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April 30, 2010

Walter Paszkowski, Chair
David Edison, Member
William H. LeGrow, Member

Rail Freight Service Review Secretariat
Suite 808 – 180 Elgin Street
Ottawa, Ontario
K1A 0N5

Re: Rail Freight Service Review

Dear Sirs:

At the request of the Canadian National Railway (CN), Oliver Wyman was engaged to prepare an independent, third-party assessment of the QGI Consulting reports submitted as part of Transport Canada's review of Canadian rail logistics. Oliver Wyman was asked to, at a high-level, validate the methodology used by QGI to analyze the data provided to them by the railroads, and based on our international experience with freight railroads, review, comment, and provide additional perspective on the insights and conclusions drawn from those analyses.

Key findings from this review include:

- In general, the QGI reports appear to use a consistent and applicable methodology and a series of analyses that support the findings as far as they go. Oliver Wyman's primary concern, however, relates to the scope of the study. QGI's observations on rail performance do not provide any context on the relative performance of the Canadian Class I railroads against other railroads in North America and internationally to provide a sense of where these Canadian railroads stand on the performance continuum. The study evaluates the performance of one supply chain stakeholder in isolation, rather than performing an end-to-end system evaluation, where the related actions of other stakeholders are either controlled or accounted for within the total system dynamic.
- Establishing a reasonable target for rail service performance first requires understanding whether there is a performance gap between the Canadian freight railroads and their peers, both in North America and internationally. Comparative data, as well as Oliver Wyman's rail industry experience worldwide, suggests that this is not the case. North American freight railroads are widely considered to be the benchmark standards that international railroads



MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

OLIVER WYMAN

Page 2
April 30, 2010

look to for understanding where opportunities exist to improve service efficiency and reliability. Moreover, within the North American context, CN is considered to be a world-class leader and innovator in terms of many service metrics versus other North American counterparts.

- Railway logistics supply chains are among the most operationally complex in the world. Variability can originate anywhere across the supply chain; the impact can then reverberate throughout the entire supply chain, such that the actions of any one stakeholder can manifest in the performance of the others. In the absence of an end-to-end supply chain evaluation, the variability demonstrated in QGI's analysis does not necessarily indicate significant railroad performance issues. Additionally, given the complexity and interdependent nature of the broader logistics supply chain, 100 percent system performance is simply not attainable. In the absence of empirical data on either how well the overall supply chain is performing, or how well it is meant to perform, stakeholders must collectively evaluate what is operationally and economically feasible as a basis for establishing reasonable performance standards.
- It is in the interest of all stakeholders to work together towards improving overall supply chain performance. A common approach other supply chains are pursuing to improve overall system performance is through improved information flow and end-to-end visibility. Oliver Wyman's own logistics experience and familiarity with such solutions in a rail context suggest that such commercial solutions may offer the greatest potential to improve rail logistics supply chain performance.

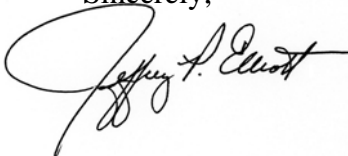
Ultimately, responsibility for driving system-wide performance improvements lies within the supply chain itself. Stakeholders must first agree on how they want the supply chain to perform. Second, they must determine what level of resources it makes economical sense to commit so as to achieve these performance levels. Third, they must develop and agree on solutions to achieve performance improvements. Finally, they must conclude commercial agreements to cover resource commitments and ensure agreed upon performance levels. These are all activities the supply chain stakeholders themselves are best equipped to evaluate and reach agreement upon. Intervention by a regulatory body could distort commercial incentives and have unintended negative consequences on service scope and performance.

OLIVER WYMAN

Page 3
April 30, 2010

While we have reviewed our findings with CN prior to its submission today, we have retained our independence and objectivity both in terms of content and conclusions. A copy of Oliver Wyman's Comments is enclosed with this letter of transmittal for your consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeffery P. Elliott". The signature is fluid and cursive, with a large initial "J" and "E".

Jeffery P. Elliott
Partner
Oliver Wyman
Princeton, NJ

Sincerely,

A handwritten signature in black ink, appearing to read "Gilles Roucolle". The signature is more stylized and less cursive than the one above, with a large initial "G" and "R".

Gilles Roucolle
Partner
Oliver Wyman
Paris/Montreal