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Theme: Solving Today's Transportation Puzzle

**Panel Discussion: The Transportation Blueprint -
What Shippers Require**

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Introduction

“What’s good for carriers is good for shippers.” Is this a self-serving comment from another arrogant railway person?

Actually it’s a paraphrase of a famous and much misunderstood quote by Charles E. Wilson, U.S. Secretary of Defense in the early 1950's and a former President of General Motors. Appearing before a senate committee, he said, “What is good for the country is good for General Motors and what is good for General Motors is good for the country.” The prosperity of General Motors and the nation was directly linked.

The last part of his quote has lived on, and has generally been misunderstood. The misunderstanding was perpetuated at the time by some very clever and very funny satire by Al Capp in the famous L'il Abner comic strip. In the strip, General Bullmoose, the ruthless capitalist, lived by his motto, “What’s Good for General Bullmoose is Good for the U.S.A.”

The message, of course, is that the prosperity of shippers and carriers is inextricably linked. They need each other and if the Blueprint is to provide “What shippers require”, it will need to be built on the premise that shipper and carrier prosperity work in tandem.

Lisa MacGillivray shows great courage in asking a person with 42 years of brain-washing in the railway industry to give his opinions on what shippers require from the Blueprint! Some would say it's like allowing the fox into the henhouse.

I have attended CITA annual meetings in the past and have found the sessions both informative and stimulating. I would like to thank Lisa for the opportunity to participate in this discussion of the Transportation Blueprint at this, the 2002 CITA Annual Conference. It is a chance to continue to learn from others as well as to share my perspectives.

Before addressing the topic, I would like to introduce the Association of Regional Railways of Canada (ARRC), its members, and mandate.

ARRC is a new organization. It was founded in September 2001. The short line and regional railway industry has grown to over 40 railways and has matured in recent years. A number of short lines and regional railways (SL/RRs) have felt that they needed a voice devoted exclusively to their needs and that could articulate their views without the compromises necessary when in association with the Class I railways.

Close collaboration between SL/RRs and their Class I partners is necessary for success, but the interests of SL/RRs are not always identical to those of the Class I railways and an independent voice is needed. ARRC and its members expect to work in a cooperative and collaborative way with the Class I railways and the Railway Association of Canada wherever possible.

The charter members of ARRC are BC Rail, The Hudson Bay Railway, The Carlton Trail Railway, and Ferroequus Railway Company Limited. In addition, we have a second category of members who wish their membership in ARRC kept confidential. We have members in this category. We are currently in discussion with a number of other railways and expect growth in both categories of ARRC's membership.

ARRC's member companies operate approximately 4,100 route-kilometres of track and in 2000 produced over 5 billion revenue ton-miles and had revenues of approximately \$450 million.

In my remarks, I'll give my perspectives on the current context for transportation in Canada, then comment on the CTA Review Panel Report, and, finally, address the question put to this panel "What do shippers require?"

The Context

It's very much in the interests of carriers in all modes that they understand "what shippers require". In a dream world, one would expect that shippers want:

- fast, on-time delivery all the time
- an unlimited supply of clean, well-maintained equipment
- no loss or damage
- instant, accurate, on line tracing information in a form compatible with each shippers data processing system
- simplified billing and other paperwork and electronic data interchange
- easy to reach, knowledgeable, contact people who are always on duty, are never promoted, never leave and who know and can anticipate each shippers' needs
- fast, accurate rate and route quotations
- and all this at a low, low price.

This is the “dream carrier”. Transportation companies strive toward this ideal, (minus the facetious comments) and ideal transportation policy and legislation attempts to bring us closer to this holy grail.

During my 40 years at CPR, I spent some time in the marketing department. In the early 1970's, we commissioned a marketing professor at Concordia University to undertake an extensive shipper survey to answer the question “what do shippers want?” and to rank their needs.

As you might guess, price was at the top of the list, but a very close second was “on time” delivery. The more sophisticated shippers were starting to be aware of the time value of inventory in the pipeline and the need for just-in-time service, and were beginning to realize that quality of service was equal to, or more important than, rates. Trucking was well-developed by this time and trucks were supplying a better service than we were, but generally at a higher price.

In response to this, at CPR we started down the road to a high-speed scheduled service. This was in the early 1970s. We started with high-valued, time sensitive traffic and we scheduled cars not just trains. We published, for these classes of traffic, not train schedule times but car schedules. We guaranteed that certain trains would operate no matter how much traffic was available.

How successful, you may ask, was this venture? The answer: not very, at the time. There were several reasons and they can be summarized as:

1. Lack of commitment by railway managers. The managerial focus was always dominated by short-term cost control.
2. Labour agreements that provided little flexibility for innovative services.
3. Lack of appropriate information technology to support scheduling of cars.
4. A rigid regulatory framework that did not facilitate the operational changes needed to make this service a success (air brake regulations and cabooses requirements come to mind).
5. An unenthusiastic response by shippers to our marketing efforts to promote this service.

The result was that this trial service was abandoned after about a year when we were hit with an economic downturn.

Since that time, there has been “a lot of water under the bridge” and we all now live in a less regulated, more competitive world, with much improved computer/communications systems and services available to us. But our new world order also includes NAFTA

and other trade liberalization, societal, and environmental demands, and the need for enhanced security.

So what goes around comes around. Railways are rediscovering “scheduled service”. This is an important customer focused initiative and one hopes that it will be successful this time.

The new world order is also characterized by intense competition for shippers and carriers. There is fierce intramodal and intermodal competition for the carriers and world-wide market competition for Canadian shippers.

The tough competitive environment is good for shippers and carriers. It forces us all to hone our skills, to reduce costs, to innovate, and to focus on the real needs of our customers.

We are also living with the demographic time-bomb. Transportation, and many other businesses downsized in recent years, and much of this was appropriate, but downsizing the workforce with very few new-hires coming in at the bottom means that we are losing valuable experience and “corporate memory”.

One transportation industry executive says, “I need change agents, not defenders of the status quo.” A company needs to make change from a position of knowledge and experience.

The demographic time-bomb has started to go off. Our experienced people are retiring at a rapid rate, we’re not attracting, recruiting or training an appropriate workforce to meet the needs that shippers will rightly place on us so that they, and all of Canada, remain competitive in world markets.

As some of the more thoughtful human resources professionals in transportation say, the competition to recruit and retain the best and the brightest is becoming fierce. If we don’t make our industry attractive, we will become the “bottom feeders” in our recruiting. This would, of course, be bad for the shippers, carriers, government, and the economy of this export-dependent nation.

The other major elements in the current context are technology and the environment.

The computer/communicator/satellite convergence has accelerated the technological revolution. Clever adoption of the new technology will permit improvements in safety, productivity and service quality by carriers in all modes.

All industries now have to consider the environmental impacts of their operations. This is particularly true of transportation which is the largest industrial producer of greenhouse gas emissions. GHG emissions and ground level ozone are of particular concern in large urban areas and transportation is under increasing pressure to operate

“cleaner” in our cities. There is more pressure to get people out of their cars and onto public transit. Rail based commuter systems have proven to be particularly effective in reducing both emissions and road congestion.

This is the context in which we are living. This is the context in which the Blueprint is being developed. This is the context that resulting legislation will have to address.

The results of the Blueprint exercise will have a major impact on shippers, carriers, and the entire Canadian economy.

The CTA Review Panel - What They Said

Vision and Balance, the final report of the CTA Review Panel, provided expert analysis of many issues affecting rail, air, marine, and, to some extent, trucking. Most of you will be familiar with the recommendations in *Vision and Balance*, and I will not spend time reviewing those recommendations. It’s useful, however, to consider some of their more general statements.

On page 56 of *Vision and Balance*, the authors state:

“In the Panel’s view, Canada’s rail freight transportation system works well for most of the users most of the time.”

In view of the formal complaint made earlier this year to the CTA by the 300-member Canadian Industrial Transportation Association against the unilateral imposition of certain charges by CN and CP, the above statement may not be supported by the shipping community. While the Agency ruled against the CITA complaint, everything is not rosy in the eyes of the shippers.

On page 57, the authors state:

“With improved financial results of recent years, railways rank among Canada’s more profitable businesses ...”

This may be true for CN and CP. It is not necessarily the case for many short lines that struggle with similar concerns and frustrations as shippers in their relations with their Class I connections.

In a speech to the Canadian Railway Club last November, Serge Belzile, President of the Quebec Railway Corporation, stated:

“The big picture with Class I relationships (from a short line perspective) is simply this: what do Class I partners want?”

Many short lines are confused about what are the expectations of their Class I partners. Different people within the same organization have different expectations. We don't know what their views are of our present and future role in their strategies. We don't know and I am afraid that they don't know either."

Mr. Belzile goes on to say that all is not well on the revenue front between short lines and their Class I partners. He notes that revenue per revenue ton-miles is down 3% between 1997 and 2000 and short line operating costs are up 11%. In his speech, he very gently says to the Class I's, "I think we need to revisit the issue."

Mr. Belzile and the Quebec Railway Corporation are not members of ARRC, but are aligned more closely with the Class I railways at the Railway Association of Canada.

This significantly "lifts the veil" on the nature of Class I/short line relationships and is another indicator that not all railways "rank among Canada's more profitable businesses."

On pages 12 and 13 of *Vision and Balance*, the panel discusses the "Factors Influencing Transportation Decision Making" and in particular the economic and social forces that affect transportation decision making. The report notes on page 12 and 13 that:

"Several potentially significant weaknesses in the incentives now in place ... are causing some shippers and travelers to question the current reliance on markets and market incentives to achieve transportation objectives."

The authors then comment as follows:

"Reliance on market forces as the principal mechanism for organizing transportation is a major element of current policy. Market forces have appeal because they are an impartial mechanism that is generally effective in promoting efficiency. But if, as a result of industry consolidation, markets are not competitive and cannot be relied on to achieve efficiency, policy intervention may be necessary - either to find ways to increase competition or to devise regulatory substitutes for it."

Let me say at this point that I personally, and the members of ARRC, believe that free market forces are the best mechanism for promoting efficient allocation of resources.

For free market forces to work, there requires some reasonable balance in negotiating strength between buyers and sellers. We have in both the airline and railway industries either a near monopoly or a duopoly. In such cases, true competition is stifled and it has been well documented since the 19th century that the free market system will not

work well and that government intervention may be necessary to redress the imbalance in negotiating power.

We've seen this recently with government intervention to limit anti-competitive behavior by Air Canada. NTW 1987 and CTA 1996 both contained provisions for redressing the imbalance between shippers and Class I railways. We've seen the extension of these remedies to rail passenger and commuter authorities, we have the recent complaint against CN and CP by CITA, and in the ARRC submission to Transport Canada as input to the Blueprint, our members make the following recommendation:

“It is of fundamental importance to SL/RRs that the *Canada Transportation Act* and enabling regulations recognize the imbalance in negotiating power between the SL/RRs and the Class I carriers. ARRC recommends that legislative amendments redress this imbalance by making devices such as Final Offer Arbitration available to SL/RRs to resolve contract disputes with Class I carriers.”

The Blueprint: What do Shippers Require?

Engineering drawings have something in common with railways. Steam locomotives have been gone from main line railroading for over 40 years, yet steam locomotives continue to be a symbol for trains. Similarly, blueprints went the way of the steam locomotives 40 years ago. Engineering plans have had black lines on white paper for nearly half of a century yet we still refer to them as “blueprints”. Perhaps a “white paper” would have been a better title. It will, after all, be proposing policy.

Let me now turn to the original question, “The Transportation Blueprint: What do Shippers Require?”

Whether or not we like it, the fortunes of everyone in the logistical chain are interlinked and so it is useful for carriers to consider “what do shippers require?” and also for shippers to consider “what do carriers require?”

The simple answer is, of course, that legislation and regulation resulting from the Blueprint process should promote the prosperity of both shippers and carriers and contribute to the efficiency and competitiveness of the Canadian economy. This is easy to say but not so easy to do.

The ARRC Blueprint submission to Transport Canada made 29 specific recommendations under the headings of:

- viability of short line and regional railways
- infrastructure improvements
- public interest issues
- safety and security

- environment and
- transportation policy.

Anyone who wishes to see these 29 recommendations can find the submission on our website at www.arrc.ca.

Our submission gives an indication of what we think the Blueprint should include in the interests of all stakeholders.

All legislation and regulation should provide a framework for the orderly functioning of society and this is what the Blueprint should promote.

What is of prime importance then to shippers is what do they require of the carriers and what does the Blueprint need to recommend to ensure that shippers get what they need from the carriers.

At the beginning of my remarks, I listed what I think, a shipper's dream carrier would look like.

In my view, what shippers really require from carriers is as follows:

1. **Carrier Profitability:**
This is obviously self-serving, but if carriers are going to provide consistent, safe service in clean, well-maintained equipment, then the carriers need to make a reasonable return on their investment.

In my business dealings, I have never liked dealing with money losing enterprises; their products and services are not dependable.
2. **Innovation:**
Shippers need carriers that will embrace new ideas, new operational methods, new equipment, new technology, and new relationships.
3. **Carrier Efficiency:**
This flows from items 1 and 2. Carriers need to be continually looking for ways to reduce their costs and improve productivity.
4. **Marketing Sophistication:**
Shippers need carriers that understand their customers' business and also the needs of their customers' customer. Transportation suppliers are an integral part of a company's logistical activity and they need to work in close partnership with their customers to develop, equip, price and provide appropriate services.

5. **Operational and Maintenance Quality:**
Shippers need carriers that will have maintenance practices in place which will minimize loss, damage, and delay. They need carriers who pay attention to their human resources and who hire, train, and keep their skilled people to keep the business operating at high quality. They need carriers that make safety a core consideration of their business.
6. **Information Exchange:**
Shippers need carriers that continue to develop their information systems to facilitate swift, accurate exchange of billing information with shippers, with connecting carriers, and with customs and other authorities to promote seamless transportation, and to enhance cross-border and port security.
7. **Pricing:**
Last, but not least, shippers need carriers whose pricing is appropriate to the service that is provided and is sensitive to the shippers competition. The classic example from the railway industry is coal. Canadian metallurgical coal producers selling into the Japanese market are competing with producers in Australia, South Africa, possibly China, and other countries. The important price is the laid down price in Japan. The railways have to provide a service and price that will allow Canadian coal producers to compete successfully on world markets.

Competitive pricing will be achieved by carriers who successfully meet the challenges of points 1 to 6.

Finally, what does the Blueprint and resulting legislation need to do for shippers so that carriers can meet shipper requirements?

1. It should enunciate a multimodal policy that promotes the best use of all modes of transport using market mechanisms.
2. It should promote cooperation between federal, provincial, and municipal levels of government because decisions by all levels of government affect transportation in Canada. For Canadian transportation to reach its full potential, the federal-provincial constitutional issues surrounding transportation must be resolved, as difficult as this may be politically.
3. It should state that transportation buyers and sellers will be free to make decisions based on free market principles with minimal government interference.
4. It should ensure that monopoly or duopoly conduct will be curtailed and should redress the imbalance in bargaining power between large and small companies, both between shippers and carriers and between big and small carriers.

5. As far as is practical, it should promote the user pay principle and ensure that users of publically-provided infrastructure pay the full costs for their use of those facilities.
6. Revenue from carriers for use of government-provided facilities should be used exclusively for investment and maintenance of those facilities. Rather than term such revenues as “taxes”, the Blueprint should establish user “fees” for such facilities or services in place of “taxes”.
7. It should promote environmentally sustainable transport and ensure that societal costs are considered in pricing government-provided services and facilities. Carriers that make lesser demands on the environment that do not contribute to congestion, or pose limited risks to public safety should be rewarded by tax incentives and by other government policies.
8. Last, but not least, the Blueprint should promote the commercial viability of carriers in all modes. It is directly in the interests of shippers that carriers generate revenues sufficient to provide safe, dependable, environmentally sustainable, efficient transportation in well-maintained equipment and also generate enough capital to renew and upgrade plant and equipment and invest in productivity enhancing technology.

Concluding Remarks

To paraphrase Charles Wilson:

“What’s good for the carriers is good for the shippers and what’s good for the shippers is good for the carriers and for the whole Canadian economy.”

The Blueprint is an opportunity to renew, not just federal transportation policy, but truly national transportation policy that will make us more competitive in this complex global economy that we now inhabit.

It will take good will on the part of all players to “get it right”, but if we do, the rewards will be, as General Bullmoose would say, “what’s good” for all of us.