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Railway, CN & Vancouver
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**CANADIAN
PACIFIC
RAILWAY**



A Logistics and Capacity Forum

Pacific Rim Trade Growth: Challenging Rail Capacity Through the Vancouver Gateway

August 24, 2004

Post-meeting report prepared by WESTAC

Seventy representatives of the ocean-port-inland system met (August 24, 2004 in Vancouver) to help resolve rail freight congestion and delays through the Vancouver gateway. This report summarizes the outcomes.

The opinions expressed in this report are representative of the discussions. They do not necessarily represent the views of the hosts – CN, Canadian Pacific Railway, Vancouver Port Authority – or of WESTAC or its members.

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Summary

Strong growth in Pacific Rim trade will continue over the next 15 years. Vancouver's ability to handle the resulting rail traffic will require:

- **operational changes** to make incremental improvements
- **significant investment** in rail capacity
- **regulatory certainty** – amendments to the *Canadian Transportation Act* (CTA) without forced access provisions

Vancouver has experienced significant volume growth over the past year and it is forecast that rapid growth will continue over the next 15 years. All stakeholders - ocean carriers, retailers, producers, terminal operators, and railways – will be impacted.

Fulfilling these three requirements above will make the supply chain more efficient.

Tom Boardley, P&O Ports Canada, pointed out inevitabilities:

- cargo will always get to its destination [but]
- customers will pay more...
- lead times will increase...
- [and] more Canadian cargo will be shifted to move through the US

Note: Delegates discussed rail service often without saying whether they were referring to a specific railway or railways generally.

Strong growth is forecast

There has been strong demand in recent months for Canadian bulk and break-bulk cargo exports – coal, potash, grain, sulphur, pulp, and wood products. At the same time, container imports are up significantly. The Vancouver Port Authority (VPA), Canadian Pacific Railway (CPR) and CN delivered a consistent message that they expect **significant volume growth through Vancouver** to continue for the next 15 years.

Capt. Gordon Houston, President & CEO of VPA, stated that intermodal growth will surge by 15-20% in the next three years. The Port's growth target is 7% per annum over the next 15 years. This target was supported by many of the delegates. Some ocean carrier representatives even cautioned that the 15-year forecast is too conservative and that double-digit growth should be expected. Others expressed concern that the growth forecasts exceed the railways' ability to invest.

"...this gateway has the opportunity to be the conduit for about 5.3 million TEU's by the year 2020."

Capt. Gordon Houston
Vancouver Port Authority

Problems exist

Shippers and terminal operators are clearly frustrated with recent rail service difficulties of inconsistent service and increased transit times.

Manufacturers and end-use customers, foreign and domestic, demand timely delivery. Our just-in-time system depends on it – whether for coal shipped to China or electronics from Asia sold in Canadian retail stores. However, **the transportation system should not be used as a warehouse** for retailers.

"[my] customers are concerned about reliability...we now have just-in-time delivery for coal."

Jim Popowich
Elk Valley Coal Corporation

Problems are caused by:

- inaccurate demand forecasts
- uneven demand [for rail services] by day, and by week
- lack of co-ordination among railways
- inadequate rail car supply
- inefficient handling of empty containers
- lack of investment in needed infrastructure & equipment
- inflexible labour contracts (static shift times)
- lack of regulatory certainty, including better shipper protection provisions
- NIMBY attitude in communities

J-I-T RIP?
"Together as a transportation chain, we need to determine whether a different model is required."

Capt. Norman Stark
TSI Terminal Systems Inc.

Our crew labour costs attributed to non-delivery or late delivery of trains were \$197,000 in 2001 – and have risen to \$960,000 YTD 2004.

Glenn Taylor
Neptune Bulk Terminals
(Canada)

Shippers, ocean carriers, and terminal operators acknowledged that they **have a role to play** in making the ocean-port-inland system more efficient.

Solutions in three areas...

1. Improve coordination and integration

Capacity could be increased through operational changes with little financial outlay.

CN and CPR must **expand co-production, equipment interchanging and other co-operative initiatives**. Initiatives should be broadened to include Burlington Northern Santa Fe Railway and Southern Railway of BC. CN and CPR indicated that they are in negotiations to expand co-production and will likely have an announcement soon. If better co-ordination in the Vancouver area does not occur, the feasibility of a terminal ports railway should be explored. A specific recommendation was to update the dispatch protocols which have not been updated in 20 years.

Some questioned whether CN and CPR could work together to move some traffic, especially grain, through Prince Rupert. There are **under-utilized assets in Prince Rupert** that could be used to alleviate some congestion in the Vancouver gateway.

Railways and ocean carriers should consider **“balancing agreements”** to ensure that carriers use Vancouver as an import and export gateway in an equal proportion.

System integration would be improved by:

- o working towards 24/7 operations throughout the entire system
- o prioritizing traffic before it lands at the port
- o rationalizing line-haul movement of empties
- o minimizing repositioning moves and empty box storage
- o technology that would permit double-stacking of empty 20-foot containers
- o making greater use of off-dock facilities
- o increasing capacity of the New Westminster rail bridge; better co-ordination and bridge deck improvements to allow for higher speeds
- o improving operation of joint section at Sapperton to improve access to North Shore
- o negotiating operational flexibility into labour agreements to allow train crews to run through to point of drop off [when operating on another railway's line]

“Consistency is more important than speed.”

Dave Seabourn
Wal-Mart Canada Inc.

It was suggested CN and CPR extend directional running:

- east of Kamloops to Winnipeg
- south shore of Burrard Inlet (Cascadia Terminals to Centerm)

Increased collaboration between port terminals, ocean carriers, and railways to smooth the flow of traffic would create 15 - 20% more system capacity.

Paul Waite
CN

Reducing or eliminating long-term service contracts may enable railways to provide more flexible rail service through more market driven pricing. Better matching price with value received and absolute price increases may help manage demand. Suggestions to change behaviour included:

- discounting rates to ‘motivate’ customers to avoid peak times (ie reduced weekend and evening rates)
- incentives and penalties (air miles for truckers, fines for missed reservations)

Working groups could be formed to handle spot improvements. Short-term issues such as co-production and smoothing; medium term issues: regulatory stability, collective agreements; and long-term issues: co-ordinated investments (eg a terminal and a railway agree to add capacity) should be addressed. A group should be established to regularly update demand forecasts and share information with all stakeholders. Other suggestions were for a shipper group; three groups to look separately at North Shore, South Shore, and Fraser-Surrey issues; and a small group of CEOs to advance strategic proposals for improving the ocean-port-inland system.

Delegates did not develop any of these groups further at the meeting. **Chris Badger**, Vice President, Customer Development and Operations at the VPA, stated there is already a Port Stakeholders Committee formed in 1999 that works to resolve operational issues. Some delegates were not aware of this committee and were interested in learning more about the committee’s activities.

Suggested working groups:

- a group to focus on operational issues: short, medium and long-term
- a shipper group
- three separate groups on area-specific issues: North Shore, South Shore, Fraser-Surrey
- a group of CEOs to move strategic initiatives forward
- small group to identify demand on an on-going basis and share information with all stakeholders

2. Governments to create framework

All levels of government – federal, provincial, and municipal – need to help the transportation system meet anticipated growth. They create the environment for investment. For the most part, delegates did not raise safety or security issues nor call on governments to reduce taxes or invest more money in transportation.

CN and CPR differ on the degree to which they view **regulatory uncertainty as an obstacle** to investment. **Fred Green**, Executive Vice President, Operations and Marketing, CPR made it clear that the Board of CPR will not undertake a significant investment program until the planned amendments to the *Canadian Transportation Act* (CTA) are known and do not include “forced access”. The failed **Bill C-26**¹ did not satisfy CPR on all issues, but at least it provided certainty **as it did not contain forced access provisions**. CN will continue to invest in infrastructure as required.

Bill C-26 would have amended the *Canada Transportation Act* (CTA) but died when Parliament adjourned for the election. **Louis Ranger**, Deputy Minister, Transport Canada, cautioned about the fullness of the legislative calendar, which may slow passage of a new Bill to revise the CTA.

¹ Bill C-26, *An Act to Amend the Canada Transportation Act and the Railway Safety Act, to Enact the VIA Rail Canada Act and to make consequential amendments to others Acts*, 2nd sess., 37th Parl., 2003.

Existing legislation provides shippers protections. Shippers want amendments to the *CTA* to enhance these protections. Many delegates were willing to support CPR in asking that government not enact **forced access legislation** but wanted similar support from CPR on **shipper protection issues** (eg final offer arbitration (FOA) and level of service definitions). Others would like open access legislation enacted to provide additional rail competition. Some delegates, especially ocean carriers, were not aware of the access issue and requested additional information.

The federal government should pass *CTA* amendments as soon as possible to provide certainty on these issues. **Louis Ranger**, Deputy Minister, Transport Canada, recognized the desire for regulatory certainty but cautioned that the *CTA* may not be on the fall legislative agenda. He said that other issues such as the sale of the government-owned hopper cars need to be resolved.

Fred Green urged participants to push the government to enact *CTA* amendments this fall.

Port lands are critical for the operation of the ocean-port-inland system. The federal government should intervene to **protect port lands** for port use. Federal and provincial governments may need to intervene against municipal environmental, taxation and zoning decisions, such as the BC government did in capping terminals' property taxes, to ensure the strategic value of Canada's ports and railways is realized. Delegates called for the federal government to pass amendments to the *Canada Marine Act*.

Delegates suggested that provincial governments need to **exercise greater control over municipalities** that "expropriate by zoning". Also, provinces should use highway and road investments to supplement rail capacity by, for example, creating better road interchanges near intermodal terminals.

Municipal governments can provide an environment conducive to investment by:

- ensuring that industrial lands are not overtaxed
- ensuring that zoning and regulations such as noise by-laws do not hinder the movement towards 24/7 operations

Governments must help **educate the public** about the importance of ports, railways, and terminals to the economy, to society, and to the consumer, to reduce the prevalent NIMBY attitude.

"For shippers to accept the existing railway competitive situation [support Bill C-26], there is a quid pro quo required – specifically, amendments to the *CTA* with enhanced shipper protection clauses such as a streamlined FOA process to challenge rates, ability for shippers to challenge ancillary charges, and enhanced competitive line rates at country loading points."

Mayo Schmidt
Saskatchewan Wheat Pool

Kathie Miller, BC Ministry of Transportation, said the benefits of the BC Government's Port Strategy Project will go beyond the port industry, providing a tactical, multi-modal action plan.

Ed Kargl, Fraser River Port Authority, stated that federal government intervention is needed to protect port lands.

3. Investment is required

All stakeholders must make investments to handle increased demand. Of course, these **investments must earn a satisfactory return**. Terminal operators in Greater Vancouver have plans to invest hundreds of millions of dollars to increase the capacity of Deltaport, Centerm, Fraser-Surrey, and Vanterm. The Vancouver Port Authority has plans for another container terminal at Roberts Bank. Shippers are making investments to meet demands for their products – Elk Valley coal is opening a new mine; Saskatchewan Wheat Pool is investing in its terminals. Railways must also invest.

Some retailers questioned CPR's commitment to containers as they have the impression that bulk cargo has priority. **Fred Green** stated that CPR is committed to container business and that investment plans demonstrate that commitment.

Louis Ranger reminded delegates that the federal government has infrastructure programs which would allow for investment in railways and ports. To date these funds have not been accessed for these uses.

More accurate forecasts require that shippers work with transportation service providers. In turn, railways must work with ports and terminals to ensure the entire supply chain will have the required capacity. **Sufficient capacity – not excess capacity – is the way to provide efficient, competitive service for the shipper.**

CN has a free-running system that has adequate capacity to accommodate future traffic growth. CN will continue to invest in infrastructure as required.

Paul Waite
CN

SUGGESTED NEXT STEPS

- WESTAC to prepare an analysis of the key elements of Bill C-26 (forthcoming)
- Participants to determine whether they will support CPR's request for regulatory stability (Fred Green's letter of Sept. 20)
- Speech from the Throne may suggest additional actions
- Develop a small group of CEOs to advance strategic proposals for improving the ocean-port-inland system (VPA has offered to facilitate)
- Participants to meet next year to update demand; report on progress; and develop additional strategies

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