



Montreal  
Port  
Authority

Administration  
portuaire  
de Montréal

**SUBMISSION FROM THE MONTREAL PORT AUTHORITY**

**PRESENTED TO THE**

**RAIL FREIGHT SERVICE REVIEW PANEL**

**OF TRANSPORT CANADA**

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## INTRODUCTION

The Port of Montreal is a major player in Canada's international merchandise trade.

Located in the crux of the St. Lawrence–Great Lakes Trade Corridor, through which more than two thirds of Canada's trade transits, it provides significant competitive advantages:

- Passage through Montreal is the shortest route between Northern Europe and the Mediterranean, on one hand, and North America's industrial heartland on the other;
- The Port of Montreal is located 1,600 kilometres inland, enabling maximal use of the most economic and environmentally friendly mode of transportation – namely, ships – to reach the centre of North America;
- The Montreal Port Authority (MPA) operates its own rail network, spanning 12 kilometres with close to 100 kilometres of dockside tracks. The Port's rail infrastructure makes it possible to connect the respective train tracks from the railway companies Canadian National (CN) and Canadian Pacific (CP) and to assemble trains, right on the docks, that will be taken over by CN or CP locomotives and, conversely, to bring containers directly to the docks for loading aboard vessels. Every week, 80 trains, each about 2 km long, run on the Port's rail network. Every year, between 650,000 and 750,000 containers arrive at, or depart from the Port by train, representing about 50% of all container movements.
- The Port operates a fleet of six diesel-electric locomotives.

The Port's rail system connects all the container terminals. It acts as an intermediary between the terminals and both major railway companies. Consequently, the Port's rail system allows any shipping line to use either of the two national railway companies (CP and CN) without having to change terminals.

The Port's intermodal platform, backed by a close partnership with CP and CN, makes it possible to:

- Considerably reduce costs and shorten timeframes for clients;

- Operate the Port's rail and marine infrastructures more efficiently;
- Expand our geographic business hinterland, and thereby generate a volume that can improve marine services to the great benefit of local and national exporters;
- Reduce greenhouse gas emissions.

In order to continue benefitting from the advantages of an integrated intermodal platform and to further strengthen the Port of Montreal's competitiveness and attractiveness, the following recommendations warrant careful attention:

### **1. Optimize the use of rail assets**

Montreal's geographic location at the gateway to North America's industrial heartland, along with its intermodal transportation system fully integrated with all North American systems, are strategic assets for developing the Quebec-Ontario Trade Corridor, through which more than 70% of Canada's international trade transits, and accessing major markets throughout US and Canada.

The Port is primarily known for its role as an interface between land and water. It is also the rail intermediary that conjugates the needs of terminals, which are MPA tenants, with the operational requirements of rail partners.

One of the MPA's operational objectives is full use of its rail network. In practical terms, this means moving maximum freight using minimum linear feet of train, and maintaining good velocity (or shorter dwell time). The railway companies also have the same objective.

In support of achieving this objective, a fee structure is in place that encourages CN and CP – MPA clients – to maximise the use of the MPA's limited resources and space. Also, a system for feedback and for periodic review of key performance indicators was set up so that partners would have relevant factual information on hand when they communicate amongst

each other. These communications are structured, as well as the information being transmitted. Transparency is at the core of this exchange (see Point 4).

Operationally, the integration of double stacked railcars in Port services is an effective way to increase freight carrying capacity per linear feet. The use of double stacked railcars is quite widespread at CP and CN. However, the Windsor-Detroit tunnel's vertical clearance constraint prevents CP from using double stacked railcars for its traffic to the U.S. Midwest, and consequently from achieving productivity comparable to CN for such traffic.

Such being the case, access to two suppliers of competing rail services at the Port of Montreal benefits the shipping lines and allows the MPA to stand out as a quality partner in container transport. Preserving this choice is vital (see Point 2). However, for lack of finding a solution to the Windsor-Detroit tunnel's vertical clearance problem, in the near future the Port of Montreal will have to implement remedial measures to ensure the transport of tens of thousands more single stacked containers between Montreal and the United States. These measures are:

- Build additional receiving tracks and classification tracks to meet the growing market demand;
- Increase the number of shunts.

These measures will result in slowing down train assembly and in turn, diminish the productivity of rail facilities.

It would, of course, be possible to partially offset these negative effects by building more tracks on the terminals to increase rail capacity, but this would be at the expense of container storage capacity. This is not an acceptable compromise.

That is why we firmly believe that it would be beneficial for all users of the Continental Trade Corridor to have access to well-performing infrastructures that make it possible to increase trains' carrying capacity (more containers per train for the same length of train). Moreover, access to efficient rail networks at the Port provides a competitive edge to access the vast

market of the U.S. Midwest. This advantage is highly coveted by our American competitors, who are investing heavily to improve the industrial Heartland Corridor between Norfolk, Detroit and Chicago.

➤ **The MPA supports initiatives that aim to eliminate the vertical clearance constraint for CP traffic originating from or heading to an American destination, and which would make it possible to maintain our competitive advantage in hauling containerized rail freight.**

## **2. Have the choice**

Observers of the shipping industry believe that competition is necessary to distribute the bargaining power between shipping lines and rail carriers so as to maintain lower rates and good services in a competitive environment. Access to two rail service providers at the Port of Montreal attracts greater interest from shipping lines and allows the MPA to establish itself as a quality partner in container transport. In our view, preserving this choice is paramount, mission-critical and an assurance of the MPA's future success.

In addition, being able to choose their supplier of rail service gives shipping lines an even more significant edge: the ability to enter into partnership. The ship owners that operate the ships and the shipping lines that provide transportation services to shippers are actually both clients and users of the MPA and the rail carriers such as CP and CN.

Shipping lines regularly organize themselves in a partnership or consortium to pool risks when launching a new shipping service in a port. Such an arrangement makes it possible to quickly reach the critical mass required to ensure the new service's profitability. The presence of more than one rail supplier not only makes it possible to expand the pool of potential partners, but to differentiate the service offer from shipping lines that share the same vessel and the same stevedores.

The choice available at the Port of Montreal is a major element in the success of its operations. The shipping lines confirm that this benefit is an important element in assessing ports.

Furthermore, the railways themselves seem to have come to the same conclusion. For example, a coproduction agreement reached between CN and CP in the Vancouver area implicitly recognizes the need to maintain an efficient and profitable service offer -- and that maintaining a duopolistic rail transport service is in the interest of the railways, shippers and the Port Authority alike.

The railways recognize that it is counterproductive not to share the use of rail tracks. Proof of this can be found in the recent efforts to establish memoranda of understanding that allow intelligent routing of shipments throughout the various North American rail networks to promote efficient movement.

In 2007, the MPA shared the findings of a study on port capacity with its partners. Conducted by the firm of *Moffat & Nichol*, the study aimed to 1) identify the operational capacity of the Port and the terminals that handle containers at the Port; 2) identify expansion projects and 3) set a completion schedule that would maintain capacity slightly above container traffic forecasts.

Among the possible expansion plans for the MPA, the sites in Montreal East and Contrecoeur would offer excellent development potential. Discussions on these projects quickly shifted to the strategic issue of the absence of rail service duopoly, because both sites are connected to CN only. For all the reasons listed above, we believe that maintaining a service duopoly, exactly like the one currently in place, is a winning condition for the expansion projects.

➤ **The MPA recommends that mechanisms or incentives be put forward to facilitate agreements for coproduction and train car transfers so as to promote intelligent and efficient freight routing through the only container port in the Quebec-Ontario Trade Corridor.**

### 3. Sustainability of rail corridors

The vast majority of rail corridors were built on land that was not inhabited.

The economic development of cities and regions resulted in urban development in proximity to railroad tracks. In present times, citizens are challenging the presence of these corridors and, in the worst of cases, are requesting that operating hours on the rail network be cut back. This has a major impact on the capacity of these corridors and the facilities that depend on them, including ports.

It is worth pointing out that these are the very municipalities that authorized residential development along these corridors and that they were the first to benefit from them.

The rail corridors represent a major competitive tool in Canadian business development strategies. Changing the natural course of merchandises movement or restricting commerce routes endanger one of our key competitive advantages.

➤ **The MPA recommends putting in place programs to mitigate the problems that arise from cohabitation in order to ensure the sustainability and flexibility of rail corridors.**

### 4. An efficient intermodal transport chain

There are many stakeholders in the intermodal transport chain. Each aims to make full use of its assets and wants to limit its operating costs. However, if pursued individually, these objectives can weaken the chain's efficiency. We note that a good number of stakeholders would rather 'shift' problems to the next link in the chain rather than resolve them. This results in a series of peaks and valleys, inefficiencies that are proving to be counter-productive for all stakeholders.

This approach proves that the blind pursuit of individual interests has a negative impact on the efficiency of the intermodal transport chain as a whole. That is why we believe that an

exchange of information among stakeholders in the intermodal chain and a better understanding of each other's business processes are essential to optimize the efficiency of the intermodal transport chain.

The MPA and its partners joined forces to find ways to improve the performance of the intermodal transport chain as a whole. The experience showed us that an exchange of relevant information among all stakeholders and the establishment of communication platforms, all drawing on the opportunities made available by new technologies, greatly contribute to improving processes in the intermodal chain.

Specifically, the Port of Montreal and its partners are working on the basis of the following processes:

- Three conference calls daily;
- Exchange of operational information among all the stakeholders;
- Agreement on the operational limits of each element in the transport chain;
- Agreement on what measures to take to resolve network congestion problems caused by external factors (e.g., a derailment);
- Long-term planning of the measures to take to address predictable disruptions (snowstorms, holidays);
- Adjustment process of certain components in the transport chain to meet the requirements of one or more parties;
- Development and implementation of performance criteria applicable across the network, from the vessel to the final destination;
- Agreement to continue to implement, collectively, ways to improve the performance of the entire intermodal transport chain.

These exchanges must, however, be supported by a mutual understanding of each stakeholder's operational constraints, and by establishing clear procedures among the partners to solve problems as they arise. The implementation of performance criteria covering the whole intermodal chain completes the picture.

Clearly, the success of such an approach requires mutual trust and its goal must be continuous improvement.

➤ **The MPA recommends the development of structured systems for exchanging information between stakeholders in the intermodal chain, along with the development of performance criteria and usage indices covering the entire transportation chain.**

**These tools take time and are difficult to develop. We hope that Transport Canada acts as a catalyst in the search for best industry practices and promotes their implementation.**

## 5. An informed client base

Clients and users of rail services have expectations from the suppliers they chose. Behind the apparent simplicity of hauling containerized freight, there is a hidden complexity in the demand for services to be provided. Actually, the needs of clients are as varied as the type of merchandise to be transported. For example, perishables need a supply chain with reduced transit and waiting time along with minimal transfer time, but are these minimum JIT requirements justified for all business segments? Is it justified to impose costs related to this containerized freight segment's transportation needs onto all containerized freight transport?

The reality is that there are a great many products and services to meet a great many needs -- and a lot of misunderstanding between each other's capabilities and requirements.

This means that to compensate delays in transport, a shipper will put pressure on a subcontractor, who in turn will put pressure on the next link, etc. To satisfy a client, we are creating a state of emergency at every stage of the chain.

An efficient intermodal chain represents an invaluable competitive advantage.

But efficiency grinds to a halt when abnormal pressures are exerted for the sake of individual profit or due to lack of knowledge.

- **The MPA recommends that Transport Canada develop information tools for client companies on the benefits of an intermodal transport chain and the conditions that must be respected to keep it efficient.**

## **CONCLUSIONS**

The MPA's first three recommendations concern the optimization, sharing and sustainability of the rail networks in order to maintain the Port's competitiveness and attract shipping lines. They aim to ensure that our handling capacity is maximized and to promote the development of our business activities. Given the important role the Port of Montreal plays in the intermodal transport chain, every action that makes it possible to meet these objectives will make the chain more efficient, and consequently more competitive.

The other two recommendations aim for continuous improvement of the intermodal chain, based in part on our experience, but that can easily be further improved if efforts are made to better understand each stakeholder's requirements and to give clients a better understanding of the process. Any change is better applied when it is understood instead of imposed.

We believe that Transport Canada has a prominent role to play in the development and promotion of these recommendations.

The MPA is confident that its recommendations will help develop Canada's intermodal chain in a positive manner, for the benefit of those stakeholders who are directly involved, for clients and for the Canadian economy as a whole.

Montreal, April 28, 2010