

Ainsworth Lumber Co Ltd

May 7, 2010

Subject: Call for Submission - Rail Freight Service Review

Thank you for the opportunity to submit our review of the service levels offered by the Canadian railways.

We are a shipper of forest products for over 50 years utilizing the railways assets to service our customers throughout North America and overseas through ports both on the east and west coasts of Canada. In addition, we rely on the railways to supply raw materials such as logs and chemicals to our manufacturing plants. Our finished products have to be protected from outside exposure thus, must move from our warehouse to our customer in closed equipment. The warehouse is designed to accommodate enough product so as to allow 48 hours to cool before loading into rail boxcars. In general, warehouse rail track provides for loading one day's production.

Our experience of the service levels provided by the railways is dependent on the location considered and service provider. At locations where there is rail competition, service is better. In general, the railway performs well in moving freight long haul on their mainline networks.

However, we have been harmed both financially and in terms of being a reliable supplier to our customers as a result of the unreliability of rail service at our operations particularly those off mainline and at considerable distance to interchange and markets.

Our company has operations served by track that is in need of upgrade and restricts the full loading of railcars and regular speed for travelling. Such deficiencies in track standards and upgrade increases our unit freight cost and delays our delivery.

The harm created with the railway's unreliability is mainly the result of service failures. That is, when a commitment is made by our company and the railway to offer carload volumes for loading and shipment and the railway fails to perform the service of supplying the equipment and picking up the loaded car as promised.

Such service failures are chronic and rarely any week goes by without having such an occurrence at one or other of our operations. As our operations are 24/7, producing consistent volumes, we provide the flexibility to load railcars supplied to our mill warehouse beyond specific delivery times. However, when we go through a day with loading crews and equipment waiting, the company has expended hundreds of thousands of dollars annually in sunk costs that are non-recoverable. We are only made aware of a failure when no cars show up at our facilities.

A cost less measurable but greater is when we fail to meet the contractual arrangement to deliver to our customers within the contract shipping period. Not only does this result in product price adjustments but, loss of future orders.

Our warehouse space is limited thus, finished products must move on a continuous basis.

Thus, rail service failures necessitate immediate alternate steps to move product from the mill. Our company has endured considerable costs over the years to have contingency plans in place given the railways unreliability. As each of these service failures are investigated with the railway, blame is passed between the two railway 'silos", car Management and Operations. For service failures that result from lack of car availability, a recommended solution is to provide an on hand inventory of empty cars (equivalent to one to two day's normal shipping volume) both at the mill site or local yard and not subject to optional services charges. This initiative may not meet demand all the time but would smooth out chronic shortfalls and, from the railway's perspective would secure more loads that would otherwise move around them.

Service failures due to Operations can only be solved with adequate manning and locomotive power throughout the respective sub-divisions. Too often service failures are created by crew shortages or crews running out of time. Additionally, switches are all too often not made due to local locomotive power failure. Our experience of local service in BC, Alberta and Ontario is that mill switching is carried out with old locomotives that are more susceptible to breakdown.

The unreliable service provided to the Grande Prairie region in Alberta has been a factor in the company's decision not to invest in rail infrastructure at our Grande Prairie mill.

Switching and pick up should be a metric that the railways are held accountable for and made part of their public reporting alongside operating ratio or safety record. Additionally, the Panel should consider some form of penalty (imposed under the Level of Service provisions of the Canada Transportation Act) when such metric is not achieved - similar to that imposed on the airline industry. Such penalty should be of a substantial monetary amount (made payable to a Federal agency) that forces a commitment to improve within a relatively short time period otherwise triggering another such penalty. Systems are already in place to monitor such performance and easily verified by the shippers and receivers of goods.

Additionally, the shipping community would benefit from, and be able to take some pro-active measures, with information available publically on the railways fleet movements in so far as;

- Cars under load
- Empty cars in transit
- Cars in storage

Such data to be made available by car type and by region - e.g. by province.

With respect to the movement of raw materials to our plants, our sourcing of raw logs is negatively impacted by the railways private siding agreements on log load outs. Many of the railway's load-out sidings are left unused and unavailable to companies sourcing logs in the area due to grandfathered agreements denying new purchasers of logs a rail option to move them to our plants. Log supply by rail could be increased substantially by the railway having a provision in their agreements to allow third party access when sidings are not being used.

As we have not seen any Canadian railway purchase new log cars for many years, we have to conclude that the hauling of logs is not considered part of the railways future plans. Our experience is that the condition of the existing equipment is deteriorating rapidly with un-repairable cars not being replaced.

For many of us in the forest industry relying more on longer hauls of raw logs, rail service is essential. Thus, the panel should include as part of its recommendation that the Canadian railways maintain and enhance its service in hauling logs by upgrading and increasing its fleet of log cars and, as mentioned earlier, provide a mechanism for active log haulers to access the limited sidings on the railway's network.

In summary, the key factors the Panel should consider;

- Rail service should be measured on the carrier's performance in the first mile and the last mile in addition to their mainline performance.
- Railways must be held accountable for service failures with a substantial monetary penalty and a deadline, subject to further penalty, for fixing with measured results.
- Railways are required to report on the status of their fleet (by car type) cars under load, empty in transit cars and stored cars. Such data to be broken out by region and made available weekly.
- Shippers of raw logs require a commitment from the railways to provide such service by allowing access to the limited sidings available in log harvest areas and not in use.
- The railways infrastructure to customer facilities should be maintained to provide the lowest unit freight cost and shortest transit time.

Thank you again for the opportunity to provide input on this vital link in successfully conducting our business. I would be delighted to answer any questions arising from your review of the above and would welcome the opportunity to provide further clarification or detail if you so wish.

Sincerely Yours,

Sean Mullany P.Eng

General Manager of Transportation
Vancouver, BC