Intelligence MEMOS

From: Daniel Schwanen

To: The Honourable Omar Alghabra, Minister of Transport

Date: November 18, 2022

Re: **FOLLOWING THROUGH WITH SUPPLY CHAIN RECOMMENDATIONS**

Your National Supply Chain Task Force released its final report last month with advice and recommendations on possible actions by all levels of government and industry to alleviate pressing transportation congestion and fluidity issues affecting Canada's supply chains.

Its recommendations can be usefully grouped into buckets.

One contains recommendations for "more and more streamlined approval for infrastructure." This is not a new problem in Canada, but it has become acute in recent years due to constraints and delays around proposed large projects.

These in turn negatively affect business investment, jobs and tax revenues. Regulatory agencies should be able to come to decisions more quickly, without sacrificing standards or broader goals – indeed the Task Force report highlights the potential for investments in greater safety and better adaptation to climate change – and governments should enable and incentivize them to move faster. Improving procedures at the Canada-US border, and digitalization of the supply chains, are part of those proposed investments.

Another bucket might be labelled "more and more specific skills." Here the report highlights the difficulty governments and employers have had in addressing the skills shortage they all knew was coming. Though new programs are now in place in various Canadian jurisdictions to train prospective workers, the report highlights that more efforts are needed to provide the skills needed to fill crucial jobs along Canada's supply chains.

We have known about both these shortcomings for a while, but the report has the merit of highlighting how they affect all Canadians – in their ability to access goods they need, and to sell their production, which sustains jobs and incomes. The hope emanating from the report is that there can be more specific and timely action on these issues. That would require a focused whole-of-government response at the federal level, and cooperation with other levels of government and industry. No small endeavour, but if it can be achieved over a sustained, medium-term effort, the rewards will be great.

A third bucket might be termed "protection from disruptions." Canada's infrastructure contains many "choke points:" unnecessary regulatory differences between Canada and the US, containers stranded in ports for too long, workers who currently consider it unsafe to work in the rain, or civil protests; all are potentially paralyzing at any given point. One way to minimize such costs would be to consider how they can be mitigated by new corridors or better facilities at the border or workplace arrangements, under the "more and better infrastructure" rubric above.

A fourth bucket includes Task Force recommendations that government help speed required changes, or at least temporarily alleviate congestion, through subsidies. For example, the recommendation to subsidize the cost of transporting in-bond containers away from choke points at ports for inspection, or for the government to temporarily waive a share of its airport rents.

If these buckets are not addressed, the attraction for businesses to grow and invest in Canada will correspondingly be less. Canada already suffers from a dearth of private investment, and without a sufficiently robust and resilient infrastructure, many of these investments will go elsewhere.

In one area, however, the Task Force views greater restrictions on business, rather than more investments, as the solution. It recommends requiring Canadian railways offering service on a given line to carry shipments to an interchange where they can be loaded onto trains operated by competing railways, well beyond the 30 -kilometer distance over which the current interswitching regime applies. The regime – which includes regulated rates and a dispute settlement process – prevents shippers becoming beholden to a single railway due to their location. It was introduced by Bill C-49, adopted in 2018, and is working reasonably well.

But extending its reach would repeat some of the same mistakes that were made early in the last decade, prior to Bill C-49, in an attempt to arbitrate between competing shipper interests in the context of high demand for shipments of crude oil by rail. Ultimately, it plays important sectors against each other, which is not the solution, as discussed in a previous C.D. Howe Institute paper.

It also goes against the thrust of the Task Force recommendations. While it may mollify shippers who complain about supply chain disruptions, it will impose important costs on an already very cost-competitive rail industry – the very businesses that need to invest in order to strengthen our infrastructure. And it fails to fundamentally address the sources of the supply chain disruption that are often located thousands of kilometers away from the relevant interchange, or rooted in other long festering problems the Task Force sought to address.

If we want companies to invest in workers, facilities and infrastructure, and improve their services, then we must give them that signal, not impose new costs.

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