

Remarks by Robert Ritchie to the Calgary Chamber of Commerce

November 5, 2002
Calgary, Alberta

Good afternoon ladies and gentlemen.

I want to thank the Calgary Chamber of Commerce for inviting me to speak to you today.

The Chamber is fulfilling an essential role in this city. Calgary is a great place to do business and the Chamber is helping to make it even better.

Canadian Pacific Railway has been very happily based here since 1996. I am pleased to say that there are 2,280 CPR employees in Calgary alone, 3,680 in Alberta and more than 16,000 in North America, all working with determination and ingenuity to make rail do more for our customers and for North America.

I also want to acknowledge and thank our customers here in Calgary and Alberta, many of whom are represented here today. Customers such as Dow, Agrium, Shell, Petro-Canada, Fording, Louis Dreyfus, Sultran and Canadian Tire.

Together, with these and other customers, we are showing how much more rail can do to modernize distribution and transportation on the continent, and how rail can turn a province like Alberta – landlocked and about as far from markets as you can get – into a winner.

On October 3rd, CPR celebrated its first anniversary as an independent, publicly-traded company. And on October 21st, we announced our third quarter results for 2002.

We had another solid quarter – part of a very strong year-to-date performance. . Our results show that as a stand-alone company we have unlocked value in CPR and met the goal of our spin-off from Canadian Pacific Limited.

In the past year we were tested by events beyond our control, including the 9/11 terrorist attacks, economic uncertainty, and two years of severe drought on the Canadian prairies, but we overcame these challenges and demonstrated that CPR can perform well in adverse circumstances.

The company is reinvigorated with renewed purpose and we are proud to call Calgary and Alberta home.

I encourage the Chamber to continue its crucial advocacy role on the issues that are of critical importance for the business community in Calgary, Alberta and indeed for the whole of Canada.

I will be speaking to you today about an issue of the utmost importance for Canada – the fact that rail transportation is being held back from realizing its full potential and, given a level playing field, rail will be able to achieve a great deal more for its customers, the national economy and the people of this country.

I hope CPR will have the support of the Calgary Chamber of Commerce, the Alberta Chambers of Commerce and the Canadian Chamber of Commerce and its members on this critical issue.

I also want to thank the Van Horne Institute for co-hosting this luncheon today.

For those of you not aware, the Van Horne Institute is based here and is affiliated with the University of Calgary, the University of Alberta and SAIT. Through its education and public policy research activities, the Van Horne Institute is addressing transportation and the related regulatory issues confronting the industry and government.

Rail should be a national priority

I believe that the national debate on transportation is about to go into high gear. I fervently hope that it does because Canada is long past due tapping into the still unrealized potential for rail. Improving rail services in Canada should be a national priority.

Later this month, the federal government is expected to release its new "transportation blueprint", whose stated purpose is "to develop a federal strategy to respond to the major challenges that will face Canada's transportation sector over the next decade and beyond".

We already have a hint of what the blueprint may contain.

First, the blueprint builds on a report delivered last year to Transport Minister David Collenette by the Canada Transportation Act Review Panel.

In their report, the Panel made the point that "Canadians need to know that the transportation network – roadways of steel and asphalt, waterways and airborne highways – is just as critical to their economic well-being as the currently fashionable information highway".

Then, in September's Throne Speech, the federal government announced it will be working with provinces and municipalities to put in place "a 10-year program for infrastructure to accommodate long-term strategic initiatives essential to competitiveness and sustainable growth". It also said that within this framework, "it will introduce a new strategy for a safe, efficient and environmentally responsible transportation system that will help reduce congestion in our cities and bottlenecks in our trade corridors".

I, and the rail industry, are greatly encouraged by this choice of words.

The time for taking action is now.

I have been in the railway business since 1970. I am passionate about railways. And I know what rail is doing for the North American economy.

I also know that rail can do more; a great deal more.

Rail can do more - for our communities, for commerce and the business community, for urban commuters and inter-city travelers, for the environment by lowering greenhouse gas emissions, for the efficiency and competitiveness of the North American economy and for our collective future prosperity.

Rail is the safest, most cost efficient and environmentally-friendly form of surface transportation that we have.

But, given the opportunity, rail can do more to make our air cleaner, relieve traffic congestion in the cities, make trucking more efficient by transporting truck trailers between terminals in major hubs, and preserve land that otherwise would be lost to highway expansion.

Rail is still building North America

I think many Canadians today take railways for granted and, to some extent, this is understandable.

Railways have been around so long and were so critical for the building of Canada that they are a part of this country's DNA. A two-kilometre long freight train is such a common sight on the Canadian landscape that I suspect that most people hardly take note of it. And the thought of a cross-country passenger train journey can still conjure up romantic images like no other form of travel.

Yes, rail is a national symbol, a part of the Canadian landscape and a great way to see the country. But this is just a very, very small part of the rail story.

I want to give you a more complete picture.

Canadian writer John MacLachlan Gray, addressing the subject of multiculturalism and the Canadian identity in a recent article in the Globe and Mail, said: "What was the Canadian Pacific Railway if not a steel hyphen, joining isolated communities and enabling them to become more than one thing at the same time?"

I would argue that CPR and other rail providers are still doing that. What we are doing is enabling North America to become greater than the sum of its parts. Rail helped to build Canada and the United States and our contribution today is just as significant.

Canadian railways contribute \$10 billion annually to the national economy. They employ over 43,000 people directly and another 50,000 indirectly coast-to-coast, making rail one of the country's largest employers.

Rail is an important enabler to commerce in North America. This continent has the best, most efficient, most modern rail freight system in the world and we are an essential part of the supply chain of our customers.

In Canada, rail currently carries 60 per cent of surface goods by volume but don't think that we are just moving coal, sulphur and potash. That is the old paradigm of rail.

Today's railways deliver just-in-time consumer goods for Canadian Tire, The Bay, and most major retailers. Every automobile in Western Canada is delivered by train, except for the few miles from the rail yard to the car dealership.

Rail is also enabling cross-border and international trade flows. Forty per cent of Canada's GDP is derived from exports and almost half of that moves by rail into the US, to Mexico or to our ports and then overseas.

With passenger rail service, we are enabling human interaction within our urban centres and between cities and countries. There are now 51 million rail commuters annually in British Columbia, Ontario and Quebec. The number of inter-city rail trips increased to more than 5.9 million in 2000, which is almost 50 per cent more than in 1990.

Rail also offers significant environmental benefits compared with other modes of transportation. Rail conserves fuel, generates fewer emissions and reduces highway congestion.

I do not want to wade too deeply into the Kyoto waters, not because I am in the energy capital, but because I am no expert. But this I know: both Kyoto and the Made in Canada plan aim to reduce greenhouse gas emissions. And in this context, I believe the environmental benefits of rail are too significant to ignore.

The transportation sector remains the single largest energy user in Canada and produces approximately 27 per cent greenhouse gas emissions. Road vehicles – passenger cars, light trucks and commercial trucks – account for more than 70 per cent of those emissions.

On the other hand, rail generates only four per cent of the transportation sector's total greenhouse gas emissions. By the year 2000, rail's greenhouse gas emissions were 3.5 per cent lower than 1990 levels despite a 30 per cent increase in business. Canadian railways are also currently operating below the agreed 115 kilotonnes nitrogen oxide cap.

Rail has an unparalleled ability to move large volumes of goods and large numbers of people efficiently with low environmental and land use impact. That efficiency comes from two factors: low rolling friction of steel wheels on steel rails compared to rubber on roads, as well as the blindingly obvious efficiencies obtained by coupling freight or passenger cars to a locomotive and forming a train.

A 100-car freight train carries the equivalent traffic load of 280 trucks and one passenger train takes 1,500 cars off the highway – and saving our provinces, cities and towns from some of the never ending road building capital spending.

If rail were used more, think of what it would mean for reducing greenhouse gas emissions, to say nothing of improving safety on the roads and relieving traffic congestion.

Investing in the future

So our work to make rail do more for North America is nowhere near complete.

The rail industry is continually investing heavily to make rail do more.

Railways are the most capital intensive industry. Railways on average reinvest 25 per cent of revenues annually.

No other industry comes close to matching this level of reinvestment. The closest are the integrated oil companies at 18 per cent.

The money the rail industry is investing is going straight back into rail infrastructure, which is directly benefiting North Americans

For our part, CPR is investing in the future of rail in North America in a very significant fashion. Over the last five years, CPR has invested almost \$5 billion in new assets such as locomotives, rail cars, technology and intermodal terminals and to upgrade our 14,000-mile network of track from Montreal to Vancouver and into the US Midwest and Northeast.

By building alliances with all the Class One railroads in the United States and rail providers in Mexico, the CPR of today is a true continental railway, working to fulfill the full potential of the NAFTA trade agreements.

And we at CPR are investing and will continue to invest more to improve productivity, efficiency, customer service and our unparalleled safety record. Our capital spending this year should hit \$550 million.

Yet, despite all this investment, railways in Canada are still undercapitalized. How can this be?

There are a number of factors at play.

Firstly, railways in Canada are undercapitalized because of lingering regulations that artificially depress rail rates. So we as an industry have to ask the question: "Since railways are already undercapitalized, why make matters worse?"

Secondly, railways in Canada are undercapitalized because they have a heavier tax burden than their competitors, and I am sure all of you can easily understand the implications of this for competitiveness.

The rail companies own their track right-of-way properties and governments levy taxes on those. Meanwhile, governments own the rights of way on the highways but our biggest competitor, the trucking industry, does not have to pay taxes for using the highways.

Railways are undercapitalized because of fuel taxes. Both truckers and railways are taxed on fuel. Governments put money back into highways, but they don't put any money back into railways.

It has been estimated that by operating on the publicly-funded highway infrastructure, shippers who use inter-city trucks in Canada enjoy what amounts to an infrastructure subsidy of over \$450 million a year.

The debate is a complex one and an emotional one because, in fact, all modes of transportation are subsidized one way or the other. If you go back far enough, there was even a time when the freight rail industry was subsidized, but this is no longer the case and it hasn't been for some time.

All these are complex issues and I am laying them out for you in as simple terms as possible to make the point that the rail industry in Canada does not enjoy a level playing field.

The modest deregulation that took place in 1995 has greatly improved the ability of railways to reinvest and compete. But the situation could be a whole lot better still. An unfettered rail industry could invest even more and this would be of great benefit to the North American economy.

We are actively calling on governments to address these issues through a more enlightened public policy to help rail reach its full potential. This would be a great legacy to leave our grandchildren.

And when I say "governments", I include the Alberta government in this. Alberta has already shown itself to be a leader on the taxation front. For instance, Alberta has over the years lowered the tax on diesel fuel from nine cents a litre to 1.5 cents a litre today and this has been beneficial for rail in this province.

We look to the Alberta government to continue to demonstrate its leadership by eliminating taxes on diesel fuel and reducing or eliminating property taxes on rail rights-of-way so that the rail industry can benefit from a level playing field and invest more in our infrastructure.

The rail industry's first choice is to let the market work – square up the taxation, get rid of the lingering regulation, and have highway costs passed back to the commercial users in a fair way. Then let the customer decide what is the most cost-efficient transportation mode. This would be a level playing field that would permit the rail industry in Canada to compete on an equal footing with other modes of surface transportation.

I am convinced that if the modes of transport were judged on their fundamentals, free of government interference, rail would be encouraged by customers to play a significantly larger role.

We are now at a time when federally regulated transportation, in particular railways, is being reviewed.

Unfortunately, other modes of transportation not regulated at the federal level are not undergoing a similar review. I can only hope that the outcome of this review will not result in more onerous regulation, thus tipping the playing field even more in favour of other modes.

Real progress would be made by continuing to deregulate our industry, to facilitate rail achieving its natural role in Canada's transportation strategy.

However, if we are to assume that reform of this sort will be a long time in coming, there is another way to at least partly even out the playing field. This is through public-private partnerships.

A win-win solution

I have been advocating public-private partnerships for some time. Through these partnerships, the public sector and the railways would jointly invest in projects to provide services with public benefits that require government investment as a catalyst. The railroads would bring to the table some money, the guts of the railway and the operating expertise, and the governments would bring some money and together we would make the services happen.

Through such partnerships, we would be able to do more to expand and improve urban and inter-city passenger rail.

We would be able to decongest the major arteries of truck traffic by building more rail intermodal terminals and moving more freight to rail.

We would be able to help governments reach their greenhouse gas emission targets (whatever they may turn out to be).

We would be able to reduce congestion at border crossings and increase the speed of trade flows.

CPR has put viable proposals on the table for what we are prepared to do so that rail can do more for the North American economy and how public-private partnerships can make those proposals a reality.

One example is our CAD\$600 million Detroit River Tunnel Project.

CPR and our joint-venture partner, Borealis Transportation Infrastructure Trust, are proposing to build a new rail tunnel under the Detroit River and convert CPR's existing rail tunnel into a two-way roadway for international truck traffic.

The effect of this project will be to relieve border congestion and improve trade flows for trucks and for rail.

The Windsor-Detroit border crossing is the busiest in the world. This one crossing alone handles approximately 25 per cent of all Canada-US trade. Every day an estimated 10,000 trucks converge on Windsor to cross the border. Increased security checks after 9/11 have further slowed traffic.

The situation today at this border crossing is congestion and delays and everyone realizes that something has to be done. US-Canada trade is expected to triple over the next 20 years and manufacturers, shippers and rail companies can ill afford to be hamstrung by outdated border crossing facilities for much longer.

The federal and Ontario governments announced in September that they would spend \$150 million each on bridge, tunnel and road upgrades at the Windsor-Detroit border crossing. A federal-provincial committee is due to make its recommendations this month on how best to allocate the \$300 million fund.

They are looking at several options.

Ours is the best solution, and many agree with us. It will have the greatest benefits for the people of the Detroit-Windsor area, the trucking industry, for CPR and the Canadian and US economies. You can call it our win-win-win-win solution.

If we are successful, it will be the first manifestation of this new public-private partnership approach to renewing our transportation infrastructure that I have been advocating.

Improving trans-border trade flows is a priority for CPR because we pump a lot of business across the border. About 45 per cent of CPR's traffic is trans-border.

We have eight gateways to the US, including Alberta's NAFTA corridor running from Edmonton through Calgary to the border crossing at Coutts and into Montana and over to British Columbia to the crossing at Kingsgate and into Idaho.

We are a gateway carrier from the ports of Montreal and Vancouver. CPR is the Port of Montreal's lifeline into Chicago and the big US Midwest market. CPR has the shortest route from the Port of Vancouver to Chicago, which, by the way, puts Calgary squarely in the middle of this international trade lane.

Bringing the idea closer to home, public-private partnerships could also benefit Alberta's trans-border flows. CPR serves a pivotal role in bringing Alberta's trade goods directly south to the United States. CPR transports 2.7 million tonnes of these goods annually – 800,000 tonnes of petrochemicals, 792,000 tonnes of fertilizer and 155,000 tonnes of grain through Alberta's NAFTA trade corridor into the US every year. Trucks carry virtually the same amount.

Rail could be doing more but, as matters stand now, it would require both public and private investment. We believe CPR's rail line should be the main pipeline of Alberta goods into the US. Instead of spending gazillions of taxpayers' dollars and years of work on twinning the highway that runs parallel to CPR's rail line, through a public-private partnership we could upgrade our track quickly – in less than five years -- to increase the speed and volume of rail traffic to the border and take more trucks off the road. This could have the added benefit of providing the sort of improved rail bed that an Edmonton-Calgary high-speed train would require. Another win-win scenario.

The future is in our hands

What is the future for rail in North America?

The future for rail in North America is bright but it could be significantly brighter if the necessary steps are taken to level the playing field for rail and if governments are to adopt the sort of enlightened public policy that would benefit our economy and all Canadians.

At this point I am going to dip my toe into the Kyoto waters again. While a great deal of debate is focused now on Kyoto and its economic impact on Canada and on Alberta, I want to tell you that if we let the opportunity to level the transportation playing field slip away, if we fail to let Canada's rail industry reach its full potential using its natural advantages, it will make achievement of the Kyoto goals that much more expensive and that much more elusive.

Let's imagine what an adequately funded rail industry would do for the economy, for the environment, for commuters, for businesses, for trade. Let's imagine a North America with world-beating freight and passenger rail service. Let's imagine a North America where rail is doing more for every citizen on the continent.

Winston Churchill, when asked to describe the qualifications desirable in a prospective politician, said: "The ability to foretell what is going to happen tomorrow, next week, next month, and next year. And to have the ability afterwards to explain why it didn't happen."

I do not pretend to be able to foretell what is going to happen tomorrow, next week, next month or next year. But I do know what is possible for rail and I hope that one day we will be able to explain to our grandchildren why rail did achieve its full potential.

Thank you for your interest and your future support.