



CHEMISTRY INDUSTRY
ASSOCIATION OF CANADA

ASSOCIATION CANADIENNE DE
L'INDUSTRIE DE LA CHIMIE

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Ms. Marcia Jones
Chief Strategy Officer
Analysis and Outreach Branch
Canadian Transportation Agency
15 Eddy Street
Gatineau, Quebec J8X 4B3

Via email: ferroviaire-rail@otc-cta.gc.ca

Re: CIAC Comments on the Consultations on the Canadian Transportation Agency's Approach to Setting Regulated Interswitching Rates

On behalf of the members of the Chemistry Industry Association of Canada (CIAC), we are pleased to share with you our views on the recently launched *Consultations on the Canadian Transportation Agency's Approach to Setting Regulated Interswitching Rates*. CIAC sees the Canadian Transportation Agency (Agency) playing a critical role in providing support to the policy laid out within the *Canada Transportation Act* which notes "a competitive, economic and efficient national transportation system...is essential to serve the needs of its users, advance the well-being of Canadians and enable competitiveness and economic growth in both urban and rural areas throughout Canada." The regulatory and quasi-judicial role of the Agency is key in working to ensure this policy is advanced when competition and market forces are not able to achieve these outcomes independently.

Our Industry

Canada's chemistry industry is an important contributor to our nation's economy. It converts and adds value to raw resources such as natural gas, crude oil, minerals, and biomass, creating intermediate products that are used as inputs in other areas of the industry, and by almost all other manufacturing sectors. Shipments in 2018 were \$57.8 billion, making chemicals Canada's fourth largest manufacturing sector; exports were \$39.8 billion, second only to transportation equipment. The chemistry industry is our country's seventh largest manufacturing employer, directly responsible for 87,900 jobs and supporting an additional 525,000 jobs in other sectors. It should also be noted that, more than 95 per cent of all manufactured products rely on chemistry.

CIAC members produce goods that are essential to the quality of everyday life, and to the Canadian economy. This includes hundreds of dangerous goods that are shipped across Canada daily. Two examples are: chlorine, used to purify drinking water for millions of Canadians; and, sulphuric acid, used to manufacture agricultural fertilizers, synthetic fibres, batteries and pharmaceuticals (including chemotherapy drugs).

Rail is Critical to the Chemistry Sector and the Economy

Canada's chemistry industry comprises only one per cent of the \$5.2 trillion global industry, and we must work hard to attract international investment. The American Chemistry Council estimates that \$260 billion in new chemistry industry

805 – 350 RUE SPARKS STREET
OTTAWA, ONTARIO K1R 7S8
613-237-6215 ciac-acic.ca

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investments are announced or underway in North America. Only a small share of this investment is happening in Canada – we believe there is strong potential to attract a much larger share. But doing so will require that all investment decision factors be made as attractive as possible. Access to reliable and competitively priced rail service is critical to the success of the Canadian chemistry industry. CIAC member-company executives identify rail service as a key factor in deciding whether to locate a new facility or expand operations in Canada, second only to feedstock availability. The role of the Agency and the remedies offered are an important factor in addressing concerns regarding reliable and competitively priced rail service.

Canada's chemistry industry makes three-quarters of its annual shipments by rail. Chemicals account for 13.7 per cent of all Canadian rail traffic. For many chemicals, rail has proven to be the safest mode of transportation. Safety is a top priority for Canada's chemistry industry, both at plant sites and along transportation routes. During the past 25 years, CIAC members have invested hundreds of millions of dollars in transportation-related research and upgrades; and have set the gold standard for transportation safety through the TRANSCAER® (Transportation Community Awareness and Emergency Response) and TEAP® III (Transportation Emergency Assistance Program) initiatives.

Canada has a world-class transportation system; however, the rail freight market is not a functioning competitive market. It is a dual monopoly. This is a fundamental issue underlying rate and service challenges encountered by our members. CIAC believes that government, Transport Canada and the Agency must constantly seek to provide a needed balance for level and cost of service where a working market environment does not exist. CIAC is very interested in commenting in this consultation as interswitching is recognized as one of the key measures provided within the Canadian freight rail sphere to assist in helping incent competition in this challenging landscape.

CIAC has reviewed the "Discussion Paper: Consultations on the Canadian Transportation Agency's Approach to Setting Regulated Interswitching Rates" and offers the following comments.

General Comments

CIAC appreciates the Agency's efforts to engage with stakeholders on these important issues while meeting its new requirement to set the interswitching rate no later than December 1st of the year. Additionally, CIAC supports efforts to ensure that changes to rates are established and communicated in a timely and transparent manner. CIAC's overarching view for the consultations on interswitching are that for the remedy to be effective it must be simple to use and understand. There is such a diversity amongst shippers (commodities, locations, car types, seasonality, volumes etc.) that the more standardized and simpler it is to use, the better.

Federally regulated short-line railway companies

In the interest of keeping the system simple, it is recommended to keep the current process and not have separate regulated interswitching rates for short-line railway companies. The CIAC agrees that since the majority of the interswitching cars are moved by CN and CP the potential for slight increases in accuracy of the rates by including short-line railway companies is not likely worth the reporting burden on participating short-line railway companies.

Regional and commodity-specific regulated interswitching rates

CIAC strongly supports continuing to determine a single rate in each zone regardless of the commodity, region, province or any of the noted factors. Continuing to set the a national average interswitching rate is fair, predictable, and places the least burden on railway companies and shippers.

CIAC firmly opposes setting different rates for various commodities. There is such an array of commodities, cars, processes, handling requirements, etc. that the various combinations and how that would be fairly and accurately evaluated would be extremely complex and contentious. Many CIAC members ship dangerous goods, they also subscribe to the highest safety standards, follow the appropriate regulations, and firmly support the requirements of the common carrier obligation.

Transparency of the regulated interswitching rates and methodology

CIAC supports the initiative of the Agency to make the methodology regarding how the interswitching rate is set, as well as how the rate applies, clear for stakeholders. If there were guides or online interactive videos developed using plain language to help educate stakeholders on the methodology and the application, it would be appreciated. Furthermore, if there were an online model/tool that could be built to test various scenarios of interswitching with several factors that could be tailored by the users that would be helpful as well.

Additionally, CIAC is supportive of the proposed requirement to show the interswitching rates separately from the long-haul rate during invoicing. This would increase transparency by making it clearer and verifiable for shippers if the correct interswitching rate is being applied and if any errors have occurred.

Conclusion

The CIAC appreciates this opportunity to provide comments and the Agency's commitment in consulting with stakeholders on these important aspects of setting regulated interswitching rates. Additionally, CIAC also appreciates the extended consultation period for the very technical issues posed surrounding contributions to fixed costs and productivity factors.

The Agency plays a critical role in providing support to the policy laid out within the *Canada Transportation Act* and its regulatory and quasi-judicial role is key in working to ensure this policy is advanced when competition and market forces are not able to achieve these outcomes independently. While interswitching is important in working to advance this policy, the CIAC also encourages continued work on more universal remedies that could be available to many shippers that address continuing challenges related to rates, competition, service, reciprocal penalties, etc.

For more information please contact:

Kara Edwards
Director, Transportation
Tel. 613-237-6215 x. 244
kedwards@ciac-acic.ca