategies, processes, and performance measures. We encourage all those involved to take a similar approach when it comes to rail safety.

Again we reflect on the issue of rail line safety and the interaction with residential and commercial development as well as for workers for cargo especially petroleum, and while we remain confident the two large Canadian rail companies have this issue well in hand, it is an area of great interest to the general public.

7. Continue Strategic Investment by Government

Given the national nature of our logistics supply chains, Saskatchewan and its economy has a direct interest in investments and efficiencies far outside our borders. Given the limited control our province has on the investment decisions of others, we look to the federal government to play a role with other governments for the prioritization and coordination of direct investments in infrastructure. The Asia-Pacific Gateway and Corridor Initiative showcased a good model for such coordination and we recommend the continuation of this type of strategic investment.

Airports

Security Screening Funding

As the federal government's discussion paper references, Canadian air policy requires that users pay the full cost of building and maintaining airport and air navigation infrastructure and operations, including the provision of security screening. The SCC supports this premise. While there is an ongoing issue with regard to flight availability in Saskatchewan, we recognize that this is a business decision and one that can change with demand. Our issue with air transportation relates to the federal government's recent funding changes to the Canadian Air Transport Security Authority (CATSA).

As stated above, Canadians are expected to pay for the provision of security screening, but this is not actually the situation because the federal government is generating additional revenues off of the Air Travellers Security Charge beyond what it is paying for the provision of those services. The increasing number of air travellers who are paying for this service are not having the adequate services provided to them because the federal government is not flowing the money through. This is creating longer wait times at our airports which is decreasing productivity and frustrating visitors.

1. Change Security Screening Funding

The Air Travellers Security Charge should be solely used for the provision of airport security screening and further efforts should be undertaken to institute a new model for funding security screening activities.

Conclusion


Rail costs are the dominant transportation cost for moving most of Saskatchewan's major exports. The capacity and performance of the railway impacts all of our province's major economic drivers, so it is essential to our province that rail transportation operate as efficiently and effectively as possible as we strive to export an additional 20 million tonnes of goods annually. As such, the Saskatchewan Chamber of Commerce would like to make the following recommendation for the Canada Transportation Act review:

1. Increase Supply Chain Coordination and Data Sharing
2. Create a Balanced Competitive Market
3. Build Capacity
4. Minimize Proximity Issues
5. Strengthen Arbitration
6. Enhance Workplace Safety
7. Continue Strategic Investment by Government

While not as dominant as issues of rail transportation in Saskatchewan, we also recommend that the Canada Transportation Act Review Secretariat examine the current Security Screening Funding practices and impose requirements to ensure the Air Travellers Security Charge is solely used for the provision of airport security screening. We further recommend that you undertake efforts to establish a new model for funding security screening activities.

By instituting the reforms outlined in this letter, the Saskatchewan Chamber of Commerce believes that the Government of Canada can create a stronger transportation network in our country, which will help to bring more Canadian goods to the world. Please contact me at (306) 352-2671 if you have any questions or concerns related to the recommendations in this letter.

Sincerely,

A handwritten signature in blue ink, appearing to read 'S. McLellan', with a long horizontal stroke extending to the right.

Steve McLellan
Chief Executive Officer