PROCEEDINGS

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Comment: Viking Trade, a trucking company. What that means today is that we can unload data from the IBM mainframe to do very heavy analysis, run it through the PC, clean it up, whatever we want to do, finish the final report, take it back up to the Tandem network and distribute it throughout the entire country. Of course everything is online, the mail system is online, that means that we can have that information distributed throughout the entire company in a manner of hours. We are doing a lot of moving data between and then selecting which environment we want to run the analysis in. Other departments have gone very heavy to the Mac side. I don't see a reduction in any of them. I just see a increase in the use of them all.

Forum Session:

Impacts of the Canada-U. S. Trade Accord on Transportation

Chairman:

Larry Herndon, Union Tank Car

Panelists:

Gordon Mills, President PROCOR, Ltd., Oakville, ONT

Sandra Dearden, Chicago & Northwestern Railway, Chicago

Mike McElhone, Inter-American Transportation

Mr. Herndon: This is a session on the impacts of the proposed changes in the US/Canadian tariffs. The United States has approved the package but Canada is in the midst of a spirited discussion as to which way it wishes to go. Apparently it is felt in Canada that the agreement will have a big impact. The two Canadians who are on our panel will speak more to that. As many of you may not have known, but was pointed out by our luncheon speaker Mr. Ronald Lawless of the CN, roughly 80 percent of the commerce between the U.S. and Canada currently moves without tariff barriers. So the current debate affects specific industries which, over periods of years, one government or another has seen fit to protect. I had a discussion with a narrow-minded bureaucrat from the U.S. Department of Commerce as a result of a customer's problem. The customer had some Canadian tank cars, and wanted to get limited use of them in the United States. They ship a great deal of material by barge and with the low levels of the Mississippi River they were having trouble meeting their shipments. So they wanted to get temporary importation of Canadian owned equipment to ship into the U.S. for a limited amount of time. The bureaucrat kept trying to come up with reasons why we shouldn't do anything and finally he said "well, I'm going to protect American jobs." I said there are no American jobs at stake here. This is a short term situation. I'd be tickled to death to lease them some cars but we're not going to build them cars unless they are willing to lease them for five years. But they'd be foolish to lease them for five years to meet a problem that they had in the summer of 1988. Besides if they lease them for five years they can't get them until January of 1989. I think we have these kinds of problems on both sides of the border and need to back off and look what it is that we're trying to protect for ourselves or from each other.

We have three speakers today. Each of them will speak in a specialized area, in order to give you some flavor of the different considerations of the trade agreement. I'm going to leave it up to the individual speakers whether they prefer to go through the remarks or would care to be interrupted with questions. We will have each speaker and then stop for questions and discussion after each speaker.

Our first speaker is Mr. Gordon Mills, who is president of PROCOR Limited here in the suburbs of Toronto. In case you all don't know the connections, I'm with Union Tank Car company and we and PROCOR are jointly owned by the same firm. Gordon was born in Canada. He has a Bachelor of Arts degree from Queens University in Kingston and a Masters degree from the University of Toronto. He has been with PROCOR since 1968 when he joined them as vice-president of marketing. He became Vice-President and general manager in 1975 and President in 1988. So would you welcome now Mr. Gordon Mills?

Mr. Mills: Thank you Larry. When this speech was written the assumptions in Canada about the future of the free-trade agreements had been changing dramatically on an almost daily basis. All I can say is that it is a moving target, what was a week ago is certainly not the same thing today and most probably will not be the same thing a week hence. So we are very much in the hands of the voters as to what our future is going to be. But I thought that it might be useful to talk a little bit about the agreement in some detail, so that our American friends, who probably haven't had the continuous exposure to what is or is not in agreement have some of the benefit and then touch on the possible impacts on our industry. Then I'll tell you what we are doing in our company, because I think it's typical of what many companies are doing in anticipation of the agreement.

The free trade agreement between Canada and the United States has already been approved by Congress, and until very recently it appeared to be on the road to legislative approval in Canada as Bill C130: The Canada-United States Free Trade Implementation Act. Evaluating election forecasts of the last week, however, have cast doubt on the outcome of the November 21st election. The Conservative government, and with it free trade, may be defeated. Now I propose to touch on that political scene but only as it applies to the free trade agreement. I shall go on to the importance of the act to Canada and the United States in the context of world trade and highlight its implications for Canada's productivity in a competitive position, its dispute settling mechanism, how it will affect the railway industry, and how we plan to handle it. The results of our forthcoming election, eleven days hence, could cause Bill C130 to falter, we hope it won't. Our majority Conservative Government initiated the Canadian side of the free trade negotiations and is supported by big business. I think it's fair to say that it's also supported by small business and a good many reflective people who have studied the history of our bilateral and multilateral trade agreements. Prime Minister Brian Mullroney and the Conservative Party generally are all campaigning on the merits of the free trade agreement. Should, however, the Conservative majority become the opposition of the Canadian Parliament, or even worse still, should we be presented with a coalition government, the enabling legislation will not pass and the agreement as it stands today will be up the creek. The other two Canadian political parties; the Liberals and the New Democratic party are not crazy about many of the free trade agreement terms. I hasten to add, however, that both claim to want some kind of arrangement between our two countries. I happen to think the one that's hammered out provides an excellent basis for smoother trade relations.

First, let me provide a brief framework of Canada's trade picture. And Ron Lawless has touched on some of this at lunch. In terms of gross national product, we are the second largest trader in the western industrialized world; West Germany being the largest. This means in effect that after West Germany, trade provides the largest percentage of gross national product to Canada in comparison with other western industrialized countries. So if there is any doubt in anyone's mind as to the importance to this nation of trade and trade patterns, let it be dispelled by that observation. Trade is fundamentally our life blood and we'd be in serious trouble without it. What's more, 90% of Canada's trade is with the United States and has been for some time. And 80% of that trade is already free of tariffs and duties. Our thought is that if we can free up that last 20% a good many benefits will fall. For starters the free trade agreement will strengthen Canada's economic and business environment and will enable our two countries to compete more effectively with the European economic community and the Pacific Rim nations. I'm sure you're aware the European economic community becomes a fact in 1992. They are going to be formidable competitors in the international market place, certainly capable of overwhelming us individually, less capable of doing so if we, Canada and United States, present a formidable cooperative front. And to go on, a great many customs and duty charges will be eliminated. They are just irritations in some instances, and serious costs in others, but in the long run the consumer will benefit from their elimination. Special interest groups exist in both countries. They represent certain industries that will be forced to look for efficient, productive alternatives to the protection that they already have. In Canada, this protection has included subsidies, government grants, and isolated markets. These industries represent employment and they are not ignored in the agreement. We've agreed that over a ten-year period, tariffs on goods and services going in both directions will be phased out. The phasing out is staggered. Some products will be able to cross the border with no duty as of January 1, 1989, such as data processing equipment, leather, telephone sets, motorcycles, whiskey, rum, fur, animal feed. Some industries will take five years to achieve the no duty status, and some up to ten years. The five year category includes paper products, furniture, after market automotive parts, most machines, paints, petrol, some chemicals, jewelry, explosives, sub-way cars. In the ten year category, and these are the people who will be most affected by the passage of the agreement, we're looking at steel, rubber, most agriculture and wood products, tires, textiles, apparel, most fiber products, plastics, rail cars, precision appliances, and the alcoholic beverages not included in the other categories.

Now, as alluded to earlier, the period of grace for certain industries is designed to give them an opportunity to rationalize their production processes, identify peripheral markets, and fill a relevant niche in those markets. For them, protection will remain in place for many years, and will enable them to establish a comparative advantage while adjusting to a new law. The larger unfettered marketplace is ten times the size of its own little caravan and a fact that I hope is not lost to this audience. It is regrettably a fact that this has been lost to some Canadian audiences and has been shrugged away by those who seek to defeat the agreement. The agreement has the potential to help North America to reestablish its formerly high productivity rates which have fallen behind several industrialized nations during the last twenty years. It has the potential to be the catalyst to greater economic security both nationally and internationally. We cannot afford not to have it. From that point, I'd like to go to questions dealing with disputes that arise in the course of the free trade implementation. What has been put in place to handle the disagreements that will probably arise?

One procedure is through the Canada-United States Trade Commission. The Commission has a mandate to notify, consult, settle disputes, continue negotiations, and make decisions. Generally speaking, the Commission is the final arbiter in the event that one party reinterpretation of a term or regulation of the agreement. It also is a part of the reason for some of the misunderstandings that surround the agreement. Many people do not see flexibility as strength. The Commission will have people representation from both countries and the top person on each side will be the senior trade minister or representative. While the Commission itself may meet only once a year, on-going work and surveillance will be done through the committees and panels.

The other main procedure or recourse for dispute focuses primarily on the perceived unfair subsidies. There's no doubt that difficulties are inherent in these areas. These are what we call the non-tariff areas that stand in the way of trade. These are subject to renegotiation over the next five to seven years. During that time controversies can be referred to a panel of five members chosen in agreement by both countries with expertise in the subject under discussion. This should head off a recurrence of the shakes and shingles debacle of 1986. You will recall that British Columbia shakes and shingles were exported to the United States and were alleged to have an unfair subsidy. When threatened with U.S. retaliation the Canadian government proposed a 15% export tax on shakes and shingles coming across the border. This was a no-win situation for both sides. The marketplace, in its wisdom, has turned increasingly to alternative and cheaper materials and both the United States and the Canadian industries have suffered. That was two years ago. Under the rule of law that is proposed in the free trade agreement there will be a body to deal with such cases, to assess them, to advise, and to arbitrate. No one yet knows how well it will work. In essence it will prevent special interest groups from seeking to execute a discriminatory measure that could have totally unanticipated responses and ramifications. Past experience indicates that this is an unproductive approach. If, however, the offending party should persist in discriminatory action, in defiance of a commission or panel ruling, the injured party can retaliate by imposing like discriminatory measures. Now in light of the history of the failures chalked up by this type of response, one could only hope that the devices in place will be to compromise solutions rather than retaliatory confrontations.

There are a couple of areas to which the free trade does not apply. In the exchange of cross-border tenders, work for government projects, and United States defense spending are excluded from Canadian participation on the grounds of both sensitivity and vulnerability. In fact, national security considerations can be important to Canada too, but our defense spending most certainly has not reached the United States level. In the other direction, Canadian culture isn't for sale. There has been a vast misunderstanding about that in Canada and it seems to have something to do with our nationalistic hang-ups. This reflects the thesis that we're in danger of being crushed by the elephant we're sleeping with and totally overwhelmed by American culture and values. This culture exemption ties in with the regulation on foreign investment. Currently, Investment Canada reviews foreign takeovers of Canadian firms which are worth more than $5 million Canadian. Over the next three years, with free trade in place, this value will increase to $150 million. However, in the event that a Canadian publishing house, for example, should be subject to takeover as a result of some indirect acquisition by a U.S. investor, Canada proposes to offer the Canadian business at fair market value either to the public or failing that, buying it themselves, thus, hanging on that industry in Canada. So Canada does not welcome United States control of its publishing or other media industries. We still go for an exchange of ideas, a great deal of material already crosses the boarder in both directions, some of it good and some of it terrible, but overall, the educational fallout is probably positive rather negative and fundamentally the enlarged market and greater competition should improve the quality of cultural exchange.

Now, the rail-way industry, how is it affected by the Free Trade Agreement? There are two developments affecting our industry. One is the deregulation of the industry under the National Transportation Act. This was signed last January and gives us the go ahead to make confidential contracts with carriers. The Canadian Transportation Commission has been replaced by the National Transportation Agency as have published rates by private contracts. Similar deregulation has taken place in the United States and these developments, along with the free trade will create a much better environment in which to rationalize our procedures, identify our goals, and improve both our products and services. Without the free trade railway equipment and component parts entering Canada from the United States carries 17.5% duty and an 18% duty from Canada into the United States. This severe protection will disappear over the ten year period. So now we are in a position to be more competitive not only with trucks, airlines, and other railways thanks to deregulation, but the railway industries in both countries will be able to compete more efficiently with each other.

Given that Canada and the United States will be competing on equal basis for international traffic, and given that Canadian exporters to the United States will look for the lowest transportation costs which in many instances can be found in the United States, and given that Canadian railways will demand access to equipment at prices which are competitive with U.S. prices, we must contemplate a fully homogeneous market for railway products and railway services in North America. Now, Union Tank and PROCOR have both been contemplating that market for some time from both a service and a manufacture point of view. For starters, we've studied it in the context of expanded operations of the largest U.S. railway manufacturing agencies. There are fewer companies than there were ten years ago. They are bigger and they have of course a very big market.

On the service side of the free trade agreement, it gives U. S. companies the opportunity to offer the Canadian market both new and used equipment on both a temporary and permanent basis at American domestic prices. Since these prices will be affected only by exchange risk between our two dollars and other withholding tax considerations, and since we assume that the current mileage compensation arrangement in the two countries will continue, it is more than likely that we will see U.S. equipment being transferred for use in this country.

On the manufacturing side, the Canadian rail car and component manufacturer will have to come in at the same or lower prices than the U.S. manufacturer. If they can't lower their prices by between 17-18% they are sunk. There are bound to be some Canadian plant closings and production consolidations in the U.S. when it comes to Canadian branch plant subsidiaries. How much and when are questions that can't be answered at this stage but this is a serious consideration for Canadian manufacturers. Now the flip side of that is that in some instances there will be consolidations in Canada and U.S. subsidiaries will be closed. We in PROCOR, for example, recognize that our sister company, Union Cancaar, is essentially a robotic operation capable of producing some 3000 cars a year. A scale that enables enormous economies in manufacturer, i.e., economies of both labor and parts acquisition. PROCOR is smaller, more specialized, able to change its design quickly in response to changing customer needs. It is by definition a labor intensive operation and more expensive than a robotics operation. Unit costs are higher. Now in accordance with these facts we propose to continue to expand our line of specialty cars. They are of a high quality. They have a continuing marketing and we believe they are going to have a much larger market in the U.S. Our Canadian operation lends itself to that kind of production. This is what we have identified as our marketing niche. It is one in which we know we are successful. We also know that it is going to get bigger not smaller. With the elimination of cross border tariffs we are presented with greater U.S. competition. Equally our U.S. competitors are going to be presented with greater competition from us. In some way this sums up what the free trade agreement is all about. Yes, we face greater competition, but yes, so does the United States. To quote John McFarlan who was editor-in-chief of the Financial Times, "In an increasingly international business environment, it is clear that a sound national economy must be built on industries that can withstand foreign competition." So, if our threatened industries can use the next five to ten years to identify their place in the scheme of things, can adjust to a particular market, can exercise the economies that are required to compete, then the free trade agreement will be seen by today's skeptics as a good thing for both countries. Thank you.

Question: Mr. Mills, you mentioned various things of which we're going to have the duties removed over the next ten years but I didn't hear you say anything about trailers. Are rail trailers or highway trailers, are they in that group?

Mr. Mills: I'd have to say that my expertise in the subject, limited as it may be, is even more limited, it stays with the rail industry. And I'm not sure where highway trailers fall. I doubt if they would be in category one but they would probably be in either category two or three. That's with the five year spectrum or the ten year spectrum. Everything falls into something.

Question: The railway cars are in the ten year spectrum as far as complete rail cars. Is that true on both the leasing side and on the sales side?

Mr. Mills: Yes.

Question: Do you see any risk that based on the commodity selection in what was picked for five to ten years that there's any risk that one side or the other may be more exposed to consolidations and that there might be some short term employment effects that could threaten the progress of this thing from a social standpoint?

Mr. Mills: Well, my general perception is that the well managed companies, I was going to say we fall in that category, have been trying to get their act together well in advance of this becoming a fact. I know of many success stories where, because the rationalization of production, where some companies have already started. I think the losers are going to be the ones that have got their head in the sand and who are going to hope that it will all go away.

Question: It's been some years since I have been to Toronto and I understand a grandmother in tennis shoes out in Edmonton started the opposition to the trade thing. When can we get a copy of her book?

Mr. Mills: It's in the bookstores. I don't know what it's called. I had not read it but she's not alone. There's lots of stuff being written in opposition to the Free Trade Agreement by many victims. There seems to be a considerable number of the academic community that are coming out. There's one that came out quite recently by, I think, three different professors up at the University of Ottawa which is very negative and attempts to convince the reader that we are lost as a nation if this agreement goes through.

Question: Do you see any possibility of a consolidation not being limited to manufacturing but extending to the service industries such as railways, for example between Conrail and the eastern part of the Canadian Pacific?

Mr. Mills: I very definitely see that. The agreement clearly encompasses services as well as products. It includes the financial institutions, all forms of service industries, and it seems to be quite logical that the more natural trade patterns of our two countries, being north and south rather than east and west. We're going to see that kind of efficiency start to come into the system and I for one welcome it.

Question: I believe transportation is specifically excluded from the agreement. There's no opportunity directly, as I understand it, of bringing transportation operations or like railways merging with railways by this agreement.

Mr. Mills: Equity ownership, but not what I would call cooperative.

Mr Herndon: I think we should move on and perhaps we can come back later for more questions. Gordon, thank you very much.

Our next speaker is Sandra Dearden. She's general market manager responsible for marketing and pricing of agricultural chemicals at the Chicago Northwestern. She also chairs the Northwestern's commodity committee which is responsible for the development of recommended policies regarding hazardous commodities for executive approval. Sandy developed and implemented Northwestern's dry fertilizer marketing program which, in 1984, was the recipient of Modern Railroad's Golden Freightcar Award. She attended Prairie State College and DePaul University where she concentrated her studies in the areas of business and marketing. She's going to speak to you on a case instance of how these tariff barriers can affect wider areas than one might immediately think of when you think in terms of trade and tariffs. Sandra.

Ms. Dearden: Thank you, Larry. Toronto's a great city and I've enjoyed my stay here. I thought it was quite timely that our Toronto meeting was going on when the Canadian-U.S. trade agreement was up for consideration. We in the United States look forward to a free trade agreement with our Canadian neighbors.

On August 21, 1987, the United States Commerce Department issued a preliminary finding that imports of potash from Canada were being sold in the United States at unfairly low prices. Because of its geographical position in the corn belt, the Chicago and Northwestern is a primary transporter of Canadian potash. We determined that if the preliminary finding goes up to the hill, it would adversely affect the Canadian producers, the CNW, other railroads, and the entire agribusiness community. Therefore, the CNW launched an informal legislative campaign to oppose the Commerce Department's preliminary finding This presentation will cover the information CNW communicated to legislators and congress and will illustrate how at least some protectionist trade policies can impact on transportation carriers.

The decrease of fertilizer application in the 1980's gained national attention. High interest rates in a depressed economy accelerated the historical trend throughout the midwest for single car shipments of fertilizer. In 1982, Israeli and Russian potash began reaching the midwest landing as far west as Sioux City, IA, and as far north as Minneapolis, MN. Now for those of you who do not know about our railroad I will show you a picture it. We do a lot of business with CN. Because of the geographical position in the corn belt these events have a severe negative impact on CNW volumes and revenues. A problem was identified in mid-1983. We had a steep decline in volume and '84 was disappointing. Approximately 50% of our annual fertilizer business was lost. In 1984 it rained.

Beginning in 1980, CNW worked with Canadian Potash on research to establish a train load distribution system to capture cost efficiencies needed to meet off-shore competition. The final phase of the program was in mid-1983 when CNW established a potash marketing program and trainload center to retail markets. Absent the CNW potash marketing program, we estimate the introduction of various USDA programs in spring of 1983 could have reduced CNW potash by an additional 19% to 1.3 million tons. The CNW became an integral part of the Canadian Potash producers' marketing strategy to contend with offshore competition.

The Commerce Department'S preliminary finding, issued on August 21, 1987 required Canadian Potash producers to make cash deposits or post bonds to cover potential anti-dumping duties. Industry and Canadian officials were reportedly surprised at the severity of the finding and the wide range of dumping margins, which were based on weighted averages and ranged by producer from 9.14% to 85.2%. Producers stopped accepting orders until they could determine what prices were needed to comply with the Commerce Department's perceptions of how costs were judged and the criteria for the different product grades. At the same time the Canadian producers sought a ruling from customers on just what they could use for declared value. Finally, the U.S. Commerce Departments preliminary finding was published on August 27. Ironically, similar actions had been initiated by U.S. producers in 1984 and 1985 against Spain, East Germany, Israel and the Soviet Union, but those efforts failed. On September 1, the CNW submitted a letter to Congressmen and Senators representing the states we served. The letter simply stated that Chicago and Northwestern is a primary transporter of Potash, and that while we have seen some movement from offshore, there had been little interest from U.S. producers because of the difference in production cost and their very limited production capacity. We added that numerous U.S. firms have Potash holdings in Canada and that higher duties would negatively impact CNW and the U.S. agriculture community.

When sorting out our options at this point, it appeared we might be swinging at wingets, because we were advised that Congress views these issues as either black or white. That is, it either found dumping or it did not. If it did, we were told that our only hope was that the International Trade Commission would find no injury and the case would be dropped. Our governmental affairs department, kept saying, don't worry, be happy. Written comments were due September 25. An oral hearing was scheduled in Washington on October 5. The final decision was due November 3 and the ITC determination was scheduled for December 21. There were some postponements and the schedule was affected by a few weeks, but this was the basic time frame we were work with. The producers began operating within the guidelines set by Commerce. Canadian potash prices were increased by $35/ton based on an industry wide average 36.2% dumping margin. In the September 21 issue of Green Markets, it was recorded that New Mexico Cottage and Lundberg Industries, who had claimed injury and initiated the action, had withdrawn from the market. The U.S. producers matched that Canadians price increases. The CNW, at this point, focused its campaign on key Senate and Congressional committees, members having jurisdiction over affected geographical areas or representing states in the CNW service territory, and the Commerce Department. Chicago & Northwestern government affairs personnel contacted these representatives personally with a seven page facts sheet. It included background of potash shipped by CNW into 24 terminals in the midwest which employed 385 people and handled 5,277,128 tons of throughput annually including Potash. Our survey results revealed employment at these facilities would be reduced by 30% or 116 jobs if they lost the Canadian potash. This estimate of reduction in employment did not include the potential job loss in railroads, water and motor carriers serving these facilities, nor the U.S. based personnel for Canadian potash producers. We also provided the following statistics:

* Annual Potash sales total 8,680,000 tons annually.

* Canada held 82.5% market share, the US producers held 15% of the market and the remaining 2.5% originated offshore.

* Total U.S. production capacities, 1,705,000 tons. Remember that I said the U.S. used 8,680,000 tons, so they can't supply all the U.S..

* Canadian producers have 13,665,000 tons of capacity. You can see the alternative to Canadian Potash is really offshore.

We had also provided historical pricing comparisons from April 1, 1985 through April 31, 1987, FOB Saskatchewan, Carlsbad, the western U.S., and the US Gulf, which emphasized that Carlsbad had recently matched Canada's price increase. We concluded with the projection that any severe curbs on the flow of Canadian potash will result in an increase of imports from offshore producers and, therefore it would not improve the balance of trade. Prior to the announced potash price increase, potash consumption added $.04 a bushel to the cost of corn production. If the new prices were maintained, the cost of corn production would be increased by an additional $.02 a bushel. Related to the states served by CNW this would increase corn production costs by $173,329,012 annually. No doubt, some sourcing changes would have been made. However, if all producers had maintained their market share, the total increase cost of potash application in the US would have been increased by $276,675,000 annually. It was evident that end users would pay if the dumping margins were upheld. Overall, we received a very favorable response to the facts sheet. Congressmen Arlen Stangeland reacted with a letter to the Commerce Department, which was passed for signatures in the Senate by Jack Danforth and Dave Durenberger, calling for a rescinding of the dumping margins. We became encouraged when the Department of Commerce called for an estimate of the increased cost of wheat and soybean production similar to corn. I will show you what we gave them. Based on increase cost of corn production of $.02, soybeans were $.06 and wheat $.03 per bushel. Then we multiplied that by a factor from USDA production statistics.

On January 7, commerce withdrew the temporary duties after an agreement was reached with Canadian producers to stop selling in the U.S., ending the anti-dumping proceeding. I am certain that all of you here realized that the Chicago and Northwestern played a relatively minor role in influencing the outcome of this proceeding. I believe that this story not only emphasizes the impact trade issues can have on transportation companies, but it also illustrates the significant change in the role of the transportation company as we become business partners with shippers who integrate transportation into their overall marketing strategies. It is very simple. As business partners, you develop common interest. While the Chicago-Northwestern obviously held a vested interest in Canadian potash, and that interest was key to making a decision to launch this campaign, I believe this story is illustrative of the trend developing in North American industry.

Question: Are you a bigger handler of potash than the Soo Line?

Ms. Dearden: Because the Soo Line is the only connecting carrier with the Canadian Pacific into the US right now, it is getting more than we are.

I am not sure that would be true if they didn't have their connection.

Question: I am curious, when things like this happen, what was it that lead to the action? Who brought the attention to the legislators, or why did the legislators think there was a problem? Why did someone think they were being hurt and needed to be protected?

Ms. Dearden: The rumor is, I heard it from so many different sources that it is probably pretty good, that President Reagan was lobbying for his budget, and he was calling some of the key legislators. He called Senator Domenici and asked will you vote for my budget, and Domenici, who is up for re-election in New Mexico, says I sure will if you promise me you will investigate the possibility that they are dumping Potash in the U.S..

Mr Herndon: I forgot to mention in the beginning that this is somewhat of a unique session. We in TRF have a concern to make this national and individual chapter meetings somewhat related and a feeling that they belong to each other. Because of the diversity of people who are able to come to different things, that is not always easy. But this particular session was conceived of and planned through the Chicago chapter and Sandra and Tony Pagano and I got together and talked about different things that we might do. I don't know if any particular chapter has ever taken responsibility for a session before. If so, we congratulate them but maybe this is the first.

Our third speaker today is Mike McElhone, who is President of Inter-American Transport Systems. That company is a transportation sales and service company, located both here in Toronto and in Atlanta, GA. He has a business and economics degree from the Wilfred Laurier University and an MBA from Northwestern. He had a business background before this. He was with Canadian Pacific Express and Laylove Transport and he is going to speak to us on his perceptions of likely changes in transport patterns if free trade comes about.

Mr. McElhone: Gordon, my speech is going to remind you somewhat of our Canadian election poles, same topic different statistics. Thank you Larry. I sincerely appreciate the opportunity to spend some time with you today, discussing two topics which are near and dear to my heart and integral to my company. Those topics being deregulation and free trade. I have combined the topics because I believe that they are in fact identical. Deregulation is merely free trade in transportation. It is especially appropriate that we are here today in the midst of an election campaign that is being fought almost entirely on free trade and also as well in a province where truck deregulation has been brought to a virtual halt by the aggressive tactics of the Ontario Trucking Association. Let me set the record straight. I am for free trade and deregulation. I think that they are important to Canada and I am a nationalistic Canadian. I work for a company who is like a travel agent for freight. For the same reason you probably used a travel agent to get here that is the service we provide for our client, the Sear's of Canada, Goodyear's, Dunlop's, and so on. I work for a company that has operated in a deregulated rail market place since 1980 and has had total freedom of entry from day one. There's always been freedom of entry so you can have success through working harder and worker smarter than one's competitors.

Let's spend a few moments in deregulation. Since the passing of the Motor Carrier Act in 1980 in the U.S., trucking has been effectively deregulated. There's been a drastic rationalization of the industry. Many truck lines have merged, some have closed and some just plain when bankrupt. The large number of failures are not a condemnation of deregulation. It is merely an indication of the fallacy of regulation and protection. The system was protecting large numbers of motor carriers, mostly inefficient and poorly run. Once the protection was removed, and they had to compete on the open market, they failed. Rate decisions used to be made in smoke filled rooms with a collection of competitors deciding what you could really afford to pay and protecting the weakest link in the industry. The fact that is often ignored is that there have been hundreds of new motor carriers starved in the U.S., in fact thousands. There are hundreds of good examples of well run, aggressive, profitable motor carriers such as J.B. Hunt, Erlington Motor Carriers, MS Carriers, Heartland, Pam, North American Van Lines Commercial Division. These companies are running at rates that are lower than the major carriers were charging in 1980. They are producing services considerably better than the majors ever offered on truck load freight and most are operating with operating ratios of 90% or lower.

Deregulation has been equally successful on most the American railroads. Costs have dropped, services improved and the decision making procedures are down to a fraction of the time that it use to take. I am not aware of any U.S. railroad that would return to the days of regulation. One classic example of how bad deregulation was, was in the mid 70's. Penn Central starting serving a ramp in Niagara Falls, Ontario and Northfolk Southern starting serving one in Welland. They filed some rates into the southwestern U.S.. Then there was an addendum to those rates which would have allowed us to use the railroad or trucklines to perform deliveries. The only problem was that somewhere in the middle of the tariff item a period became a comma. It took two years and seven months to change that period to a comma so that we could start using it. Today we make great decisions with major American railroads in 40 seconds over the phone. Get verbal confirmation on it, and you proceed in good faith and good trust not on periods and commas.

Let's talk about Canadian deregulation. Deregulation of the airlines and railroads seems to be moving relatively smoothly, despite some whaling and gnashing of teeth. Both industries seem to go out and compete with their competitors for the nation's business. Decision making will have to be faster, costs will have to be reduced, and service must improve. However, we start from a strong base with two of the best railroads in North America and three of the best airlines. Trucking is a different story. Several of our provinces are celebrating ground hog day everyday, only in reverse. They put their head in the sand and hope the world will go away. Since U.S. deregulation, many Canadian truckers have secured U.S. operating rights. I can name many carriers that have sprung up since '80 specializing only in the U.S.-Canadian market. Many of them divisions of large companies and many of those companies are American or non-Canadian. Almost all were Canadian based, but many are not Canadian owned. American carriers have not been aggressive applying for rights into Canada for several reasons. Fear of our Federal Investment

Board and also fear of our regulatory process. Fear was merely a paper tiger. It approved 99.9% of all applications over the last three years. It was just a question of filling out the paper. Certainly our transportation regulations were both extensive, time consuming and confusing. However they were not discriminatory or at least equally discriminatory. Each province discriminated against their fellow Canadian provinces the same as they discriminated against American entrance into the market. Every province was protecting their hometown carriers in attempting to exclude outsiders.

It is interesting to note that some of the supposedly Canadian carriers involved in these protectionist measures are not in fact Canadian. On the executive committee of the Ontario trucking association are carriers such as: Canadian Freightways owned in Menlo Park, CA, Roadway out of Akron, Yellow out of Kansas, T&T out of Australia, St. Johnsbury out of Philadelphia and Ryder PIE out of Philadelphia. All foreign owned and all opposing new American entrance into the market under the standpoint of Canadian nationalism.

We are dealing with protectionism not discrimination. Ontario Trucking Association recently took the Ontario Minister of Transport to the Supreme Court of Ontario, challenging his right to issue extra provincial and crossborder trucking licenses without a hearing by the Ontario Highway Transport Board. Much to the amazement of everyone they won two weeks ago, possibly invalidating all licenses granted since deregulation of January of this year. However, they may have gotten more than they bargained for. They probably have invalidated all of the licenses ever granted in Ontario. To say that things have come to a standstill would be putting it mildly. The Minister has appealed the case. Meanwhile there is a backlog of over a thousand applications pending. The OTA would have us believe that the U.S. is discriminating against Canada due to the fact that approximately 50% of your states have not deregulated interstate trucking. They forecast that American carriers will capture a large portion of the intra-Ontario traffic using American drivers and American equipment. Nothing can be further from the truth. Both countries still have very aggressive employment and immigration laws. Foreign workers cannot perform duties without work permits. A Canadian driver cannot haul freight from New York to Chicago, and neither can an American driver haul freight from Montreal to Toronto. Only the crossborder market is open to foreign drivers. If an American company wants to participate in domestic Canadian traffic he must do so with Canadian drivers, Canadian trucks and Canadian rules. The same applies to Canadians participating in the U.S. market. I predict that the trucking lobby will be defeated and that American carriers will penetrate their share of the crossborder market. Rates will drop from the present $1.65/mile to a figure of about $1.25. Northbound rates will remain fairly constant at the present $1.25. There will be casualties but there will be more success.

Let's talk about free trade and it's effect on transportation. I believe that free trade's effect on truck transportation will be minimal. There will be more freight crossing the border and trucker's will cross because of increased volumes. It is predicted that the Canadian economy will develop a north-south focus rather than its present east-west orientation. Free trade will make trading partners out of California and British Columbia. Alberta will begin doing more business with Colorado and Utah. Ontario will focus more on the Great Lakes states and less on supplying Western Canada. Countries will begin producing one or two lines that they produce well and ship those lines through continental North America. For example, a Canadian television manufacturer will probably concentrate on one or two products and ship them to all 48 or 50 states and all 10 provinces. U.S. will produce the balance and again spread those across the continent. In short, we will develop an autopack type of arrangement for most consumer based products. Plants will specialize in specific lines, run long production cycles resulting in lower costs. Transportation will increase on crossborder traffic.

Truckers have little to worry about. Railroads may have some severe problems, especially on truck competitive traffic. Both countries' railroads are predominantly east-west in orientation. There is really no truck competitive, crossborder rail service available east of Detroit. Only the Michigan, Manitoba and BC gateways offer any form of truck competitive service at this point. The railroads on both sides of the border have concentrated on maximizing their own length of haul rather than developing service oriented routes across the border. If railroads are to retain market share on consumer products, they must find ways to become efficient and profitable on shorter interline routes at low costs. Gateways must be opened up in Alberta, Saskatchewan, Central Ontario, Quebec and the Maritimes for crossborder transportation. Perhaps we have discovered a market for low cost, shortline railroads. It is certainly going to require a different thrust than there is today. Intermodal will probably be a dominant factor in this consumer goods oriented market. Free trade will provide considerable opportunity for any aggressive railroad to regain a significant portion of the consumer goods market that they have lost to truck.

North American truck lines are facing driver shortages for the next several years. Factors such as a nationwide drivers license, drug testing, stiff hours of work laws all will tend to reduce the availability of drivers. Many of the new entrants that I mentioned into the trucking market have thrived due to low ranges and long hours. For example, JB Hunt is presently experiencing a driver turnover of 100%. Driver's only get home on an average of ever 21 days. Wages including expenses are in the $30,000 or under bracket. These wages and working conditions are going to have to improve drastically to attract an adequate supply of qualified drivers. Railroads have an excellent window of opportunity for a few years. However, it will not be achieved with traditional thinking and traditional views. The market is not fat enough to afford four crew members on a train, operating 104 miles for a day's wages. Rail labor must return to a 40 hour work week and eliminate featherbedding or we will continue to lose jobs. Innovation and service will assure success.

Why must we have free trade between our nation's? Why not just continue in the present, comfortable rut? The truth is it isn't very comfortable. We are losing jobs to offshore; the two previous speakers have mentioned that already. There is no safety in what we are doing today. We have to become more efficient. We are now part of a global economy. Both countries have watched jobs disappear offshore due to low wages and poor working conditions. We have no hope in ever matching labor rates in a Pacific Rim or African country. The only advantage we have is our proximity to each other and lower transportation costs. We must become so efficient that we can compete with lower cost offshore competitors. This efficiency will come from longer production runs and more efficient transportation.

For a few moments, I would like to discuss the negative effects of protectionism. One of the most widely publicized protectionist measures of recent memory was the "shake and shingle" fiasco. This is where Gordon's figures and mine are slightly different. Encouraged by two or three politicians, the U.S. government placed a 35% duty on all shakes and shingles imported from Canada. Totally ignoring the fact that their wasn't enough raw cedar lumber in the U.S. to even cope with the market, they went ahead with the 35%. It is now two years later, and here are the results. Approximately 40% of the shake and shingle manufacturers in the U.S. from two years ago have closed as well as 20% of the Canadian producers. The U.S. market is down 26%, and the remaining consumers are paying 35% more for roofing materials. There are no winners only losers. Typical trade actions have been taken in the lumber market, stainless steel, potash, sugar, the list goes on and on. Canada has been highly protectionist for years. The U.S. is becoming more protectionist by the day. When Ronald Reagan entered office, 4% of all items on your tariff list had duty on them. Now 44% of all items entering the U.S., not volume but items, are subject to duty or quotas. The most protectionist government in history. That comes from American statistics. We are the world's greatest trading partners. The U.S. does more business with Ontario alone than you do with Japan. We must join together to achieve those efficiencies that will improve our lifestyle and protect our society. It can't be done through protectionism in either trade or transportation.

Question: It seems like one of the crises in the U.S. rail industry is the turn around in thinking about intermodalism. Some blame the fact that firms like yourself set the rates. You made the comment about cost inefficiencies. Many intermodal interests are finding that profitability is squeezed to the point where the industry is looking at it in terms of long run profitability. How do you see the free trade agreement impacting on that and what sort of opportunities might there be as this to be a catalyst to a return to the old optimism about intermodal?

Mr. McElhone: You really hit a hot button, because I wrote a rebuttal the other day to a speech that Tom Fintfinder from the North Oaks Southern made. It may not get printed. Every participant in the American intermodal market has done an absolutely rotten job on cost control responsibility and marketing. No one has done a worse job than the American railroads. Their marketing has been absolutely nonexistent. I look at our relationship with a railroad the same as I would look at a GM dealer's relationship with General Motors. GM makes a product and creates a market for it by the advertising perception of quality, those things. The local dealer attracts the local customers and he sells and services them. With the exception of the Burlington Northern and Conrail, I am unaware of any form of positive intermodal advertising, positive intermodal marketing, whatever. I was President of the Intermodal Marketing Association for the last two years. I have never gone through a more difficult job of trying to get people to agree on anything, and this is done right at the senior part of the railroads. We tried to introduce uniform intermodal demurrage and detention codes to reduce trailer turnaround times. So far three railroads out of 12 have signed it. Everybody just sits there and says we've got our own way to do it. Everyone admits it isn't working. The trailer gets one turn ever 17 days but no one will move. We tried to put together a generic advertising campaign designed to raise the image of intermodal. Union Pacific has said we are not having anything to do with it. Even though their market share has dropped 33% to 17% in six years. The people who have done the good job marketing are the ones that are satisfied with the returns that they are getting. You haven't heard Conrail coming out openly, they would like the margins to be better, but they are making a good return. The other point that someone made recently was try to run the railroad without the intermodal revenues. You can't.

Question: You made a comment towards Conrail. I was present at the presentation they made on intermodal and they had not one word to say about the latest technologies. All of their marketing focus such as it is on piggyback and conventional container, have you any comment on that?

Mr. McElhone: I agree with them. One of my counterparts on the board of directors of Intermodal Marketing Association made the comment that the only reason anyone put a roadrailer in was to break a union's arm. It is my belief that the success of the industry other than on dedicated city pairs or specific customers is still on conventional TOFC. Obviously not with the same equipment we are using today. You are dealing with an extremely expensive piece of equipment. Today's shipper in the U.S. expects trailer pools, the large ones are not prepared to load 30 seconds after you hit his gate. It is a very expensive piece of equipment to have sitting around and you run into all your road weight laws and everything else. Certainly, it has a future but not as the vanilla tin can. To use Charlie Fox's terms, "the vanilla tin can you need to handle 99% of the freight 99% of the time". It isn't where we are going to get the success. The success is in grinding efficiency out of the existing technology.

Mr. Herndon: I'd like to thank each of our speakers and close with a short story which is one of my favorites, and which I think summarizes what we are talking about today. A fellow I once new at the Seaboard Coastline had an idea on how to expand his intermodal business and he wanted to present it to Jimmy Ryder. I guess Mr. Ryder had quite a reputation for being a bright thinker and an entrepreneur. Every time he tried to call he got put off to some department head and he was lamenting this to a friend of his. The friend says, "you want to see Jimmy Ryder? He's a personal friend of mine. I'll get you in to see him." Well it worked and Ryder's secretary called and made the appointment. He went into this meeting room and here came Ryder with about 5 Vice-Presidents. As our hero started talking about what he had in mind he could Ryder thinking, "yeah let's see." He said each time Ryder would say something kind of positive then one of the Vice-President's would say, "now Jimmy we can't do that because of thus and so." At one point of the conversation Ryder says, "Tom you are not thinking. That's why you are only a Vice-President." Ryder finally says, "well, let me think about it. You present some interesting ideas. The main thing I am interested in is if this is the economical way to go somebody will do it, and I want us to be somebody. I think that is what we are talking about when we are talking about deregulation. You have been a very good audience, thanks for your coming and participation.

Forum Session:

Prospects for Commuter Rail in North America

Chairman:

Robert L. Banks, R. L. Banks and Associates

Panelists:

Laura Jackson, Municipality of Metropolitan Seattle

Stephen Roberts, Northern Virginia Transportation Commission

George Haikalis, Consultant

Michael Zdon, San Diego Association of Governments

Mr. Banks: My name is Bob Banks, I am the moderator of this activity and I am delighted to see that we conformed to expectations. It does not, as it is supposed to, have an objective moderator. I'm not objective. I think the real solution is the way to go. As usual in democracies, people are very slow to learn and the only thing you can say about them is that they are better than any other available alternatives.

The New York Central Railroad was dragged to the edge of greatness by an eccentric named Al Perlman, some of you might remember that name. In the 1950's he said, "If those bloody commuters would get off my West Shore railroad, I'll give everyone of them a free Cadillac." Well it's only a generation since that great sentiment was uttered, and here we are looking at the long range strategic plan of the New Jersey transit, and what does it include? Restoring rail commuter service on the West Shore railroad.

Another comment. There are two contemporary growth segments of the railroad business. Ten or 12 years ago the growth was in coal trains. Today everybody knows that the growth has been double stacked container trains. What everybody doesn't know is that there is another growth market. That growth market is in commuter railroads. While I was sitting here at the last session, I compiled a list of about a dozen cities. Now a dozen cities which are actively exploring this attempt to ameliorate the growing gridlock in North America. A dozen cities does not a tidal make but it certainly shows that it is wrong to intend, as often said in the past, that New York, Chicago, Boston, Philadelphia are special situations. The cities or communities that are now considering commuter railroads include San Diego, Atlanta, Seattle, Chicago, which is on the edge of putting in a brand new line on the Soo Line railroad now part of the Wisconsin Central. Calgary, Vancouver, North Virginia, Little Rock, AK, now there is a rush hour that must last ten minutes. Some of our friendly competitors over in Virginia got a $25,000 contract from the city of Little Rock to explore if rail commuter service is warranted in that territory. They use to have Septa service and before that Penn-Central Service out of 30th street in Philadelphia to Delaware. Now there are strenuous efforts being made to link Delaware with the rest of the