Creating Capacity

Mike Franczak
Vice President Transportation
Canadian Pacific Railway

American Association of Port Authorities - June 6, 2006
Outline

1. Overview: The Challenge

2. Capacity: A Rail Perspective
   - With Existing Means
   - Direct Investment
   - Railway Co-production
   - Supply Chain Coordination

3. Summary: Creating Capacity
Overview

- Prosperity depends on intermodal system linkage
- Business and governments want to take advantage of trade opportunities
- Shippers want to ship more – often in same important corridors

Manufacturing
New paradigms increase imports

Retail
Massive shift to offshore sourcing in supply chains

Bulk
Strong markets for commodities

CPR Traffic Growth Acceleration
2004

Through Vancouver
- Bulk traffic  ➤ 35%
- Container traffic  ➤ 20%

Through Montreal
- Container traffic  ➤ 10%

American Association of Port Authorities
June 6, 2006
Overview

Accommodating growth is a continental issue facing all modes of transportation:

- Rail Freight capacity “holiday” is over
- Highways badly congested and deteriorating
- Ports face backlogs and capacity constraints

Creation of capacity will require both traditional and non-traditional thinking about how the logistics chain can be improved
CPR has created capacity to more efficiently handle increased volumes through key design and execution principles:

- Strive for balance and smoothing of flows by design
- Run a scheduled 7x24 operation
- Design with velocity in mind – minimize car handling
- Attack waste, bottlenecks and variability within your control
- Create a culture of discipline, accountability and execution excellence
- Make “lean” and “velocity” part of the culture to help drive continuous improvement
Direct Investment is a cornerstone to improved capacity and operating efficiency:

- $160M Westcap expansion in 2005 increased capacity 12%
- Over 500 new AC locomotives acquired 2002 – 2006 YE
- New Inventory/IT Systems added to improve car handling
- Invested in new, high capacity cars – coal, lumber
- Added crew resources to meet demand
Railway Co-production – thinking like one railway – allows the creation of operating capacity and efficiency while remaining commercially neutral

Main Types:
- Haulage
- Running Rights
- Switching

Benefits:
- Fewer “hand-offs” or interchanges
- Less congestion
- Improved velocity, recoverability and customer service

Railways working collaboratively and competing vigorously . . . .
Railway Co-production

Detroit/Chicago

Implemented August 10th, 2005

- Phased implementation with all trains on new route by December 15th
- Allows CPR to consolidate volumes on one route
- 33% increase in maximum allowable train lengths
- 15 - 25% reduction in transit times
- Reduced marshalling and greater flexibility re train design

Enhanced service quality and productivity
Implemented December 6, 2005

- Modeled on the successful Fraser Canyon agreement
- 100 mile directional running zone will increase capacity and reduce transit times
- Eliminates need for future expansion Capex
- CPR expected to realize a modest net benefit on sale/purchase of trackage rights

Reduces transit times and minimizes future Capex
Railway Co-production

Vancouver Gateway

- **Implemented March 8, 2006**
  - CPR serves South Shore; CN serves North Shore
  - Increased fluidity by:
    - Eliminating all CPR CN Interchange traffic in the Vancouver Area (except Fraser Wharves).
    - Fewer mainline trains into Coquitlam; better yard access.

Expect significant fluidity and velocity improvements
Supply Chain Coordination … because none of us can meet the capacity challenge alone.

- Cannot spend our way out
- Isolated capacity investment won’t cut it
- Jointly find new ways to boost productivity and efficiency
  - Work together laterally
  - Move beyond self interest
- Make the vision of better coordinated supply chains a reality

Scheduled and integrated operations critical to creating capacity
Capacity is a function of:
- Railway assets
- Customer assets
- Port and terminal assets
- Success is integrated management of all the above

All partners play a critical role to enhance capacity:
- Integrated planning
- Supply chain solutions
- Pipeline management
Supply Chain Coordination

- Develop a joint demand outlook
- Develop a coordinated response to growth
- Align multi-modal planning and infrastructure investment strategies

Getting started… the first step is improved knowledge and foresight
Move toward action - implement strategies that result in more efficient use of transportation resources.

**Entry to Network**
- Visibility tools and process
- Improved customer-rail interfaces
- Deploy technology

**Exit From Network**
- Optimized terminal and vessel interfaces
- Right product, right time, right place

**Seasonality**
- Actively mitigate peaks and valleys
- Pre-planning and notification
- Sales strategies

**Optimized handling and resource allocation**

**Multi-modal planning**

**Better capacity, asset & labour utilization**

Focus has to be on demand smoothing and balance

American Association of Port Authorities

June 6, 2006
Decide what you want to achieve – jointly develop a broad vision for the next five years

Start with a one-on-one collaboration

Do not be exclusionary but promote as a “catalyst”
  • Seek out other one-on-one relationships consistent with the first
  • Evolve to multi-party collaborations

Set an action calendar to meet challenges and align activity

Agree to work at it - formal collaboration agreements to take action to the next level through commitment
Vision and voice to articulate value of transportation for a strong economy on national, provincial and regional basis

Create tax equity and policy stability to promote investment

Must be a champion
  - Protect transportation corridors and land use for expansion
  - Clear hurdles for implementation
  - Facilitate dialogue on key issues

Governments have a key role to plan and can act as a catalyst as well
Summary Creating Capacity

- Each member of the supply chain must challenge themselves to operate to key principles to create capacity from within.
- Direct investment to enhance capacity will remain a cornerstone for accommodating growth – a strong, integrated vision will facilitate this.
- Railway Co-production will continue and is an example to the transportation industry that we can work collaboratively, create capacity and complete vigorously.
- Supply chain management is the future and we need to shift from seeking ways to achieve short term tactical advantage (shifting of costs from one to another) to seeking ways to optimize the entire chain and its outputs.

Partnership is critical to success.