

Coalition for the Factual Analysis of International Rail Rates (FAIRR)

COMPARATIVE ANALYSIS OF CANADIAN RAIL FREIGHT RATES

A Response to the CPCS Report on "International Comparison of Railway Freight Rates" and the Railway Association of Canada

Webinar presented by

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January 25, 2024, 1 p.m. EST

CPCS' International Comparison of Railway Freight Rates

- CPCS' Conclusion:

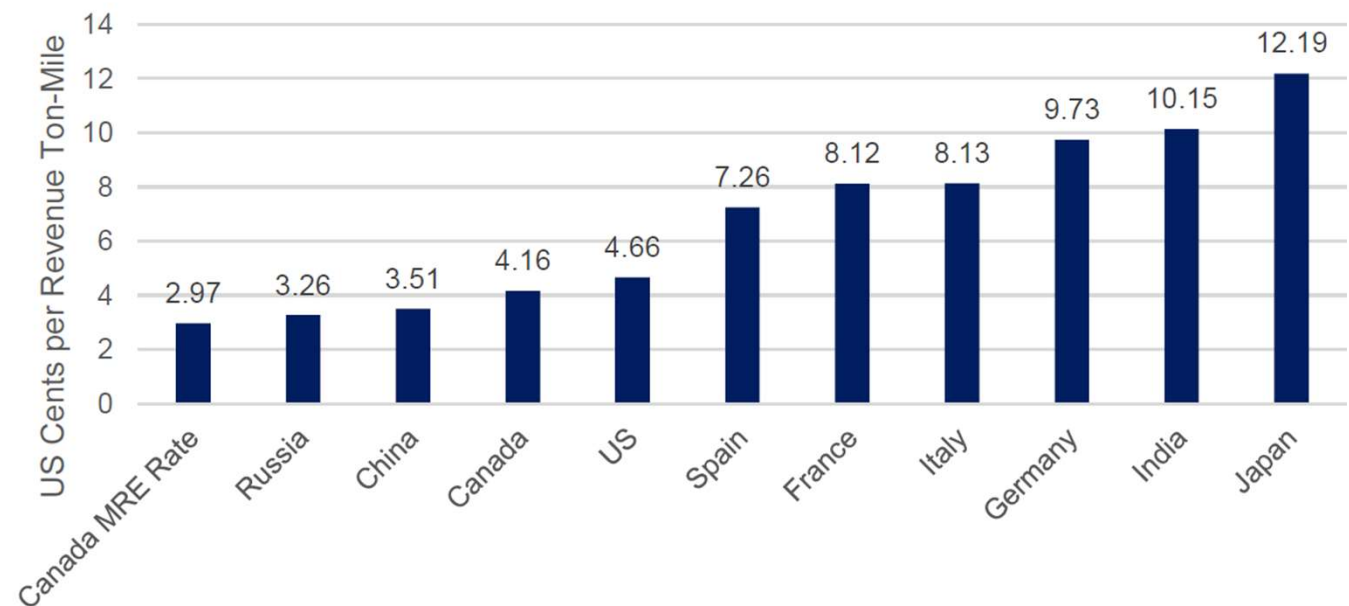
"Among the countries examined, Canada's railway freight rates are among the lowest..."

- Railway Association of Canada:

"Canada's low rate is proof that, as Canadian railways became more and more efficient over the past several decades, they passed on the savings to shippers and consumers. This is because there is robust competition between our largest railways."

<https://www.railcan.ca/blog/canadian-freight-rail-low-price-winners-in-the-global-context/>

Figure ES1: Railway Freight Revenue per Revenue Ton-Mile, by Country (US cents, 2021)



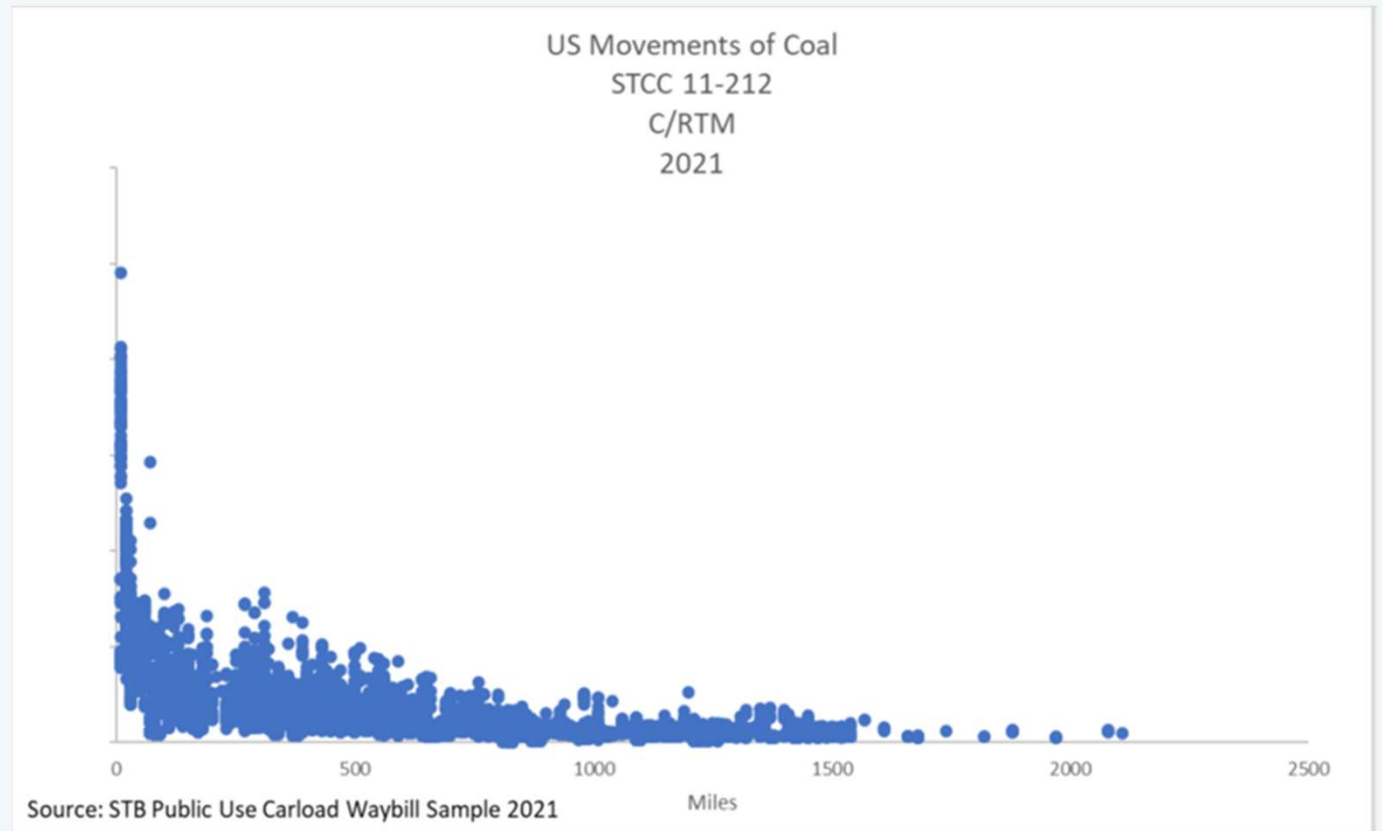
CPCS Report, p. 1

FAIRR Response to the 2023 CPCS Report

- Report is incorrect, misleading or incomplete:
 - compares countries whose rail systems and traffic are not comparable
 - ignores critical differences between Canadian and US systems
- Report does not support claims of “robust competition”
 - CN and CPKC face little or no competition for majority of their traffic
 - *88% of CP’s customers representing 95% of its Canadian carload traffic are single-served at origin (CP 2022 evidence before the U.S. STB)*
 - railways’ financial gains exceed levels that would prevail under conditions of effective competition

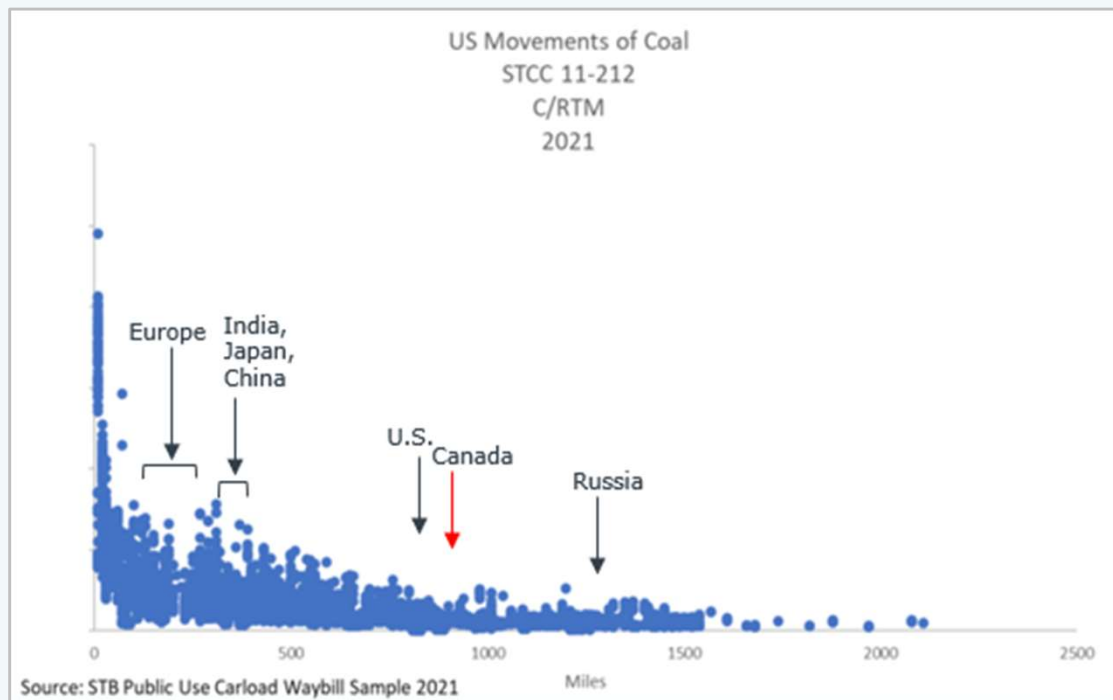
Lack of Comparability

- CPCS fails to acknowledge the well known “rate taper” phenomenon (CRTMs decrease as haul length increases)
- The graph on the right illustrates this phenomenon using publicly available U.S. rate data for a single commodity (coal).

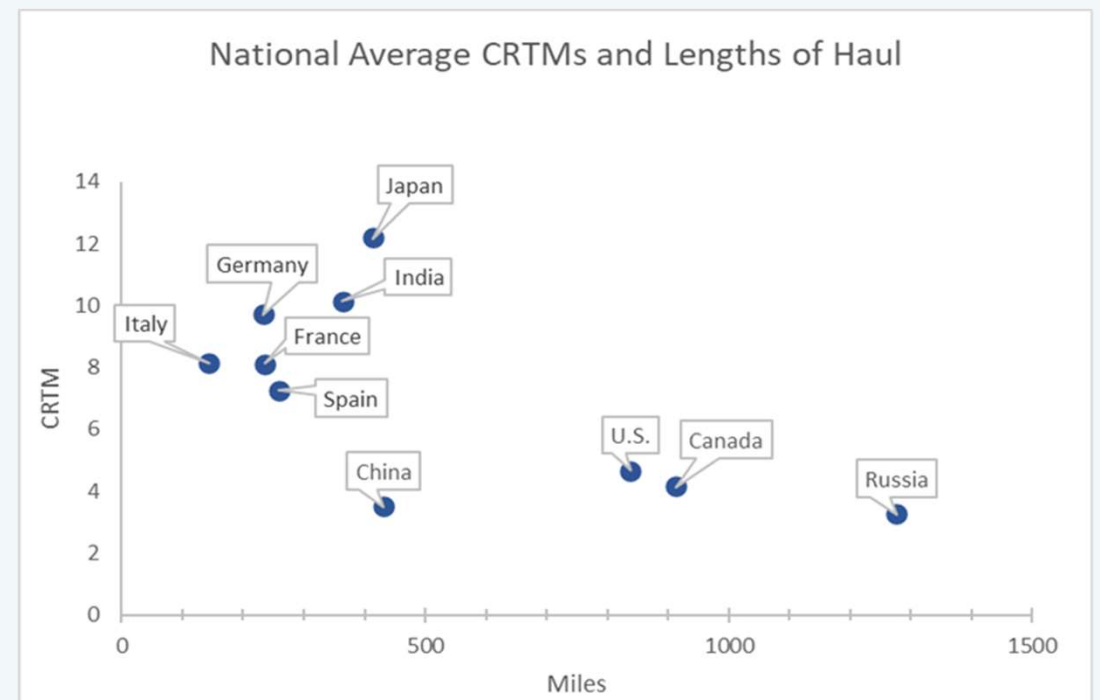


Lack of Comparability

- large differences in average length of haul drive CRTM differences



National average lengths of haul on the U.S. coal rate taper spectrum



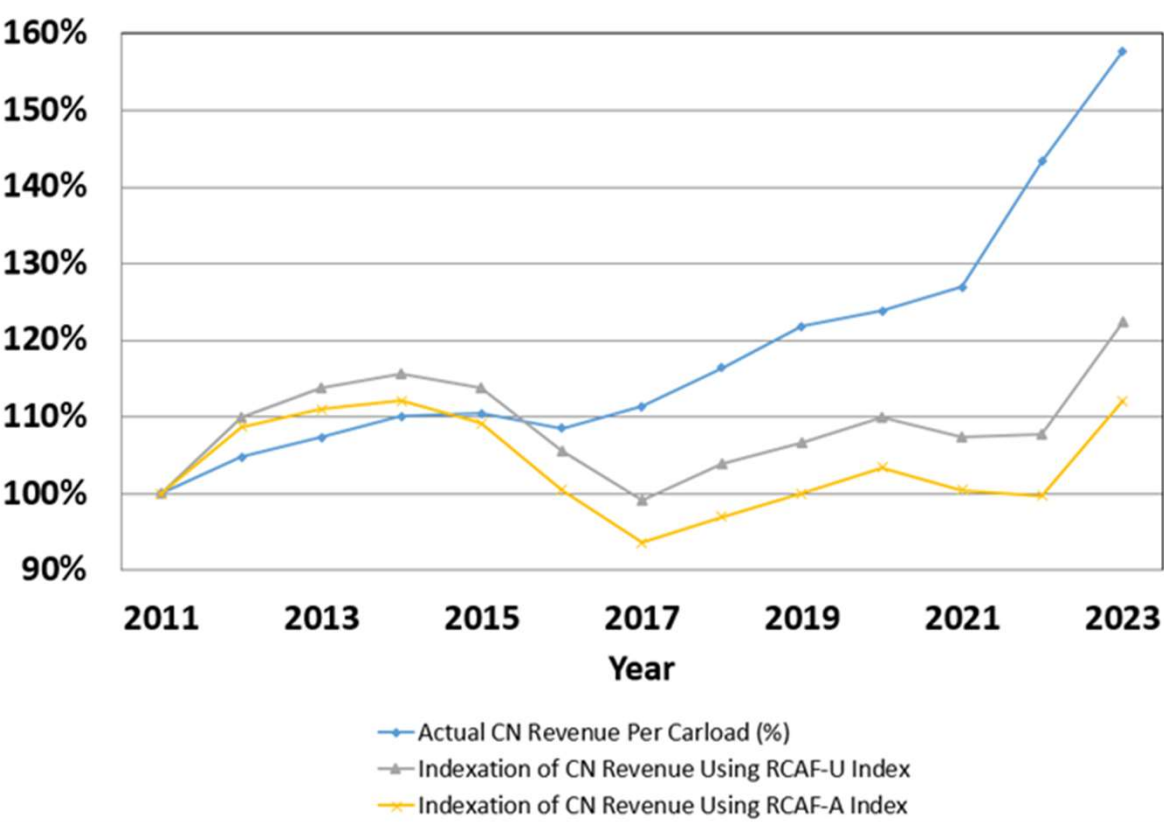
National average CRTMs are consistent with the rate taper phenomenon

Lack of Comparability

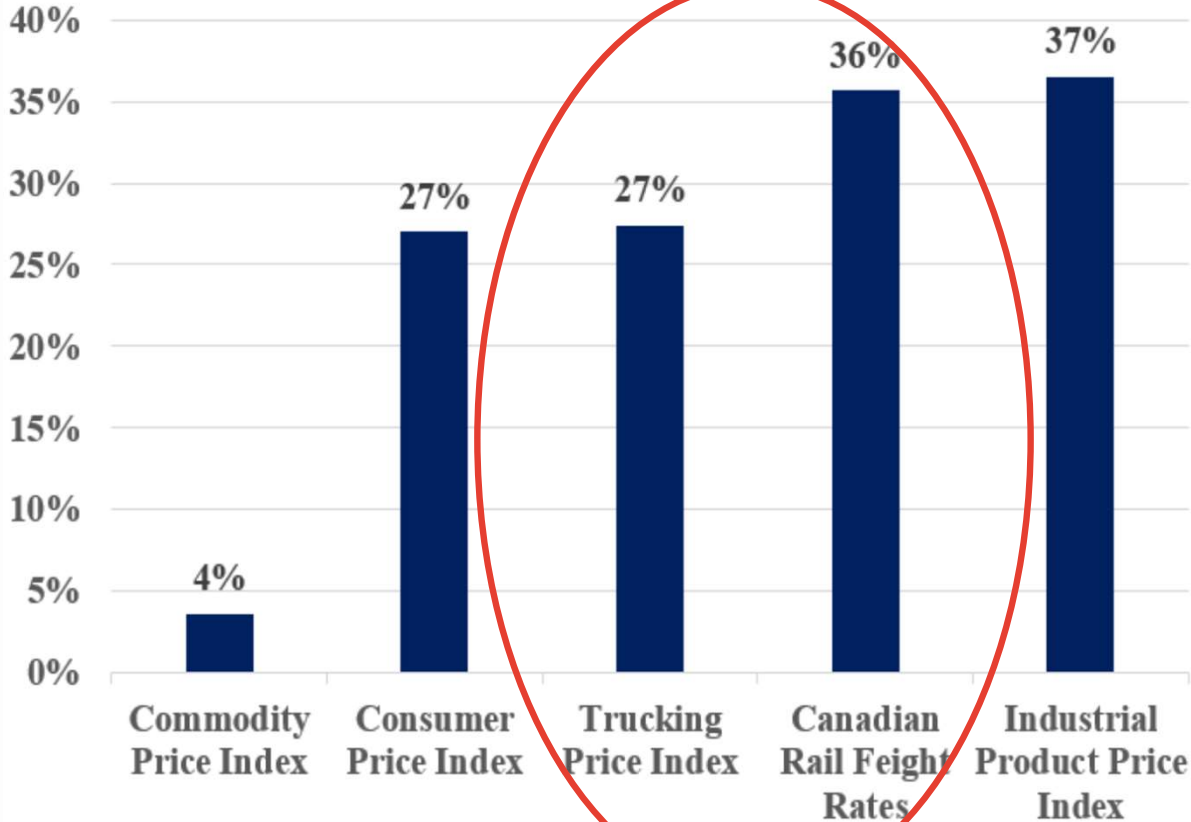
- Constraints on **operating parameters** in other countries drive higher costs and higher rates
 - Shorter and lighter trains
 - Lower railcar capacity
 - Other parameters
- Differences in **traffic mix** drive higher CRTMs in other countries
 - CRTM can vary widely between different business segments
(e.g., finished manufactured goods vs. bulk raw materials)
 - Using average CRTMs CN/CP report for different business segments and assigning weights to reflect traffic mix of one of the European carriers raises CN/CP average overall CRTM by almost 30%

Index comparisons

- Pricing “ahead of inflation”



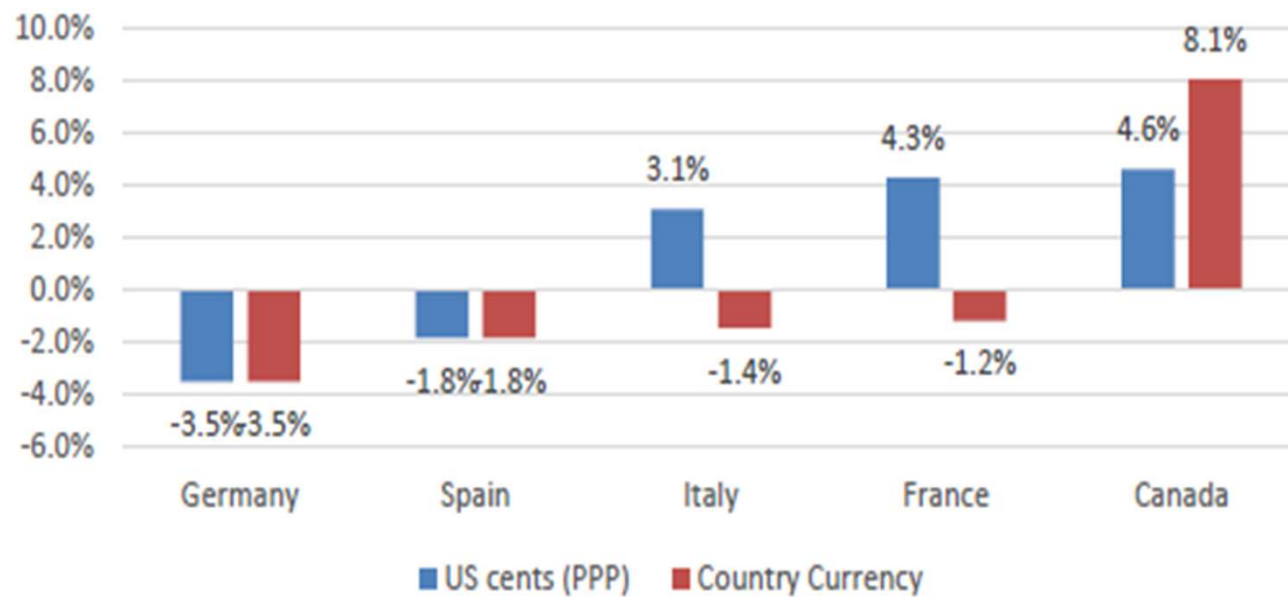
- Selective indices (2007-2021)



Omitted/selective data re: changes in CRTM over time

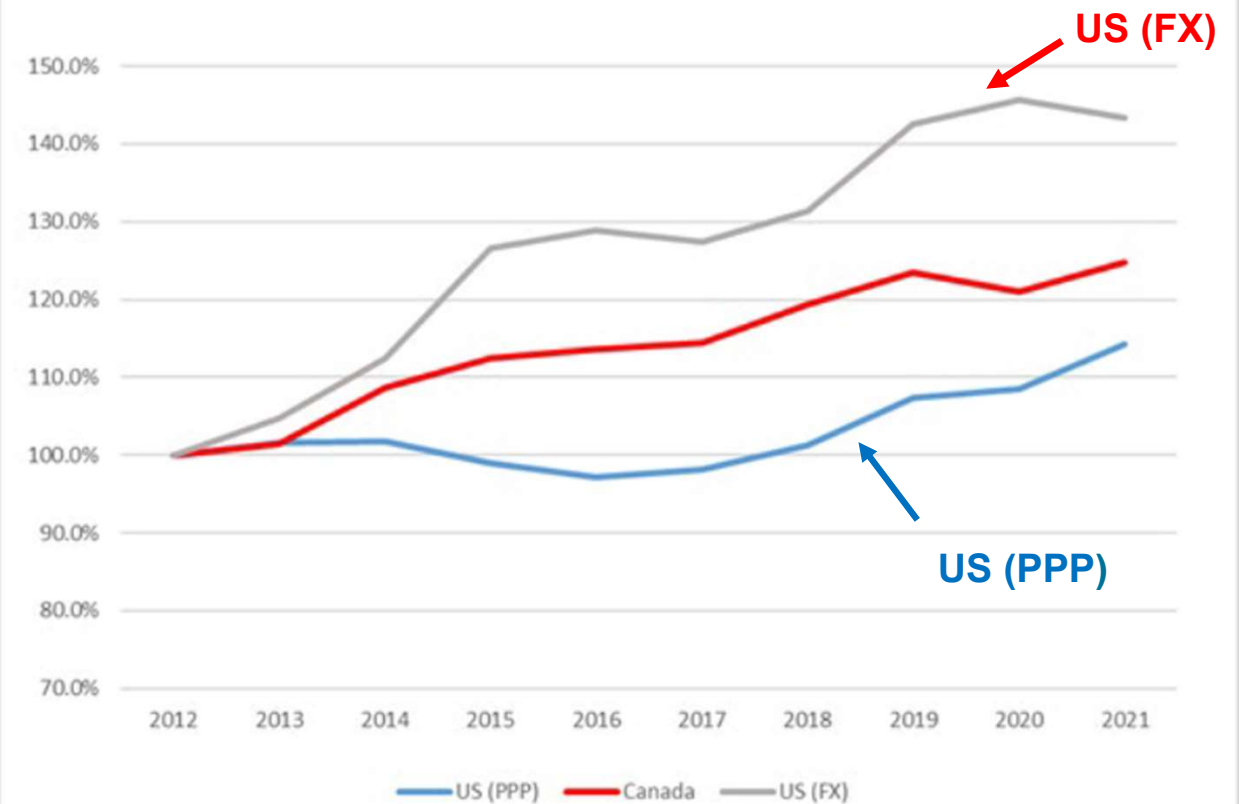
- Higher increases in Canada than in Europe

Change in freight revenue per tkm (2018 - 2021)



- PPP vs FX skews results

Change in CRTM 2012-2021 (CAD)



Excess railway returns on equity demonstrate lack of competition, reduce production and harm the Canadian economy

Figure 1
CN After-Tax Cost of Equity
and Return on Equity

■ Cost of Equity ■ Return on Equity

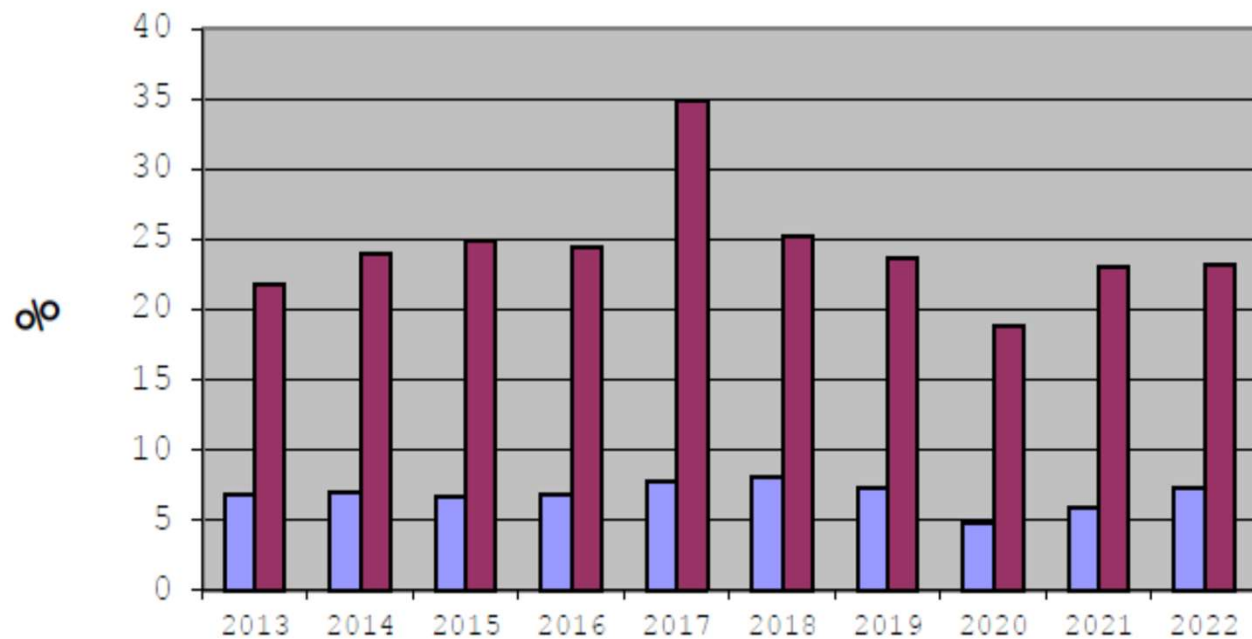
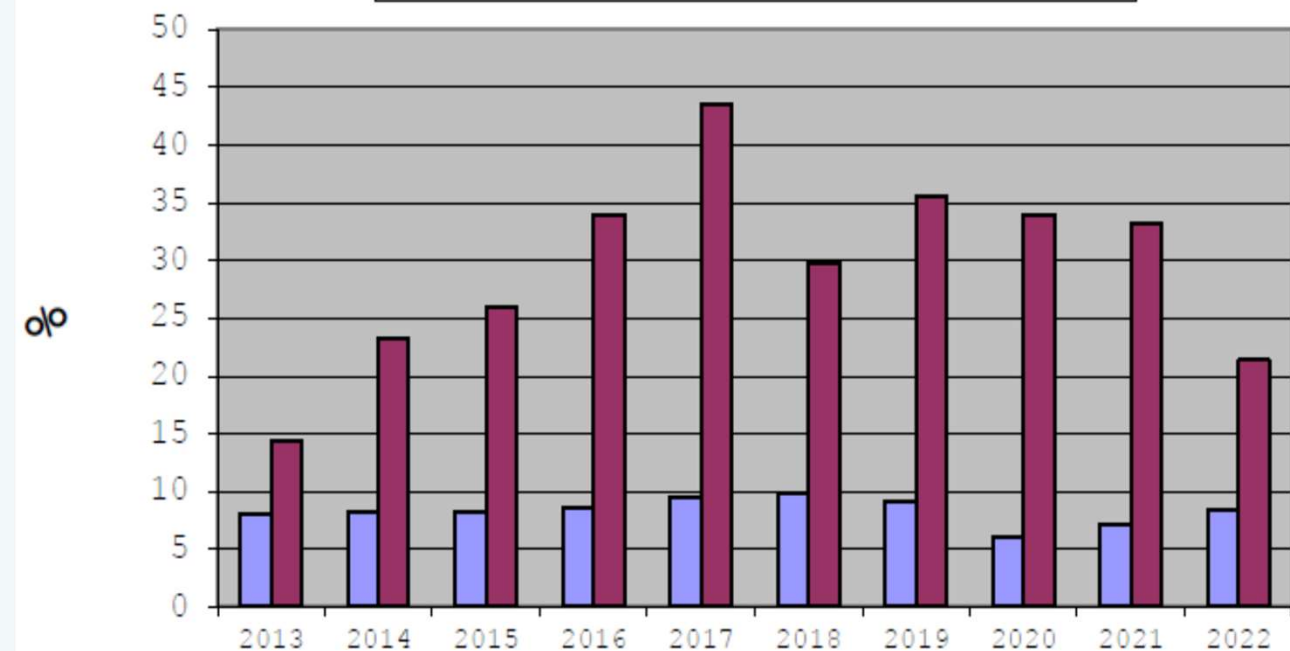


Figure 2
CP After-Tax Cost of Equity
and Return on Equity

■ Cost of Equity ■ Return on Equity



FAIRR Response to the 2023 CPCS Report

- CPCS Report provides no reliable or useful information for evidence-based policy making
 - highlighted differences between jurisdictions simply reflect differences in length of haul, traffic characteristics, traffic mix and rail systems
- RAC's claims of "robust competition" between CN and CPKC are refuted by:
 - consistent freight rail rate increases above inflation
 - railway returns on equity that far exceed levels that could be achieved in an effectively competitive market
- CN and CPKC face little or no competition for the majority of their traffic
- Canadian rail policy and legislation must address this imbalance

FAIRR Response to the 2023 CPCS Report

- For a copy of the full FAIRR Response to the 2023 CPCS Report, including expert reports by Dr. David Gillen, Dr. Lawrence Gould and RailState, go to fairrail.ca