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Transportations Place: Supporting Canada's Trade Agenda

Questions for Moderator of Panel on Unlocking Transportation Capacity

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Canada's trade agenda: what do our exporters need? The nature of much of our resource-based export sector has changed from being primarily an export of raw materials. Today we need to craft sophisticated global supply chains. Transportation needs to evolve in order to meet the new challenges. I would like to raise four questions.

I. **What are some of the challenges Canada's exporters face to achieve our trade agenda?**
    1. First, understand the nature of the Canadian economy, much of it is built on our resources – agriculture, mining, oil & gas, forest industries, and their manufacturing value-add sectors – petroleum, chemicals, lumber, metals, fertilizers and food. We need to recognize that our economic growth depends largely on growing our trade in these sectors. These sectors are all heavily dependent on an efficient cost-effective bulk transportation system.
    2. Second, consider how much further we can expand our trade with the United States, and where future trade growth is likely to come from – rapidly-developing economies in the Pacific Rim, Asia, South America, hopefully Africa. If we are going to achieve Canada's economic aspirations, we need to access these markets.

II. **Where are the future trends leading, for exporters' needs?**
    1. We are exporting our resources but in a different way. We are not a low-wage, low safety & environmental standards exporter. Where we once succeeded by exporting tonnes of basic commodities, today our exporters thrive by creating sophisticated value-chains to deliver our exports to their customers, who increasingly demand the same high quality as the North American market. It is not a simple carload of wheat, or potash, today our customers are demanding specific physical properties, AND logistics – when and how it gets there, was it protected from contamination or damage, traceability… commodities are not simple commodities, anymore.
    2. So, it's going to be by rail, or Canada is not going to sell it. We will see more volume certainly, but a more sophisticated product mix than ever, and exporters will need the railway to be a supply chain partner.

III. **How does the government ensure we have the transportation capacity to meet these challenges?**

1. Just as the nature of our exports has changed, so has transportation. It is not a state-owned, state subsidized or state-directed system – nor can it be anymore. The public policy direction for the last 25 or more years has been away from public ownership and investment – the sale of the railways, ending subsidies, deregulation of trucking freight rates and railway confidential contracts, commercializing the Port Authorities as public corporations. These all put transportation infrastructure investments under a new lens – do they pay?
2. Next we need to recognize that transportation infrastructure is a combination of private and public enterprises, government has an active investment role in some areas, at other points it needs to focus on ensuring there is a supportive economic and regulatory framework.

IV. How do we bring about the needed commercial incentives?

1. The State is great at establishing common rules that provide equal outcomes for everyone. The biggest recent change here is the end of the Canadian Wheat Board monopoly on grain. You might notice that I do not use the term 'shippers' often, preferring the term 'customers' - - this is intentional, we need to shift the focus towards more unique transportation solutions that work with each company's individual business and export strategies.
2. This is in essence a service question: do the railways have the ability to deliver on their contracts with their customers? The business relationship between carriers and their customers needs to be depoliticized. The answer requires a commercial framework:
    i. Customers need to commit volumes and be prepared to invest in the logistics requirements – sidings, rail cars, terminals, fluidity and efficiency
    ii. Railways need to commit to surge capacity to meet their customers requirement – <u>when</u> it is needed
    iii. The commitments need to have commercial consequences – both ways.
    iv. Points to consider:
        - The operating ratio may not be the best indicator of efficiency or economic performance
        - Commercializing all parts of the rail freight business will be important to incentivizing investment
        - This needs to be tied to rewarding customers for efficiencies they bring to the system e.g.: with better service
        - Giving a rail customer an access point to potential competition may incentivize investment or be a disincentive to rationing