

ECONOMY RAIL REGULATION

Dispelling the myth of railway ‘market power’

We should continue to build on a market-based system that has been the catalyst to a resurgent and successful rail industry in Canada.



MICHAEL BOURQUE

Robert Ballantyne of the Coalition of Rail Shippers recently argued in *The Hill Times* that Canada needs a regulatory framework that “compels the rail freight system to respond to the needs of the Canadian economy.” According to Ballantyne, “railway market power” must be addressed if our country is to grow its economy and achieve its trade goals.

Mr. Ballantyne provides no evidence for his claim that Canada’s railways wield excessive market power, based on what he curiously refers to as a “spatial monopoly.” (Apparently NASA is not alone!) The fact is, considerable competition exists between railways, other modes of transportation and between supply chains. This competition creates meaningful restraint on railway rates and service offerings. This is of critical importance given the current review of the Canada Transportation Act, as we need a policy framework based in fact—not rhetoric or opinion—if we’re to ensure a transportation network that will meet Canada’s trade and growth agenda.

In reality, many shippers have access to more than one Class 1 railway. When they don’t, they can use a shortline railway or truck their goods over a short distance to reach a competing railway. But even that is too simplistic a view of competition; railways compete with many other modes of transportation—trucking, marine transport on the St. Lawrence, and pipelines to name a few.

Shippers also wield what economists like to call “countervailing power.” Railways serve a lot of big customers—from retailers such as Walmart, Costco and Home Depot, to mining companies such as Teck and Rio Tinto, and agricultural corporations Glencore and Richardson International. All of these companies have significant buying power, market power and choice of supply chains. They ship from multiple origins, and leverage their options to make sure that they get competitive rates. To suggest that they cower in the presence of railway market power is a stretch to say the least.

In addition, supply chains compete with supply chains. Shippers in North America and around the world are able to choose between competing ports of entry and exit, and therefore, routes and carriers. A shipper in Asia looking to ship goods to Chicago, for example, can do so through Prince Rupert, Vancouver, or any of the ports on the western, southern or eastern U.S. coasts. If rail or any other part of a region’s supply chain is inefficient, too expensive or unreliable, then competing supply chains will take their business. For that reason, railways are compelled to keep rates competitive and service levels high.

A supply chain must work in collaboration to be competitive, and Canada’s railways are doing their part. CP and CN have the industry’s lowest operating ratios, a key measure of efficiency. Their record of increasing productivity is unparalleled. They have the lowest freight rates in the developed world, tied with the U.S. railroads. Their success and yes, profit, makes

it possible for them to make significant annual investments in track infrastructure, equipment and personnel. This leads to better service, improved safety, lower costs and new business opportunities for all rail customers.

It is unfortunate that Mr. Ballantyne has chosen to characterize the rail industry as abusive and in need of statutory intervention, even going so far as to suggest that the Canadian Transportation Agency needs “investigative powers.” There is a watchdog for anti-competitive behaviour in Canada—the Competition Bureau. But beyond that technicality, Mr. Ballantyne’s idea is nothing more than a remedy in search of a disease.

A new approach to regulation, based on commercial frameworks, saved Canadian railways from bankruptcy in the 1980s, and reforms towards a market-based system have given shippers access to world-class rail service at lower rates. This framework has improved the financial and operational performance of Canada’s railways, while



Considerable competition exists between railways, other modes of transportation and between supply chains, writes Michael Bourque.

enhancing their ability to undertake major capital investments for the benefit of their customers. Rather than suggest that we take the clock back to the not-so good old days, we should continue to build on a market-based system that has been the

catalyst to a resurgent and successful rail industry in Canada.

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