



Submission to the
Rail Freight Service Review

Canadian Trucking Alliance

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Introduction

The Canadian Trucking Alliance (CTA) is a federation of seven provincial and regional trucking associations, collectively representing over 4,500 motor carriers. With its headquarters in Toronto and offices in Ottawa, Vancouver, Calgary, Regina, Winnipeg, Toronto, Montreal and Moncton, CTA is the voice of the Canadian trucking industry on policy, legislative and regulatory issues at both the national and international levels.

Trucking and the Economy

The for-hire segment of Canada's trucking industry generates revenues in excess of \$30 billion annually, and contributes more to GDP than air, marine and rail freight transportation combined, according to data published by Transport Canada.¹ The industry employs about 375,000 people, delivering freight services to virtually every community in Canada and throughout North America. While the recession has led to a precipitous decline in north-south freight volumes, in 2008 there were still 11.5 million truck crossings at the Canada - United States border, with trucks responsible for 72 per cent, by value, of imports from the US and 43 per cent of Canada's exports to our southern neighbour².

What distinguishes truck transport from the other modes is service. While there are exceptions, trucks typically operate in short haul markets moving high value commodities under tight delivery schedules, often in response to the just-in-time demands of our customers in the shipping community. The industry is hyper competitive, with some 10,000 carriers vying for freight from shippers throughout Canada and the United States. Trucks also play a significant role in the intermodal system, operating at ports, rail intermodal yards and sidings, and airports across the country, both delivering products to our modal partners and receiving them for delivery at the wholesale or retail level. Trucking is, however, the only mode that provides seamless, door-to-door service.

Truck – Rail Intermodal Traffic

Trucks dominate the freight market because of its superior service in terms of reliability, flexibility, on-time performance, low incidence of freight damage and so forth. Typically where prices are compared where rail and truck might compete, rail can be significantly cheaper. Nevertheless, the fact is that the trucking industry and the railways compete on a relatively small share of the freight market - probably less than 10% of the total. As indicated above, trucking excels in the short distance movement of time-sensitive, high value-added freight. The just-in-time inventory system was built around trucking. The railways, on the other hand, dominate in long distance movements of heavy, bulk commodities that are less likely to be time sensitive (or, in any case, less time sensitive than most truck freight).

However, there is a significant volume of freight exchanged between truck and rail each year. This can occur at one of over 20 intermodal rail yards operated by CN and CP, or at a siding or spur where freight is cross-docked from rail to truck or vice versa. Getting good data on the full extent of this traffic is difficult. Transport Canada was consulted in the preparation of this

¹ All figures quoted in this paragraph are from Transport Canada, Transportation in Canada 2008: An Overview, and associated data tables found at www.tc.gc.ca

² The significantly lower percentage figure for exports is largely accounted for by exports of petroleum products to the US by pipeline, which is considered a mode of transport.

submission, and advised that while rail intermodal traffic is reported, it is not disaggregated between rail-marine and rail-truck. Nevertheless, it would not be unreasonable to assume that the number of truck-rail transactions would run into the hundreds of thousands each year. Ideally, a rail - truck intermodal move makes use of the best characteristics of both modes; rail for its ability to move large quantities of freight over long distances over dedicated rights of way at competitive prices; and trucks for the flexibility to service the shipper or receiver with fast, reliable and flexible service regardless of origin or destination. Most truckers view intermodalism this way . they are in the transportation service business and it makes no difference to them if their customers freight moves over the highway or over the rails, so long as the combination of price and service is transparent to their customers. As stated above, rail is typically cheaper than truck, so it usually boils down to service.

It is worth noting that CN's trucking operation, CNTL, is now, in the words of the company one of Canada's largest full-load trucking companies+ with 700 drivers, 6000 chassis and 6,000 containers. It advertises short and long haul trucking, import and export drayage, door delivery, shipping to any destination and expedited service options.+ More will be said on this subject later, but as a general observation, the old paradigm whereby the Class 1 railways worked primarily with for-hire trucking companies to move intermodal freight is breaking down, at least in the case of CN, where more and more freight remains within the CN corporate network.

Rail Service – Trucking Perspective

From the trucking industry's point of view, railways should be seen as partners in the movement of freight, with each mode able to exploit its inherent advantages, providing each with a sustainable return on investment and delivering superior service to Canadian shippers and receivers. And some in the trucking industry believe that to be the case, enjoying a relatively smooth and profitable relationship with the Class 1 railways. However, it cannot be said that this is the majority view.

In preparation for the drafting of this report, CTA decided to conduct an on-line carrier survey to gauge the current level of satisfaction with the Class 1 railways in Canada. A copy of the survey questionnaire can be found in the Appendix to this submission. In addition, meetings and telephone discussions took place between CTA staff and a small number of carriers who have significant experience dealing with the railways. What CTA heard, from 49 carriers during the early part of 2010, is nearly a mirror image of the results of the study conducted by NRG Research Group as part of the rail freight service review. The principle findings are outlined below:

As part of the survey, carriers were asked whether they were pleased with the current level of service provided by the Class 1 railways. Of the 49 responses to this question, nine (18%) answered yes+ and 40 (82%) answered no+. While admittedly not as sophisticated as the NRG survey, the results show a remarkable similarity of views between shippers and carriers from the trucking industry.

Reasons for Satisfaction

As noted above, while in the minority, there are those in the trucking industry who expressed positive views regarding their relationship with the railways. Positive views were generally the result of a pattern of reliable on-time performance, the ability of railways to offer competitive prices, and an ongoing, positive relationship with a railway customer service representative. Positive views were expressed by carriers using both CN and CP.

Reasons for Dissatisfaction

Inaccurate Supply of Cars . It is important to trucking companies that the number of rail cars delivered to a siding match what was ordered. This is necessary to service customers, as well as to ensure an efficient deployment of equipment and drivers by the trucking company. A number of individuals expressed concern over unreliability, which impacts carrier costs and the ability to meet customer demand.

Unreliable on-time performance . It is very expensive for carriers to dedicate equipment and drivers to a pick up or delivery location when the other partner is not prepared. Waiting at a rail spur for a boxcar is no different than waiting to be loaded at a shipper's dock. Drivers must be paid to sit and wait, and the clock runs on their hours of service. An expensive asset sits idle, generating cost but no revenue for the carrier. With tight delivery schedules there is bound to be an unhappy receiver, and possibly an accessorial charge levied against the carrier for late delivery.

Wait times, intermodal terminals . Problems at some of the busier intermodal terminals, such as CN Brampton, are well known. And while efforts by all parties have been taken in recent years to reduce delays, many carriers in the CTA survey indicated that this remains a major issue for them. As one indicated, % you have to be part future teller. You have to book reservation to enter their yard 3 days in advance. Then spend countless hours of dispatch time trying to move appointments when changes to times occur 4 to 6 hour delays are not uncommon and uncompensated.+ While it would be difficult to quantify, there are no doubt environmental impacts caused by excessive wait times as well, as trucks idle in queue.

Demurrage Charges . Though this issue is typically raised by shippers, trucking companies also face demurrage charges. The problem trucking companies face is that they have no control over train schedules, and if there is a last minute change, they may not be able to respond quickly enough to deliver containers at a time that is convenient for the railway. Carriers also expressed frustration with increases in detention charges, which again they have no control over.

Market Impacts - Canadian Class 1 railways do not operate in normally functioning economic marketplace. In some cases, they are the sole provider of rail service to a particular receiver or shipper. In others, they face a single competitor. And to the degree that freight is transferrable between modes . which is not always possible . they may face competition from truck or marine carriers. This contrasts with the highly competitive marketplace in which Canadian trucking firms operate, where shippers are free to choose from some 10,000 domestic service providers, not to mention US carriers on cross border routes.

It is therefore a concern to CTA that the highly competitive domestic market for truck freight may be disrupted as CN becomes an ever-larger presence in trucking. A rail carrier that operates part of its business in a monopoly or duopoly has an inherent advantage when it comes to pricing the truck portion of an intermodal move. (The fact that CN had debt forgiven by the federal government when it was privatized is not lost on trucking companies, either.) And while CTA is not in a position to research the direct impact on price in local truck markets where CN operates, there are certainly those who believe that as the railways' involvement in trucking expands, there is downward pressure on rates that make it difficult for for-hire carriers to earn an acceptable return on investment. Trucking companies are not afraid of competition, far from it. They just want to know that all parties are on an equal footing. The corollary – a situation where a trucking company establishes a rail division and operates over the rail infrastructure under an open access scenario – has been discussed in the past in Canada, but to CTA's knowledge has always been rejected by Transport Canada on safety grounds and by the railways for the logistical challenges such an arrangement would present.

Customer Service - If there is one overriding theme that permeates the responses from trucking companies to the CTA survey, it is that there is an attitude of indifference displayed by the Class 1 railways towards the carriers they should be partnering with in the trucking industry. Many expressed the view that the dearth of railway competition, which is the antithesis of the business environment in which trucking companies operate, leaves the railways with little incentive to be responsive to trucking issues and concerns. Phrases such as "dictatorial attitude", "little flexibility", "take-it-or-leave-it attitude" and "they don't care for the customer" can be found in the responses of trucking companies to the CTA survey. Interestingly, a senior railway official was recently widely quoted as saying much the same thing in a speech to executives in Toronto. "Our bedside manners kind of suck" he noted bluntly.³

Concluding Observations and Recommendations

CTA is clearly not alone in expressing concerns over service provided by Canada's Class 1 railways. At the same time, we are not naïve about the challenges of operating a railway over thousands of kilometers of track, with tens of thousands of pieces of equipment in one of the most inhospitable climates on the planet. We understand and accept that all parties in the supply chain need to coordinate their activities, and that railways cannot deliver on service commitments if other parties are not living up to theirs as well. CTA has no interest in exploiting the shortcomings identified in our own survey, and by others involved in this review process, in an attempt to improve truck carriers' standing in the freight marketplace.

The fact is, trucking companies have historically, and will remain, business partners with the Class 1 railways. It is safe to say that some trucking companies would like to move *more* freight over rail if only the conditions could be made more palatable. It is telling that one of the trucking executives CTA consulted in the preparation of this submission indicated that at one time, roughly one-third of its freight actually moved by rail, but now it is down to virtually nothing due to service issues. The carrier is now almost exclusively over-the-road. So how can a set of conditions be created that will reverse this trend? Will it be possible to establish conditions that allow for a more balanced relationship between the modes such that railways become fully accountable for the costs they impose on trucking companies due to service shortcomings,

³ The official, CN's Assistant VP of Sales and Marketing, was speaking at a meeting of the Council of Supply Chain Management Professionals in Toronto on April 6, 2010. As quoted in *Today's Trucking*, web edition, April 8, 2010.

while also retaining the ability to impose economic sanctions on supply chain partners when they fail to live up to their obligations?

In CTA's view, it would be a mistake to jump immediately to regulatory or legislative fixes. As noted several times in this submission, trucking operates in a de-regulated and highly competitive marketplace, and we are loathe to suggest that bureaucratic structures be put in place that would regulate the relationship between business partners, except as a last resort. At the same time, we are seized by the notion of mutual accountability, whereby each party in the relationship bears the costs it imposes on others. The various charges the railways impose on their supply chain partners for breaching their obligations are well known. And while CTA believes that CN has taken a positive step with its Guaranteed Car Order program, which credits shippers \$100 for every railcar that is not delivered on the promised date, it is our general observation that the opportunities for trucking companies to recoup costs imposed on them by railway service shortcomings are severely limited.

What CTA would recommend would be a series of measures, beginning with the most benign and only advancing to the next stage if demonstrable progress in service could not be achieved. The very fact that this review is being undertaken leads, in CTA's view, to an important opportunity for the Class 1 railways to respond to the concerns of trucking companies and others in the supply chain for the shortcomings that have been identified. CTA believes that, at minimum, the following steps should be taken:

1. The review panel should require the Class 1 railways to respond in detail to its final report, including the drafting of an action plan with deadlines for addressing its final recommendations.
2. Progress against the action plans should be monitored by the Canadian Transportation Agency. Follow up surveys of, at minimum, carriers and shippers should be conducted by the Agency.
3. In order to respond to concerns raised by trucking companies about the impact of rail's growing involvement in trucking, the federal government should conduct a policy review to determine how prices for trucking services are impacted by this development.

If the Class 1 railways fail to implement service improvements as called for by the panel, the federal government should consider other, more far-reaching measures such as:

1. Establishing a forum whereby trucking companies could bring forward damage claims against the railways for service shortcomings.
2. Considering again the viability of some type of open access arrangement to the rail infrastructure.

Appendix 1

Results by Question Rail Service Review As of: 4/28/2010 2:47:52 PM		
Questions	Answers	Results
Page: 1.		View
1. Which Canadian railways have you worked with?	49	View
2. What type of service have you used?	48	View
3. What freight yards/terminals have you accessed?	45	View
4. Why have you partnered with the railways?	48	View
5. Have you been pleased with the service?	49	View
6. If you answered "Yes" to question 5, please elaborate.	9	View
7. If you answered "No" to question 5, please elaborate	38	View
8. Do you have any suggestions in terms of best practices or areas of improvement?	40	View
9. Are there any other matters you would like to bring to the attention of the review panel?	24	View
10. Contact for further information (name, e-mail)	38	View