



March 15, 2010

Rail Freight Service Review
Suite 808
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Ottawa, Ontario K2P 2K3

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**SUBMISSION TO THE RAIL FREIGHT SERVICES REVIEW PANEL
TRANSPORT CANADA**

Dear Sirs:

The Canadian International Freight Forwarders Association (CIFFA) and its member companies offer the following for consideration by the Rail Freight Services Review Panel in your deliberations.

CIFFA represents 230 freight forwarding firms who employ some 20,000 highly skilled international trade and transportation specialists. These firms range from the largest of global multi-nationals to small and medium sized Canadian companies. Our members are an essential component of Canada's global supply chains, enhancing export capabilities and assisting importers – retail, commercial, and industrial in the delivery of competitive solutions. The efficient and effective operation of an intermodal rail system is critical to sustaining and growing the position of Canada's international traders in a highly competitive global marketplace.

Freight forwarders play a vital role in expediting the movement of an estimated 70% of Canada's containerized cargo throughout Canada and around the world. Some 2.94 million TEUs, the equivalent of approximately 1.5 million forty-foot ocean containers are managed by international freight forwarding firms. This role provides the freight forwarding sector with unique oversight and perspective of the entire intermodal system and of its performance.

Overall Issues and Observations

A survey of member companies coast to coast identified a wide ranging number of similar issues, observations and recommendations. Go forward recommendations/ solutions to improve the rail system and reconnect it with the larger whole, however, focus on three areas – *performance standards, an integrated tracking system, and rail infrastructure*.

According to CIFFA members:

- Canada's intermodal freight system is intermodal in name only. The whole system – drayage, terminal, rail, port, steamship line -- lacks oversight and connectivity and fails to operate as a system.
- The railways in this context operate as a silos, uncoordinated and disconnected from the larger whole. This leads to fragmented, inconsistent and unreliable service outcomes for customers.
- The CN/ CP monopoly/duopoly is problematic, causing serious access and capacity issues. This in turn has consequent impacts on productivity, international competitiveness and economic growth. (Our members quantified a significant double-digit percentage productivity drag based on the impacts they manage.)
- CN/ CP lack flexibility and responsiveness to changing market conditions and cargo trends. CN and CP seem to run conventional business models that do not meet today's business demands or requirements.
- The prevailing opinion is that de-regulation has been a failure in Canada because it does not recognize the uniqueness of the country - its geography, vastness, sparse population, spread-out population centres. Deregulation is designed to encourage/attract more competition. Canada, unlike the U.S., does not have multiple entrants in the rail sector or large / close population centres.
- The most significant observations by our members relate to service erosion:
 - Ever-increasing transit windows that are currently 100% higher than a decade ago: rail service has added 7 days transit from Montreal to Europe. Vancouver to Montreal transit which used to be 5 days is now 10 days. It takes longer to get goods from Vancouver to Toronto than from China to Vancouver.
 - Inconsistent and unreliable service due to delays and congestion; it is now standard to have cargo delayed in Vancouver by as much as a week (a 2 to 3 week delay is not unusual) because there is not enough equipment to move it.
 - CN has introduced a block storage system where they only service Montreal and Calgary (example), out of Vanterm twice a week. This inadequate, insufficient service is crippling retailers and the Canadian economy at large
 - Capacity problems for Canadian exporters -- serious shortages of rolling stock; sold out trains because there is not enough rolling stock; 2-3 week delays for grounded containers because there is not enough equipment or people to clear it.

- CN/ CP terminals, rail yards and Port Metro Vancouver charge exorbitant fees for containers remaining in their facilities past the allotted free storage time. The costs are abusive and beyond any true cost incurred, ranging from \$200 a day to over \$400 a day after one week in the Port of Vancouver. Importers and exporters are penalized. In addition, they suffer the commercial impacts of cancellations, penalties from major retailers, manufacturers etc. as a result of service failures in the supply chain of carriers and railways and failure to deliver on time.
- CN/ CP are unable to respond to changes in equipment availability/ supply to meet rapid changes in demand. In the past several months, steamship lines have introduced slow steaming and many schedule changes. In turn this creates scheduling issues and inconsistent arrivals at the port of Vancouver, leading to labour issues, grid lock on the dock and insufficient railcars to meet the demand for containers destined eastbound.
- Containers destined to the United States are handled at the docks in Vancouver and loaded to rail on a priority basis – ahead of Canadian destined cargos, supporting the railroad’s investment in the United States to the detriment of Canadian importers and exporters.
- Serious access issues are noted including a non-functioning reservation system that limits access and forces storage fees; a confusing and disorganized container pick-up system that causes delays and cargo to be lost; a disregard for customers; and in some cases predatory marketing practices.
- Unnecessary and unbudgeted costs undermine Canada’s competitiveness and drive ‘total landed costs’ for importers and exporters inexorably upward: wait time charges, extra drayage charges (trucks having to wait and come back), forced storage fees, expedited trucking charges, and missed vessel closings. With all of the extra charges and delays, it can now cost almost the same to ship a 40 foot container by truck from Vancouver to Montreal as it would by rail.
- Trucking is emerging as the more viable alternative to rail – cheaper and faster. In fact, trucking is 100% faster; 8 to 10 days by rail Vancouver to Montreal versus 4 to 5 days by truck with all of the negative environmental outcomes of increased road haulage: Green house gas emissions, wear and tear on roads etc.
- Out of gauge shipments are non-containerized business that is essential to the country’s economic infrastructure; usually heavy equipment used in manufacturing, mining, hydro, other energy; critical to the economic development of Ontario and Quebec. This is a very technical specialty requiring specific knowledge of clearance heights, bridge widths, overpass weights etc. Rail lines have few experts who can quote on this type of freight and request returnable deposits for quotations. Lengthy delays in receiving quotes are standard.

- For example, in the 3 weeks it took for CN to provide rates to move a huge crane from Edmonton, Alberta to Kitchener, Ontario a CIFFA member managed to disassemble the crane, load it onto 20 tractor trailers and flatbeds and truck it to Kitchener. However, sometimes equipment cannot be moved by truck because of its size or configuration which puts Canada's manufacturing heartland of Ontario and Quebec at a serious economic disadvantage.

Specific Recommendations

Issue: Performance Standards

- Notwithstanding these identified critical service failures, systematic, national performance is almost impossible to evaluate because there are currently no key performance measures (KPI's). There are no comprehensive standards, service expectations, tracking or monitoring. There is no system in place with which to hold all players to account.
- Railways have a take-it-or-leave it attitude. Because of the lack of an integrated information system across the supply chain, the railways are slow to respond to sudden changes in demand. They take several weeks to adjust staffing levels and get equipment out of storage and in-service again. This results in less than reliable services and volatile prices.
- As noted, the railways operate as 'silos' – there is no oversight or national policy that governs performance across all of the functional entities (i.e.) between port and rail, steamship line and rail. Performance standards are a critical tool to help coherent functioning of the intermodal system. They help establish expectations and put in place a framework for collective performance and cooperation.
- The CN/ CP monopoly/duopoly – the lack of competition – is very problematic. Market dominance has led to a lack of focus on or commitment to Canadian customer service by rail providers. Service decisions are often made without analysis of system-wide implications; predatory marketing practices have been identified; minimal investment in infrastructure or staff to run operations in Canada has become the norm. CN's monopoly in many areas has been identified as particularly troublesome.
- Historically, there has been a lack of consultation by railways before change is introduced and lack of measurement or data sharing after change is implemented...e.g. changes that impact import or export supply chains such as those to free time allowed and increased storage fees.

Recommendations

- CIFFA recommends that the government move as quickly as possible to address the market dominance issue related to the railways. Three strategies seem apparent for consideration. One, the government could endeavour to attract massive amounts of new competition, but this is most likely not realistic, timely or affordable given the level of investment required.
- A second option, similar to the government's handling of telecommunications and the former Bell monopoly would be for the government to regulate competition and force the railways to open their infrastructure to competition and for the government actively to work to attract competitors to this essential service. (Of particular importance to Atlantic Canada.)
- The preferred, third option recommended by many CIFFA members is re-regulation of the railways through an oversight body, established national performance guidelines/standards and a tracking process to monitor compliance/performance.
- To build consistency, reliability and accountability into the system, key performance measures (KPI's) should be established that are measurable and created through consultation. Suggested areas are: transit times, rolling stock availability, dwell times, storage days, and investment in infrastructure. Canada should be benchmarked to other countries.
- Unfair and predatory practices should be curtailed and railways should be held accountable for delays; forced to pay penalties when they do not have enough equipment in the right place at the right time, cause delays, or do not meet deadlines as outlined in established performance standards. Penalties to be financial and could be paid into an infrastructure fund.
- CIFFA also calls for a public mediation and complaint system so that for the first time Canadians can have a window on the performance of this system so vital to our national security and prosperity.
- Canada's need for out of gauge rail service must be addressed in a public policy framework that mandates rail lines to provide quotes and carry over-sized freight instead of forcing it onto the roads. The national Transportation Act should be enforced to help the economy.
- The government should seriously consider declaring the rail lines an essential service given their importance to our sovereignty and national economy. CN and CP treat all U.S. cargo transiting through the Port of Vancouver or Prince Rupert on first priority basis at the cost of Canadian cargo sitting idle on the dock by reducing rail car allocations for Canadian importers and exporters.

Issue: One Tracking/Reservation/Data System

- Tracking and expediting containers efficiently through the system is a major problem for exporters and importers. The system is recognized internationally as inconsistent, unreliable and lacking capacity.
- There is almost a complete lack of communications between various parts of the supply chain. Each part of the industry has its own information system – trucks, rails, ships, ports, terminals – currently there is no integration. This creates duplication, added costs, inefficiencies, information errors.
- Members describe a broken and dysfunctional rail reservation system. Container pick up is highly disorganized. The rail reservation systems seem to be plagued by lost reservations (some are never entered into the computer), limited reservation times, short work hours, long wait times (can wait 4 or 5 hours to take a container off a truck), limited or no access to trained personnel, phones not answered, limited/no customer service and sloppy inventory control.

Recommendations

- CIFFA recommends that Transport Canada mandate the establishment of a single information and tracking system to be used by all participants to improve coordination and efficiency. The system could be run by a third party – non-railway, with Transport Canada oversight to facilitate development and bring all the parties together. Investment, inclusion and commitment of all stakeholders in the intermodal chain including freight forwarders would be essential.
- The system could also function as a monitoring system that accumulates aggregate performance data critical to the measurement of efficiency of the intermodal supply chain.
- While an integrated tracking system is an important tool to help improve efficiency, accountability and inject transparency into the system, it will only be as good as the quality of the data and the commitment of resources to manage it daily. This solution is not just about technology, but is also about people. Such a system will require the cooperation and commitment of the rail lines, ports, carriers to adequately resource the human side of the equation.
- If this recommendation is implemented it would measurably reduce confusion, delays, lost cargo, unnecessary dwell times, drayage and costs etc.

Issue: Rail Infrastructure

- The rail carriers are not investing adequately in improving the aging intermodal infrastructure in this country. Compared to the billions of dollars being spent in the U.S., China and Europe, Canada is falling behind and is becoming less competitive internationally. Where a service, such as Canada's rail industry, is in the national interest, profits must be reinvested into infrastructure for Canada's future and not focused by private commercial ventures on short term profitability.
- Railways do not have enough equipment to service the Canadian market and what equipment is available is not well managed from an inventory control point of view. Recognizing the difficulties of obtaining accurate forecast data, nonetheless the rail lines are unable to deliver rolling stock and other equipment to where it is needed in a timely manner.
- Members cite a number of proofs of the unwillingness to invest in intermodal infrastructure in Canada: aging, unreliable equipment that breaks repeatedly (cranes, locomotives, rolling stock wheels); a lack of equipment including not enough rolling stock, cranes, technology, information systems, knowledgeable staff; a poor maintenance track record; lack of investment in information technology and the talent to manage it; bad forecasting and contingency management; a willingness to hold cargo until there is return rail car load. Canada's commitment to the Asia Pacific Gateway and Corridor is an admirable start, but the grain-growing Prairies and Ontario/Quebec manufacturing heart of the country are starved for investment.

Recommendations

- CIFFA recommends that given its vital importance to the economic health and future of Canada, the Canadian government must re-regulate the rail lines to ensure that appropriate capital investments are being made **within Canada and designed to benefit Canadians.**
- Action by the government must go beyond capital cost allowances to actually mandate a percentage annual spend level on infrastructure investment within Canada by rail lines.
- Recognizing the need for funding to make up for decades of insufficient investment it is recommended that a dedicated rail infrastructure fund be created, supported by cross industry-sector stakeholders and government. This fund would be the repository for the mandated annual infrastructure spend and any performance penalties.
- Given that railways are abandoning short rail spurs, the federal government should give due consideration to investment in short lines.

Canada is a trading nation. If we wish to compete as global traders in a competitive marketplace, if we wish to attract foreign investment and trade, if we wish to continue to drive Canada's economic growth and the well-being of its citizens, the government of Canada must take action now to ensure a rail freight service that serves the national interest.

The Members of CIFFA look forward to seeing your recommendations on much needed improvements to Canada's rail freight service and we look forward to seeing the government of Canada take action to improve this essential service.

Yours truly,

CIFFA

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