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**SUBMISSION**

**TO THE**

**RAIL FREIGHT SERVICE REVIEW PANEL**

**BY**

**CANADIAN NATIONAL RAILWAY COMPANY**

**ON**

**CONCERNS RAISED AROUND GRAIN TRAFFIC**

**APRIL 30, 2010**

A number of submissions filed with the Rail Freight Service Review (the Review) by farmers and municipalities have raised issues concerning empty car supply performance and the removal of a number of low-volume producer car loading sites. CN wishes to address these issues in this separate submission since they are not based on facts and are misleading as they relate to the actions being taken and the changes being made by the Company.

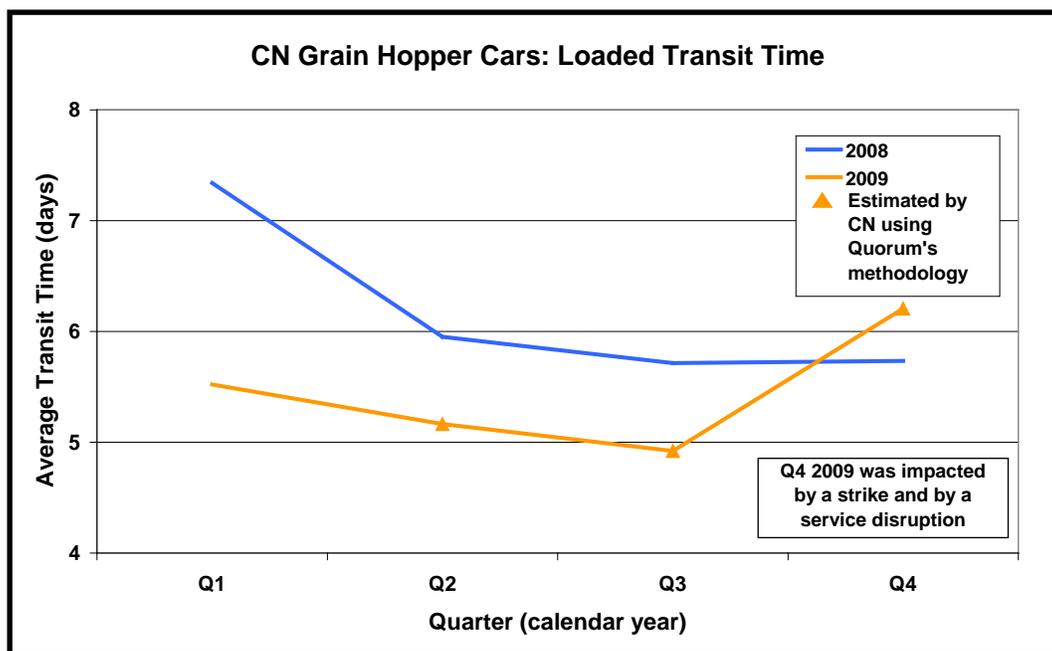
## 1. GRAIN TRAFFIC

Grain traffic is an important part of CN's activities as it accounts for approximately 20% of our traffic base. CN is committed to the success of the Canadian grain business. As such, we are making continued efforts to improve the competitiveness of the grain transportation system for the benefit of all stakeholders. As is demonstrated below, CN overall service performance with the grain business has significantly improved.

- Improvements in Transit Time and Cycle Time:

Both transit time and cycle time are important service components to the efficient movement of grain traffic and CN has been steadily improving on those key elements. The most recent annual report of the Monitor appointed by the Government of Canada to perform grain monitoring singled out CN for improving Western Canada's average car cycle. Overall, railway car cycle performance fell to 15.9 days in crop year 2007-08 – the lowest ever reported under the Grain Monitoring Program.

Quorum noted these reductions were driven largely by CN, which posted a 9.1% reduction in its overall car cycle in comparison to the previous crop year.



Source: Quorum Corporation, Monitoring the Canadian Grain Handling and Transportation System, Third Quarter, 2008-2009 Crop Year

CN's improvement in transit time was the main driver in achieving faster car cycles as is confirmed in the Transit Time Performance section of the Report prepared by QGI for the purpose of this Review. During the time period measured by QGI, CN's average transit time for a given length of haul is 23% faster than CP in the movement of bulk and grain traffic.

- Improvement in Empty Car Supply Performance:

In the Order Fulfillment Analysis section of the Report prepared for the purpose of this Review, QGI pointed out that CN's empty car supply performance for grain traffic needed improvement.

CN recognized this area needed to be addressed and has already made significant changes to improve performance. CN recently introduced a new "Scheduled Grain Plan" to improve not only empty car supply performance to specific day of the week, but also to a time period in the day. To achieve this, customers have been assigned a specific placement day in the week allowing them to plan their loading and CN has committed to serve them on this same day each week and to a specific window of service on that day.

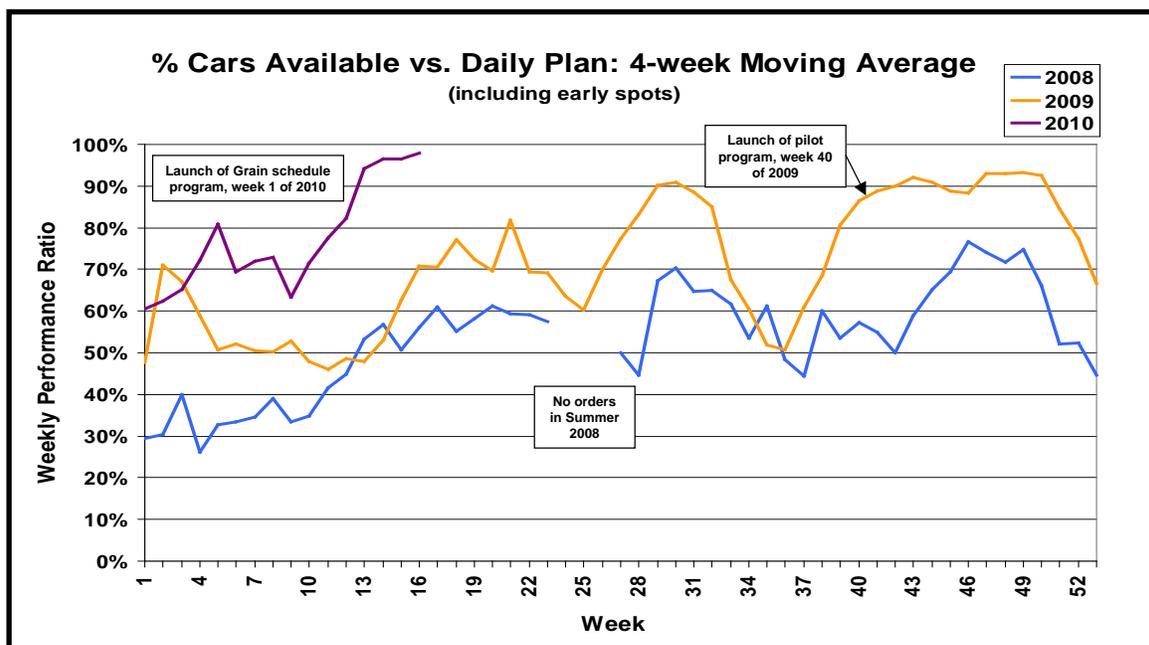
CN also implemented a process to notify customers when unpredictable events occur that affect our ability to serve the customer as planned. Recent feedback from many of our key customers on this program has been very positive. We have also commenced sharing performance measurements with our customers with the goal of continuous improvement in respect of both empty car placement performance and notification to customers of plan changes.

The following table shows the level of improvement achieved by CN with this new program for the two shippers QGI analyzed in their Order Fulfillment report with respect to daily car placement performance.

| <b>% of Cars Placed and Available as Planned</b> |                  |                  |
|--|------------------|------------------|
|  | <b>Shipper 1</b> | <b>Shipper 2</b> |
| <b>QGI 2-year period: Oct 06 to Sept 08</b>      | 49%              | 37%              |
| <b>Following year 1: Oct 08 to Sept 09</b>       | 55%              | 63%              |
| <b>Folowing year 2: Oct 09 to Apr 10</b>         | 78%              | 96%              |

Source: QGI's *Analysis of Railway Fulfillment of Shipper Demand and Transit Times* Report and CN

To be more representative, the following chart expands on the sample by adding ten other shipper locations to the analysis. The figures clearly demonstrate that CN has significantly improved its empty grain car supply since the inception of this new program. Since the beginning of 2010, CN's order fulfillment for grain shipments to these customers averaged an excellent performance of close to 80%.



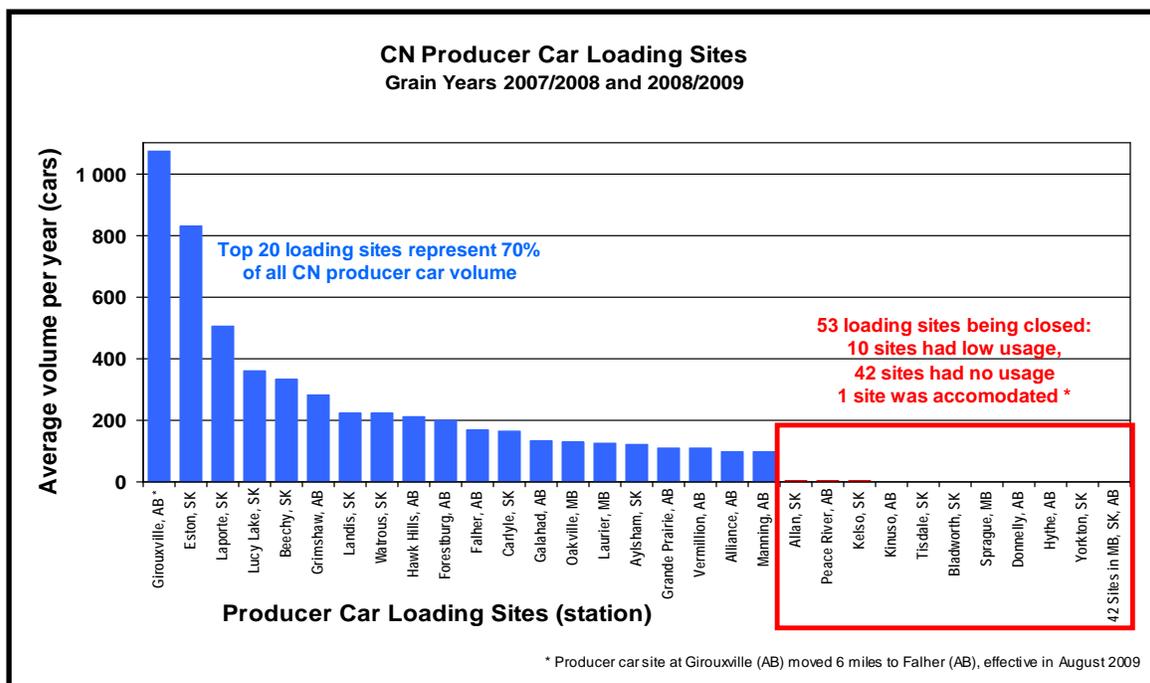
Source: CN

These improvements are not for the short-term. CN fully understands how important they are to maintain an efficient supply chain. A successful grain system is to the advantage of all stakeholders including the farmers, the grain companies, the grain exporters and CN. There is simply no reason for CN to change such a winning formula and to turn its back on this level of improvement.

## 2. PRODUCER CAR LOADING SITES

While many of the farmers decide that the best way to move their grain to market is to deal directly with the large throughput elevators, others choose to pursue their own loading operation at the various existing producer car sites. CN respects this choice.

In the 2008/09 crop year, CN moved 8,300 carloads from producer-loading sites, representing 4% of CN's total Canadian grain originated shipments. In looking at this statistic, it is important to note that the vast majority of these cars were loaded at a very small number of the producer car loading sites available on CN. As shown in the following graph, 70% of the 8,300 cars were loaded at only 20 locations out of a total of 176 loading sites available (or 11%). The sites which are either unused or barely used are economically unsustainable.



Source: CN

In grain year 2008-2009, only 17 cars were loaded at the 53 loading sites CN is closing. Furthermore,

- 47 of the stations loaded no cars in the 2008-2009 crop year
- 39 of the stations actually loaded no cars for the past 3 years
- Girouville, the only station showing growth, was accommodated at Falher

In addition to the fact that these 53 locations are not sustainable, unused sidings perpetuate unnecessary safety hazards and costs. Having unused switches off the main line increases the potential for incidents that could be significant.

CN proceeded with the delisting process for the sidings in accordance with the provisions of the *Canada Transportation Act*. In July 2009, CN published a notice announcing the delisting of the 53 stations in local newspapers as required by the Act. In addition to the requirements of the Act, CN felt it was appropriate to contact the affected communities directly. Through the conversations with the elected officials and administrators of these towns, very few objections were received to these closures.

Finally, CN agreed to leave the trackage at all 53 sites in place until December 31, 2009 to allow any person interested in maintaining a site the time necessary to make arrangements with us. Having received no such requests prior to the end of December, CN then called a number of producers and municipal organizations but these efforts on our part did not lead to any expression of interest or request to make arrangements.

CN is committed to continue working to further improve the quality and the performance of the services delivered to all of its customers, including grain customers in Western Canada. This means continued focus on transit time and car cycle performance, coordination of car supply with customers and interaction with all stakeholders involved in the logistics supply chain. This is not only in the interest of customers; it makes good business sense.

In respect of producer car loading sites, CN believes it is important that the facts concerning the actual use of those sidings be provided to the members of the Panel in support of sound policy development. As demonstrated in the past, CN will continue to operate at those sites that producers choose to sustain.