



April 29, 2010

Mr. Walter Paszowski
Chair, Rail Freight Service Review Panel
Transport Canada
180 Elgin Street
Suite 808
Ottawa, Ontario
K1A 0N5

Dear Mr. Paszowski:

RE: Submission to Rail Freight Service Review

I am writing on behalf of the fourteen members of the Association of International Automobile Manufacturers of Canada (AIAMC), the national association representing the Canadian interests of 14 manufacturers and distributors of light duty vehicles including BMW Canada Inc., Honda Canada Inc., Hyundai Auto Canada Corp, Jaguar Land Rover Canada ULC, Kia Canada Inc., Mazda Canada Inc., Mercedes-Benz Canada Inc., Mitsubishi Motor Sales of Canada Inc., Nissan Canada Inc., Porsche Cars Canada Ltd., Subaru Canada Inc., Suzuki Canada Inc., Toyota Canada Inc., and Volkswagen Group Canada Inc. Our member's contribution to the Canadian economy and marketplace is substantial. In 2009 our members accounted for over 55% of all new vehicles sold in the Canadian market.

Members of the AIAMC are encouraged that the government is reviewing the current state of rail freight service in Canada. Ensuring effective and efficient freight travel is important to the automotive industry especially since so much of our business depends on timely delivery. The AIAMC appreciates the opportunity to submit comments and recommendations in response to the Rail Freight Service Review. In making this submission we are mindful of the exhortation in the Review Panel's Call Letter for Submissions, dated November 9, 2009, asking for "*submissions for improving the rail-based logistics system*".

Performance Standards & Accountability

The consultant's reports to the Review Panel reveal that railways do not structure operating plans or design systems to deliver appropriate, consistent customer service to rail freight customers. Many of the AIAMC members experience frustration and financial impacts as a direct result of these issues. As such, rail delays have a large financial impact to many of our members. Delays often result in manufacturers failing to meet their dealer's needs. As a direct result, there is a loss in retail sales and therefore lost revenue to the overall Canadian economy. The phase 1 consultants' report confirmed the prevalence of wide-spread chronic service problems that in turn cause serious delays. The report points out that 62 percent of rail shippers that were surveyed said, "*they suffered a serious financial impact as a result of poor rail freight service*".

As noted in the *Shipper's Survey* conducted by NRG Research Groups (phase 3 consultants' report), a large gap has developed in the level of customer service and accountability in the rail industry. We note that over half of the shippers surveyed believe there are no or very few measures in place to hold railways accountable for their customer service performance. Lack of recourse for stakeholders to hold the railways to account for breakdown in service gives little or no incentive for railways to improve their service consistency and reliability given the lack of competitive pressures that these carriers have the benefit of enjoying. The AIAMC members believe that financial penalties would provide an appropriate incentive for railways to improve their overall service performance. In order to ensure that railways are sufficiently motivated to deliver customer service, there must be consequences in place for non-performance.



To build consistency, reliability and accountability into the system the AIAMC supports the recommendations made by NRG Research Groups that calls for *"financial penalties or more overall regulation to solve issues, which will in turn assist in increasing accountability"*.

The AIAMC strongly believes that two key outcomes of the Review should be tools or policy levers to increase the accountability of the railways to their customers and the development of a national set of key performance indicators to measure service on a continual basis. Key performance indicators (KPI's) will also prove to be an essential tool in assessing whether or not the recommendations of the Review result in improved service levels.

Railcar Supply

CN and CPR currently evaluate supply forecasted over a five day window. We would like to recommend that this be reduced to two days as incorrect railcar type (Bi versus Tri) can result in lost capacity and/or penalties for misuse issued by the railways themselves.

Rail/Port Service Contracts

Service standards/KPI's and accountability clauses (compensation) are needed between parties as sub performance on one side also negatively impact the service level and profitability of the other.

Rail Interchange Agreements

Rail Interchange is a key contributor to dwell time and a potential detraction to "on-time" performance. AIAMC members believe that service agreements between rail companies, with enforceable penalties, must be implemented. Such agreements need to be filed with the appropriate Governmental body so that they hold weight when one rail has a dispute.

Capacity Issue

Another issue of great importance to our members is the challenge surrounding capacity issues in rail yards. For instance, outbound traffic from Halifax and Vancouver is often hampered by capacity. Inland, there is simply a shortage of physical space in rail yards that have detrimental effects to all levels of the supply chain. Inevitably, this increases travel time of cargo, adds to retail customer dissatisfaction and is an added expense to those companies. Many rail facilities in large centers have not increased capacity despite the ever increasing share of volume that our members represent in the Canadian automotive market. Taking a serious look at how these capacity issues could be alleviated to ensure the supply chain moves efficiently would be valuable.

Damages to commodities

An issue of concern, particularly for the automotive industry is the issue of damages to commodities. When high priced commodities such as automobiles are shipped in the volumes that they are, damages are a frequent occurrence during the shipping process. There is a need to have a comprehensive overview of the damage assessment and payout process for high priced commodities such as automobiles.

Fuel Charges

Although not addressed in the Rail Freight Review, an area of particular concern to our members is fuel surcharges. Fuel surcharges change dramatically depending on a number of factors. It would be helpful to take a closer look at how the fuel surcharge is determined versus other similar transportation sectors within the industry. We would recommend that this be looked at in a future Review.



ASSOCIATION OF INTERNATIONAL AUTOMOBILE MANUFACTURERS OF CANADA
L'ASSOCIATION DES FABRICANTS INTERNATIONAUX D'AUTOMOBILES DU CANADA

Embargoes

An area that deserves further attention would be the process in which embargoes are issued. There are a number of things that should be considered including communication and the permit granting process. Currently there is little information available to customers on how this process is administered. There is also a need for the Railways to set a standard for communication and a commitment of minimal impact to non-contributors/offenders.

Conclusion

We would like to thank you again for the opportunity to provide input in the Rail Freight Review. We look forward to working with you on this important initiative and reviewing your recommendations on improving Canada's rail freight service.

In the meantime, if you have any questions, please do not hesitate to contact me directly.

Sincerely,

Mary Hogarth
Director, Policy Development and Corporate Affairs
Association of International Automobile Manufacturers of Canada