

May 5, 2023

Mr. Daniel Blaikie
Member of Parliament for Elmwood-Transcona
House of Commons
Ottawa, ON

Via email: Daniel.blaikie@parl.gc.ca

Dear Mr. Blaikie,

Canada's grain farmers were very concerned to hear the questions and perspectives you raised at the Finance Committee Tuesday afternoon regarding Extended Interswitching. In particular, we disagree with the arguments that CN and CP have been making to the effect that Canadian rail worker jobs would be at risk as a result of the re-introduction of Extended Interswitching. In our view, the opposite is much more likely - we expect to see jobs created as a result of this measure.

The shippers that buy our grain are major customers of CN and CP (grain and grain product movement accounts for 20% of railway revenue in a given year) and have for more than a decade argued that service levels are declining in Canada's two largest Class 1 railways because they are hiring fewer people than required to provide decent service. We have also argued that railway management needs to bring back laid off workers sooner than they normally do in a given lay off, to make sure they are ready to move the crop farmers produce, along with all of the other major commodities that need to be moved to market. Railway executives, and the shareholders they serve, have for years been driving down their costs on labour, locomotive power, and other variable costs to boost their operating ratios at the expense of shipper businesses and the rank and file employees of their own companies. They call it "precision railroading."

Precision railroading's key objective is to maximize a railway's operating ratio. Operating ratio is the primary measure of profitability in the railway sector and is a term used to describe operating expenses as a percentage of revenue. The smaller the percentage, the more efficient the railway is at making money. It is the main metric that Wall Street and Bay Street use to determine expected share value of railways. Canadian-based railways have posted industry leading operating ratios over the ten year period 2013-2022. Of particular note, CN and CP's

operating ratios in the 2015-2017 period are some of the best they've ever been – at the exact same time as Extended Interswitching was last put into place.

| North American Freight Railway Operating Ratios (%) | | | | | | | | | | | |
|-----------------------------------------------------|------|------|------|------|------|------|------|------|------|------|------------------|
| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Ten Year Average |
| CN | 63.4 | 61.9 | 58.2 | 55.9 | 57.4 | 61.5 | 62.7 | 61.9 | 61.2 | 59.9 | 60.4 |
| CP | 76.8 | 64.7 | 60 | 58.6 | 58.2 | 61.3 | 59.9 | 57.1 | 57.6 | 61.4 | 61.56 |
| UP | 66.1 | 63.5 | 63.1 | 63.5 | 62 | 62.7 | 60.6 | 58.5 | 57.2 | 60.1 | 61.73 |
| CSX | 71.1 | 71.5 | 69.3 | 69.2 | 67.4 | 60.3 | 58.4 | 58.8 | 55.3 | 59.5 | 64.08 |
| KCS | 68.8 | 68.6 | 66.8 | 64.9 | 64.3 | 64.3 | 63.2 | 60.7 | 61.1 | 62.2 | 64.49 |
| BNSF | 69.1 | 69.2 | 64 | 65.5 | 65.7 | 66.9 | 64.6 | 61.6 | 60.9 | 65.9 | 65.34 |
| Norfolk Southern | 71 | 69.2 | 72.6 | 68.9 | 67.4 | 65.4 | 64.7 | 64.4 | 60.1 | 62.3 | 66.6 |

* Source: Railway Annual Reports and Mandatory Financial Filings

In the 2015/16 crop year when Extended Interswitching was actively used, total carloads and volume moved amounted to less than 1% of the total volume of grain moved in that year. So why then do railway executives have an allergic reaction to this measure while shippers are so enthusiastic about Extended Interswitching? Because it gives the shipper negotiating leverage in the relationship with their originating carrier – who they are often otherwise captive to in a monopoly-like manner. The fact is that Extended Interswitching's most powerful use is in getting better service and rates from the existing rail carrier who would otherwise have less motivation to meet their customer's needs if the competitive alternative wasn't available. The threat of loss of business, just like in any other normal competitive market, is what gets the railways to change their behaviour to provide better quality service.

In order to provide better service on average, railways need to hire more crew, yard, inspection and maintenance workers to move the additional locomotives and cars their customers, like Canada's grain farmers, want them to provide. In order to avoid losing business through a competitive mechanism such as Extended Interswitching, it only makes sense that railway executives will have no choice but to hire more people and keep more power and cars online.

In the United States, the Surface Transportation Board requires Class 1 railways to provide monthly publicly available reports of employment numbers by employment category, including furlough details. The picture this reporting paints over the past decade is the steady and dramatic erosion of railway employment by those railways that have adopted the so-called "precision railroading" ethos. There is a well beaten path of articles and perspectives of union representatives, customers and third party commentators on the deterioration of both employment numbers and the quality of rail service as a result of precision railroading. They also point to the fact that Canadian railroads, under past CEO Hunter Harrison's tutelage, were early adopters of this approach which he then brought to the US market.

In the case of CP, it is well documented that activist investor Bill Ackman of Pershing Square got shareholders to throw out the management team in favour of Mr. Harrison in 2012. The latter proceeded to slash 6,000 jobs (and got rid of hundreds of locomotives, smaller yards and other valuable assets) at that railroad from 2012 to 2017. He had done the same thing at CN prior to that, which is exactly what shareholders wanted him to do to improve operating ratios. For your reference, we have provided a short, indicative bibliography of articles and studies that document this fact and the harm of precision railroading on workers and customers in Appendix A.

Our ask is that all Parliamentarians, policy officials and rail worker representatives dig deeper on this matter than the rhetoric being provided by railway executives whose only aim in lobbying Ottawa against Extended Interswitching is to preserve their monopoly, and therefore right to apply without restraint, “precision railroading.” We believe that Canada’s farmers have common cause with Canada’s rail workers on this matter.

That is not to say that grain farmers and shippers don’t support railways making money and staying in business. They’re incredibly important to our value chain. That profitability, however, needs to lead to better service outcomes at commercially reasonable rates, which Extended Interswitching has proven to help create.

We would be pleased to meet with you to discuss our perspective in greater detail if that would be helpful to you and your colleague’s deliberation of this issue.

Thank you on behalf of the 65,000 grain farmers from coast to coast working hard to put staple foods on people’s plates here in Canada and abroad.

Sincerely,



Brendan Phillips
Manitoba Grain Farmer, and
Chair, Transportation Committee, Grain Growers of Canada

Cc: Taylor Bachrach, Member of Parliament for Skeena-Bulkley Valley



APPENDIX A

Indicative Bibliography of Articles and Studies on the Negative Impact of Precision Railroading

Precision Scheduled Railroading: Short Term Gains at What Cost, Dennis R. Pierce, Brotherhood of Locomotive Engineers and Trainmen (BLET) National President, April 9, 2019

<https://teamster.org/2019/04/precision-scheduled-railroading-short-term-gains-what-cost/>

Hunter Harrison's Way: How the rail boss's proteges keep his tactics alive, Eric Atkins, Globe and Mail, May 31, 2021

<https://www.theglobeandmail.com/business/article-hunter-harrisons-way-how-the-rail-bosss-proteges-keep-his-tactics/>

Union leaders criticize Precision Scheduled Railroading, Joanna Marsh, Freight Waves, June 21, 2019

<https://www.freightwaves.com/news/union-leaders-criticize-precision-scheduled-railroading>

Canadian Pacific: The Cost of Success, Darryl Dyck, Article in the Globe and Mail, March 3, 2017

(Available on the Teamsters of Canada Rail Conference website here: <http://tcrc322.ca/wp-content/uploads/2017/03/The-cost-of-success.pdf> and here: <https://www.theglobeandmail.com/report-on-business/canadian-pacific-hunter-harrison-turnaround-turmoil/article34206344/>)

CP reveals more terms of Hunter Harrison's forfeited \$118M package, The Canadian Press, Jan 24, 2017

<https://www.cbc.ca/news/canada/calgary/hunter-harrison-cp-rail-employment-package-1.3950201>

Canadian Pacific Railway lowers operating costs and raises profits, David McKie, February 5, 2017

<http://www.davidmckie.com/canadian-pacific-railway-lower-operating-costs-and-raises-profit/>

Pershing Square, Ackman and CP Rail: A Case of Successful "Activism"?, Yvan Allaire, Institute for Governance of Private and Public Sector Organizations, November 2016

<https://igopp.org/wp-content/uploads/2017/01/IGOPP-Allaire-and-Dauphin-CP-Case-November-28-2016-SSRN.pdf>

Taking the railroad principles beyond PSR, Boston Consulting Group, March 13, 2020

(See section entitled "The Common Principles of PSR" <https://www.bcg.com/en-ca/publications/2020/going-beyond-precision-scheduled-railroading>)

Precision Scheduled Railroading, SMART Union (Sheet Metal, Air, Rail and Transportation),

<https://smart-union.org/tag/precision-scheduled-railroading/page/2/>

Railroads should give workers the benefits they seek, Eric R. Byer, Supply Chain Dive, October 17, 2022

<https://www.supplychaindive.com/news/railroads-should-give-workers-the-benefits-they-seek/634107/?>