Freight Incentives

Rail Freight Service Review
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Re: Rail Freight Service Review

On behalf of the Battle River Railway (BRR), I am appealing to the Review Board to take measures to correct a serious flaw in the "Revenue Cap" formula that affects our short line in a extremely negative manner.

On our short line BRR, we can save $14 to $15/tonne elevation charges by loading producer cars. This is a significant amount of money. The surrounding inland terminal elevators want to handle our grain so one might think they would compete for the grain by lowering their elevation charges. Not so! They entice producers with freight incentives. They have a pool of money available to help reduce freight rates. The beauty of this available money is that it costs the inland terminal nothing. That's right! They pay farmers up to $12/tonne to bring their grain to their elevators. This money comes from the railroads, CN and CP. These companies offer discounts on 50 and 100 car trains. According to the Quorum Report, discounts are offered for 50 car spots of $5/tonne by both CN and CP. Discounts are $8/tonne for car spots of 100 for CN and 112 for CP. One would conclude that this money, which last year amounted to $87.5 million, would come at the expense of the railroad companies. Wrong! The railroads are able to raise their overall freight rates to farmers enough to recoup the $87.5 million spent to entice farmers to deliver grain to the inland terminals. This is allowed under the "Revenue Cap" the railroads operate under. They are allowed a certain net profit and the freight incentives are merely an expense so that money can be recouped by merely raising freight rates to all producers. , of the Quorum Corporation, agrees that the incentives, instead of being $87.5 million could be $500 million and still not cost the elevator companies or the railroads one dollar. It would all be recouped from farmers with increased freight rates. Before the ramifications of this are discussed, there is a second bizarre situation that needs to be addressed.

The "Producer Car Shippers of Canada" hired Travacon Research to determine the actual saving to CN and CP of having 50 and 100-112 car spots. Incredibly, they found that on the 50 car spots with the $5/tonne incentive, CN saved only $1.84/tonne and CP saved $1.88/tonne. On the 100-112 car spots, with an $8 incentive, CN saved $2.95/tonne and CP saved $3.07/tonne. Paying $8/tonne to save $2.95 or $3.07 is hardly "sound business practice" but when you are using someone else's money, it is not an issue.

The ramifications of these two mind boggling situations is, and has been, disastrous for small grain companies, short line railroads and small town western Canada. Our federal government continually gives lip service to revitalizing rural western Canada. There has been nothing so devastating to rural western Canada then the variable freight rates caused by freight incentives financed by farmers. This has cause farmers to buy bigger trucks and haul long distances, right past local companies and short lines. The local companies and short lines cannot avail themselves to the free freight incentives financed by farmers. The result has been fewer and fewer small companies and short lines. Small towns have had their tax base decimated as elevators elevators have been pushed into holes.

We have suggestions as to how this travesty can be rectified. Of course, the simplest and best way is to make all incentive money come from the revenue cap, not allowing it as a deduction anymore.

If this suggestion is unpalatable, then at the very least, only allow the freight incentive to match the economic benefit equivalent. That is, when CN realizes a saving of $2.95/tonne on a 100 car spot, only allow a freight incentive of $2.95/tonne, not the $8/tonne they are currently using.

We at Battle River Railway sincerely ask you, the Review Panel to take action to rectify this situation. Some may think this is a costing situation and not service related, however, it is easy to appreciate that costs of these freight incentives have, and are affecting western Canada's railway service adversely. If this situation is rectified, competition will appear, small towns can be revitalized and short line railroads will prosper.

Submitted by:
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