A Look at Transportation Challenges in 2013

CN Forum
Michigan State University
October 10, 2013

Jim Kvedaras
Director U.S. Government Affairs
Canada and the United States have the greatest bilateral trading relationship in the world:

- Bilateral trade was roughly $712 billion in 2012.
- More than $1.9 billion of goods and services crosses the Canada/U.S. border each day.

Canada is the single largest export market for 34 States:

- For Michigan, total exports to Canada were $25.3 billion in 2012.
- Michigan’s imports from Canada were $49.6 billion in 2012.

Trade with Canada supports over 8 million jobs in the U.S.
- CN has over 1,000 employees in Michigan.
The continued free flow of commerce is essential to the world economy, at the same time that supply chain security generally and security at North American borders and seaports is being strengthened to protect against terrorist threats – this is particularly important between the U.S. and Canada.

There is an intense interest by policymakers in strengthening the security of all elements of the transportation supply chain:

- Secure flow of goods
- Secure infrastructure
- **Secure Coordination and information-sharing**

U.S. Customs and Border Protection (CBP), the Canada Border Services Agency (CBSA), and other agencies are actively engaged in a variety of security initiatives – the U.S. Congress also periodically considers legislation to enhance supply chain security for cargo entering the U.S.

The key issue is how to enhance security while ensuring the smooth flow of legitimate international commerce.
■ CN clearly has a key interest in efficient and secure cross-border commerce.

■ CN is the 5\textsuperscript{th} largest railroad in North America (in terms of revenues) – 2012 revenues of $8.9 billion.

■ CN serves the Atlantic, Pacific, and Gulf coasts – transcontinental operations across Canada, plus operations in 16 U.S. States.

■ CN employs approximately 22,000 people in the U.S. and Canada (more than 6,500 in the United States).

■ CN serves customers moving products such as cars, chemicals, coal, fertilizers, forest products, grain, intermodal containers, metals, minerals, and petroleum.

■ CN prides itself on timely and efficient delivery – a fluid border is essential to this on-time service.

■ Safety and security are cornerstones of CN’s operations.
Freight railroads in the U.S., Canada, and Mexico form an integrated network that provides efficient and low-cost service for cross-border traffic and freight entering North America’s seaports.

- There is a generally high level of security associated with freight rail operations.
- The industry also has undertaken a number of specific security-related activities since the September 11, 2001 attacks:
  - Created task forces on key issues.
  - Established 4 alert levels with specific risk-based countermeasures to thwart terrorist threats.
  - Introduced the Rail Alert Network (RAN) and established 24/7 railroad security operations center.
  - Actively participates in Transport Canada and Ministry of Public Safety security briefings as well as the Surface Transportation Information Sharing Analysis Center.
  - Member of FBI (JJTF) and RCMP (IBET) initiatives.
After the 9/11 attacks, the governments of Canada and the U.S. worked together closely to address cross-border security concerns.

One of the most visible examples is the December 2001 “Smart Border Declaration”, from which the Smart Border Action Plan emerged. Key principles:

- Distinguish between high-risk and low-risk people and cargo, allowing government officials to concentrate their efforts where most needed.
- Upgrades of border infrastructure to allow greater speed and facility of cross-border movements.
- A safer and more intelligent border due to significant information and intelligence sharing between U.S. and Canadian government agencies.

As a result of these and other efforts, a number of new security requirements were put into place by both the U.S. and Canadian governments:

- The foundation of the new, heightened security system in the U.S. was the creation of C-TPAT – CN was the first railroad in North America to become a C-TPAT member.
- CBSA created a similar program – PIP – of which CN is also a member.
- Approximately one-third of CN’s revenues are attributable to cross-border commerce – this is comprised of freight originating in Canada or the U.S. as well as cargo that enters through North American seaports.

- CN has three major border crossing points:
  - Port Huron, MI
  - Ranier, MN
  - Buffalo, NY

- Sarnia, ON/Port Huron, MI and Ranier, MN crossings each average eighteen to twenty trains traveling each way daily.

- We operate a total of about 44 trains combined northbound and southbound across the U.S./Canada border each day.
- **Infrastructure**
  - Access controls (including biometrics) in yards and intermodal terminals.
  - Cameras and intrusion alarms on border bridges and tunnels.
  - Locomotive video camera project.
  - Construction of customs inspection facilities at border crossing points.

- **Information Technology**
  - EDI interface enhancements.
  - Disaster Management and Business Resumption plans.
  - Data system upgrades incorporated as technology develops

- **Human Resources**
  - Employee and contractor vetting and identification.
  - Security awareness training.
Cross-border rail transportation is an excellent example of the “layered” approach to supply chain security.

One example out of the Smart Border Declaration is the April 2003 Rail Declaration of Principles.

- Rail carriers provide cargo manifest information electronically to CBP two hours prior to arrival of a train at the Canada/U.S. border.
- U.S. Customs has installed VACIS machines along the U.S./Canada border to screen cargo entering the U.S. by rail.
- Equipment at 2 locations (Sarnia/Port Huron and Windsor/Detroit) is located on the Canadian side of the border.
- Rail is unique among transport modes in that 100 percent of the traffic entering the U.S. at the major land border crossing points is screened by VACIS.

CN also has a police presence on both sides of the international border.

An extra layer of security is provided when freight has entered North America through Canadian seaports that are participants in CBP’s Container Security Initiative.
As a company operating on both sides of the U.S./Canada border and active in international trade, CN remains focused on several key issues associated with enabling cross-border commerce, which cannot be accomplished without full cooperation of every supply chain member:

- Ensuring that security is enhanced but that commerce is not impeded
- Modal equity
- Clear recognition by U.S. policymakers of the strong level of cooperation by the Government of Canada in North American security initiatives.
- Harmonized information requirements between government agencies
- Shipper/customer data quality
- Continuous assessment of security threats
- Close monitoring of all border exceptions
- Utilization of a risk management approach to the maximum extent feasible in all new government regulations
- Fees that are appropriate to the security functions being performed
- The goals of increased security and improved commercial flows are not inconsistent.
The safe and secure movement of goods in commerce is essential to the security and economic prosperity of North America.

Much progress has been made by governments and the private sector, but there is always the possibility for interference by lawmakers.

Despite isolated high visibility incidents, rail transportation is inherently safe and the industry has been a leader in North American security initiatives.

Rail plays an important role in freight movements between Canada and the United States and will continue to do so.

All pieces of the Supply Chain puzzle have to work cleanly together.

But WAITT! We’re All In This Together
THANK YOU