

Rail Transport in Northern Alberta

Consistent and Competitive Freight Movement
Required for Economic Sustainability



June 2009

(updated January 2010)

Background

In correspondence and discussions regarding transportation networks with the Lesser Slave Lake Region's industry stakeholders in 2009 and 2010, a common theme has been the decline in railway service levels. Shipping costs and unreliable rail car supply and delivery are of particular concern.

Only a few years after investing millions of dollars into a rail spur and railway loading-unloading infrastructure at its High Prairie natural gas liquid fractionation facility, on January 1 of this year Plains Midstream Canada suspended the rail its shipments as it was no longer profitable to maintain this component of its operations. Area forest product companies have for many years cited undependable car spotting and poor customer service from CN as major impediments to the timely delivery of their products, thus further exacerbating the hardships this sector is experiencing; hardships that have led to closure of two local Tolko oriented strandboard mills and curtailments at other mills, all leading to hundreds of job losses. In December 2007, the Forest Industry Sustainability Committee made clear its position to the Government of Alberta, in its *Recommendations for Immediate Consideration*:

The decreasing availability of rail service and subsequent increase in rail costs have long been serious issues that affect costs from three perspectives. First, the lack of reasonably priced and reliable rail service places increased demand on the trucking industry. Secondly, where rail is required to move product long distances, the cost is not responsive to the forest industry's needs and remains a significant cost pressure. Thirdly, there are inequities (access and cost) that exist between products shipped by rail that should be addressed. The issue is most serious in Alberta owing to the province's landlocked location, distance to market and lack of rail alternatives.

The last comment, regarding the lack of rail alternatives, is of particular significance for Northern Alberta where CN now controls the entire northern network, leaving the region's industries as "captive" shippers. In a recent discussion with a representative of West Fraser, whose mills include Slave Lake Pulp and Alberta Plywood, it was reiterated that the autocratic nature of CN's business dealings was damaging to their business; West Fraser, and other forest product companies, have continued their appeal to the Alberta Government.



Figure 3 – CN Rail Network

The concerns noted above were recently validated in the release of the NRG Research Group's survey of rail shippers (October 2009). The survey of shippers was conducted as part of Transport Canada's Rail Freight Service Review - Phase I. Highlights of their nation-wide study include the following findings:

- *On a scale of 1 to 7 (7 being very satisfied) only 17% of shippers rated their satisfaction level at 6 or 7, although most customer satisfaction research generates 50-70% in the 6-7 range.*
- *Only 11% of "captive" shippers are very satisfied.*
- *Shippers who use both railways are almost 2:1 more satisfied with CP's service compared to CN's.*
- *62% said they have suffered a serious financial impact as a result of poor rail freight service; this number climbs to 82% for "captive" shippers.*
 - *The majority of shippers noting this impact indicate that there have been numerous occurrences in the preceding 18 months.*
 - *For those that suffer a financial impact, the most common causes relate to late or unreliable supply and delivery of cars*
- *Shippers overwhelmingly recognize that railways could improve overall operation and provide better service with:*
 - *Investments in railway infrastructure improvements, and*
 - *Expanded loading and unloading capacity.*

The last point listed above is certainly true in the Peace and Lesser Slave regions where capital investment into rail infrastructure has been lacking. While the condition of the former Mackenzie Northern Railway (Smith to Dunvegan) has seen improvement (CN invested \$15.6M in repairs and upgrades in 2008), the configuration of this regional infrastructure network has a direct impact on the level of service for the local industries. Deficits in the network configuration include lack of network connectivity (e.g. no western link since the removal of the Watino crossing), non-direct routing to ports (i.e. via Edmonton and Yellowhead), and a lack of containerization available in the region. The region also witnessed CN's closure of the segment of line from Falher to Girouxville just last year; the Girouxville grain loading location was one of 52 sites left abandoned when CN discontinued service to nearly one-third of producer car loading sites in Western Canada including other northern sites such as Donnelly and Kinuso. The frustration of area agricultural producers is best summarized by the National Farmers Union in their December 23, 2009 open letter to federal Transport Minister John Baird:

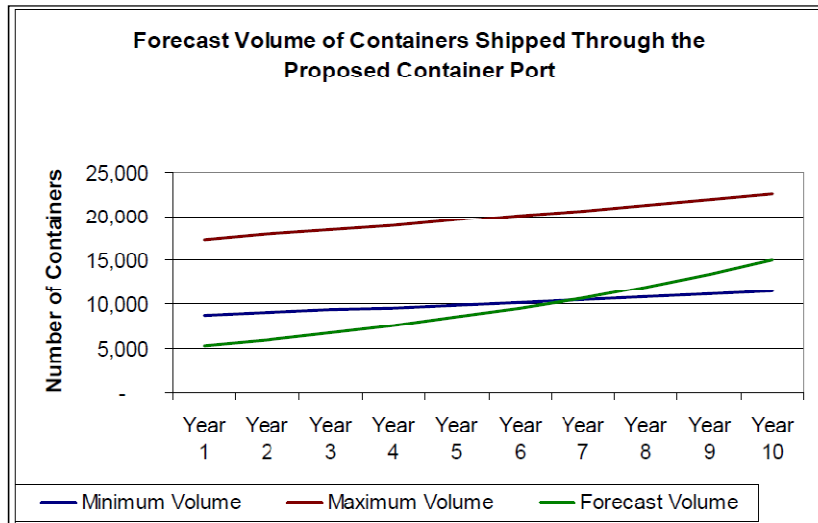
The rapid destruction of the prairie grain elevator system some fifteen years ago has once again made the producer car an important element in prairie grain handling. The producer car gives farmers access to rail transport, but it also acts as a competitive cap on elevation charges that elevator companies can charge...they offer a real saving to a farmer of more than \$1000 per car, and give him guaranteed access to rail cars.

It is well known that moving grain by rail is far more fuel-efficient than by truck. If Canada is at all concerned about CO₂ emissions, it would seem to be an obvious choice to require these sites to remain open. Producer cars, for the most part, get grain on the rail with far shorter trucking distances than going to elevators.

Better access to the rail is also required by the commercial sectors that utilize container shipping. Due to current local rail infrastructure limitations, 70% of the Peace Region's containers are currently loaded outside of the region, arriving at a depot (usually Edmonton) by truck or rail. The County of Grande Prairie and their partners, including the Northern Alberta Development Council, have recognized that this deficit could be addressed by the creation of a Peace Region Container Facility / Rail Service Depot.

In their April 2005 Proposed Business Plan Model for a Container Facility in the Peace Region, it was noted:

A “Net Annual Public Benefit” of \$6.5 million was identified in a May 2003 study by the Railway Association of Canada. The benefits will result from regional economic development, reduced investment in transportation infrastructure, reduced environmental impact from transportation and enhanced highway safety.



Estimated Container Volume for Peace Region Facility

The future of such a facility will rest with governments, because the motive of the rail companies is all too often restricted to their own bottom line. This was made abundantly clear by CN’s Senior Vice President, Jim Verna, in a March 2009 letter to the County of Grande Prairie’s Economic Development Manager, Walter Paszkowski, where he states:

“...CN will only move them [cars/containers], if it makes economic sense to do so. And we will only move them in a manner that makes operational and economic sense to our business model.”

It is clear that government support is crucial for such a facility since it apparent that if corporations are left to dictate the agenda the private sector would not have the wherewithal or patience over the long term to see its ultimate success.

The power and control that CN and CP have in Canada’s deregulated rail market only hamper the competitiveness of the region’s industry. Within this deregulated structure, the main governing legislation is the Canada Transportation Act. In a report by the Parliamentary Information and Research Service of the Library of Parliament, *Rail Shipper Protection Under the Canada Transportation Act*, it was recognized that:

With respect to many of the competitive remedies that are available to shippers under the CTA (e.g. interswitching, CLRs [competitive line rates], the grain revenue

cap and provisions on level of service and right to rate), critics argue that they do not provide adequate relief for shippers because they are not accessible and/or effective. None of the CTA provisions to protect rail shippers from railway companies exercising market power to go so far as to permit railway companies to solicit traffic on the network of another railway company.

As a result of the difficulties noted in exercising rail shipper protection measures, Bill C-58, recently provided some amendments to the CTA that facilitate a streamlined process for shippers to access the Canada Transport Agency in presenting disputes, and seeking arbitration and/or remedies. While this is positive for shippers in general, “captive shippers” (serviced only by one company) may still have a reluctance to commence a formal dispute process with their only rail provider.

In conclusion, there are many strong indications that railways are failing Canadians and without improved service, infrastructure investments, and policy changes they will continue to be negatively impacting local economies.

Recommendations

1. Government stewardship has led to effective and open transport networks in the past (e.g. highways). With similar long term vision and influence, rail networks and freight services can also be structured for sustained economic competitiveness and greater public good. Transport Canada must take very seriously the final results of their Rail Freight Service Review and then collaborate with other federal and provincial departments to implement real and meaningful policy changes and investments.
2. The power and control held by two major corporations (only one of which operates in Northern Alberta) appears to be unhealthy and unsustainable. The current rail transport model hinders the competitiveness of Northern Alberta businesses, and therefore harms the province as a whole. Additional railway competition must be encouraged or, if competition is not possible, greater Government influence and participation must be present.
3. Expanded loading and unloading capacity was a need highlighted in the NRG study commissioned by Transport Canada. It is recognized that ultimately there must be a sustainable business model for the Peace Region Rail Depot/Container Facility, but without public support the private sector will not have the wherewithal or the patience to construct the facility and see its long term success.