

Vancouver Corridor Supply Chain Failures¹

January 17, 2019

Submission to the Canadian Transportation Agency investigation into
Vancouver area of supply chain

Issue:

Many FPAC members' operations are being significantly harmed by Vancouver area supply chain failures for a second year in a row; and FPAC is asking the Agency to provide a diagnostic of the root causes underlying these issues.

Overall Considerations	
Date	Situation
November 28	CN issues embargoes for pulp and paper traffic to terminals in the Vancouver area and Squamish; no permitting from December 11 to 15
December 2	CN imposes an embargo for all traffic going to BNSF and UP via New Westminster, BC. No permits where issued until December 5, 2018.
December 6	FPAC, along with other commodities participate in the Commodity Supply Chain Table (CSCT). During the meeting, commodities expressed concern over embargoes and congestion in the lower mainland. CN and CP had representatives at the meeting and said that the situation in Vancouver was "being handled".
December 10	CP embargoes pulp and newsprint going into North Vancouver, Sapperton and New Westminster.
December 18	FPAC reaches out to CN and CP to express it's concerns in relation to severe congestion issues at Port of Vancouver area of supply chain.
December	CN embargoes all goods going through Thornton Yard.
December 21	FPAC sends letter to Minister Garneau and Mr. Streiner relating the systematic issues in the Vancouver portion of the supply chain.
December	BNSF has had its operations restricted as a result of examples given above.

¹ This is the best possible information FPAC is able to offer at this time. Information from our members has been limited due to confidentiality concerns as well as the tight timelines in this case.

Impacts Reported from within our Membership in the Forest Products Sector
Significant additional costs due to required workarounds. Additional costs incurred since the beginning of December 2018 are in the millions of dollars across the industry (ranging from several hundred thousand to over a million dollars per mill) - additional warehousing, trucking (where available and viable), other administrative costs (i.e. overtime).
Receiving very few permits, restricted access through New Westminster.
Large variability in permits received vs those required, in multiple cases ranging from 20% to 70%.
One mill went multiple days without the ability to move anything to the port due to lack of permits.
Applications for permits are managed completely separately from car orders. The number of permits issued frequently does not match the number of cars supplied with the result that cars are sitting idle at origin and incurring demurrage. Cars without permits that cannot be shipped to the Vancouver area and are left at origin incur “diversion” charges when shippers attempt to designate a different destination.
CN’s car allocation policy for centerbeam and boxcars further restricts mills’ ability to ship to alternate destinations. Cars must be ordered and are allocated in two separate categories: cars to be shipped to “high-velocity” destinations (including all CN-served destinations) and general allocation cars. High-velocity car orders receive priority over general allocation car orders. Shippers who use cars allocated for high-velocity lanes (such as Vancouver) to ship to general allocation destinations are penalized.
Car order fulfillment has trended downward in the winter months and a number of members are experiencing an increase in missed switches at origin. Missed rail service at one mill required trucking the equivalent of 57 railcars in a single week. From what we understand between October and December 2018, car orders did not significantly increase.
Some members experienced great difficulties meeting their commitments to shipping vessels for overseas destinations. Shippers are exposed to deadfreight penalties from marine carriers for missing scheduled vessel loadings and additional warehousing and handling expenses for product awaiting the next vessel.
These issues have created an increasing lack of certainty for companies about their ability to get their products to market.
While permitting has recently improved in some cases, car supply has now become an issue. In other cases, car supply is adequate but permits are lacking.

Other Key Considerations:

- FPAC is not able to provide impacts and data on a member-by-member basis due to the fear of retaliation from the railways.
- Due to the way the restrictions have been imposed at different points along the way in this portion of the supply chain, there is an increasing lack of certainty for companies that they will be able to get their products to market.



- A number of our members saw a decline in fulfillment to their car orders during December 2018.
- CN has suggested that some mills are loading 7 days a week and therefore causing more congestion in the area. In reality, while most pulp mills load 7 days a week, many of them do not have scheduled rail service 7 days a week. Most lumber mills and other wood product mills load 5 or 6 days a week. Many will schedule weekend loading crews in order to work around missed rail service (i.e., when empty cars are not delivered on a scheduled rail service day and therefore not available for loading on a normal loading day).
- CN has suggested that limited operating hours at Vancouver area terminals are contributing to congestion, pointing to the fact that many terminals handling forest products do not normally schedule unloading crews on weekends. In reality, some terminals have not been able to use their full Monday through Friday unloading capacity because loaded cars available in the Vancouver area were not being delivered by CN, or because the lack of permits issued resulted in a shortage of cars in Vancouver for placement at the terminals. In addition, both of CN's own distribution centers at Surrey and North Vancouver, British Columbia, have limited operating hours. According to CN's website, the North Vancouver facility does not operate on weekends, and neither of the two CN facilities operates past 13:00 or 14:00.
- Another challenge members are facing, is that shipments are being restricted based on where they are going (e.g., if you are going to Texas, you can only load on Thursdays)
- Some chemical suppliers cannot reach mills by rail and therefore are required to truck, when available due to ongoing truck driver shortage, at significantly higher costs and greater risk.
- FPAC believes this is a systemic issue – If one part of the supply chain in the B.C. lower mainland fails, it has a domino effect through the rest of the system. We believe this Canadian Transportation Agency investigation into failures in the Vancouver portion of the supply chain provides an opportunity for a diagnostic of these systemic issues (e.g. are we lacking the necessary infrastructure; are supply chain members adequately staffed).
- Record shipments of crude are now moving by rail. What is the impact of that in this case (e.g. on Northern Alberta portion of supply chain)?
- Pulp is a perishable product that must be stored indoors. If a mill's storage capacity is exceeded as a result of restrictions on rail shipments, it must either suspend production or store product outside resulting in degradation and loss.
- The congestion issues within the Vancouver portion of the supply chain have become a chronic handicap on our members' businesses.
- The congestion issues within the Vancouver portion of the supply chain, for a second year in a row, appear to indicate that that portion of the supply chain is currently inadequate.
- This issue has primarily affected producers in B.C and in Alberta.



- The industry has had to find ways to move their product at a significantly higher cost, including: using trucks (during a truck driver shortage), a more costly re-routing, and incurring additional costs for warehousing and handling.

Please see Annex 1- According to NRCan and Transport Canada (Commodity Supply Chain Table discussion in October and December of 2018), production, and therefore shipments, of forest products have been and will remain steady in the next 5 years, but will slip over time.

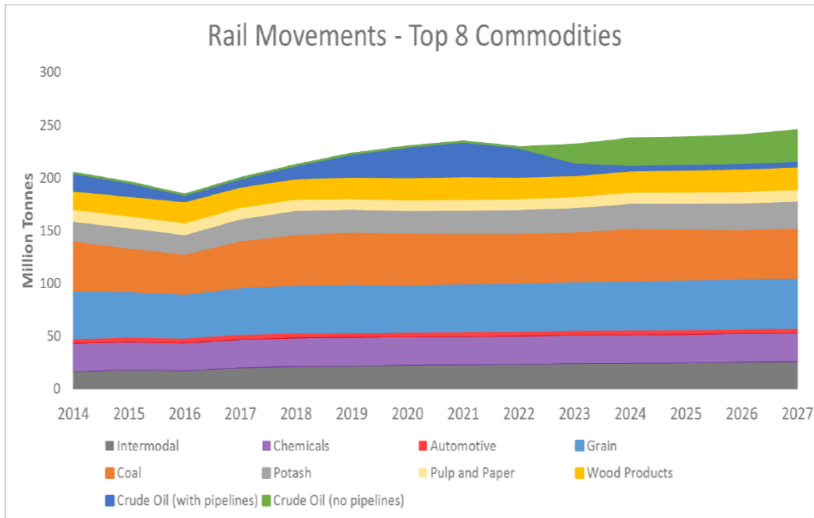
What FPAC Wants:

- After two years in a row, we need to find the underlying causes of the issues identified within this submission and identify solutions to eliminate them.
- Our ask is that the CTA conduct a comprehensive diagnostic of the Vancouver area of the supply chain with the involvement of key stakeholders (shippers, terminals, facilities and rail carriers) to identify capacity constraints (e.g. infrastructure; labour) to meet current volumes as well as future growth plans. The results of the study should result in specific actions to resolve the issues identified (e.g. infrastructure improvements such as at the New Westminster rail bridge; funding and resource and operational requirements needed to eliminate the systemic issues we see each winter).
- A better functioning gateway, including government investment to make that happen at the largest port in Canada.
- Better short-term and long-term solutions to the concerns that have been raised.
- To resolve the challenges identified behind the annual reoccurring seasonal permits/embargoes affecting our members.
- Federal government support to help ease truck driver shortage across Canada.
- We are committed to working to resolve these recurring supply chain challenges (e.g. joint support for federal funding infrastructure initiatives in the region) in partnership with government and supply chain members (e.g. railways, ports and terminals).



ANNEX 1

Overall growth of rail demand for key commodities will roughly track with economic growth, with some regional differences



- ❖ Overall rail demand growth for key commodities in 2019 projected to be approximately 7%
- ❖ On commodity basis, 2019 projections are mixed
 - ❖ Crude oil shipments increases significantly to about 425K barrels per day (annual average)
 - ❖ Grain and coal are stable after robust increase
 - ❖ After a robust 2018, potash shipments will pull back and shipment of wood products are expected to slip

18

Source: Transport Canada

CONFIDENTIAL