

# Creating Capacity



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**CANADIAN PACIFIC RAILWAY**

# 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



- 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

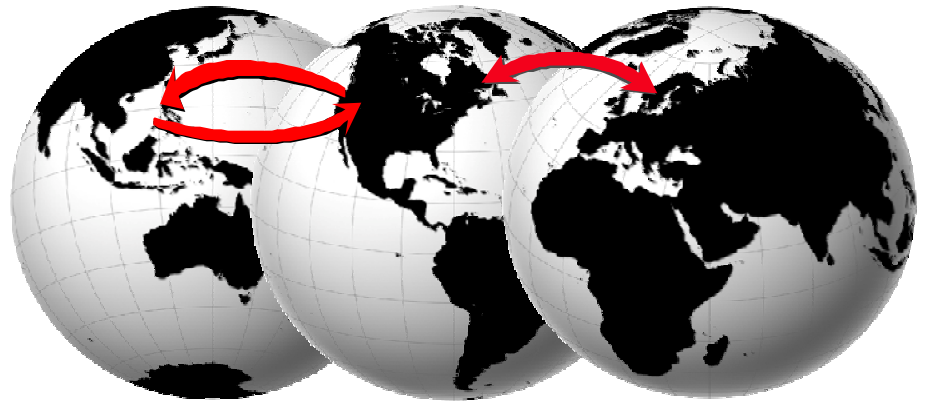
New paradigms increase imports

## 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%



**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:

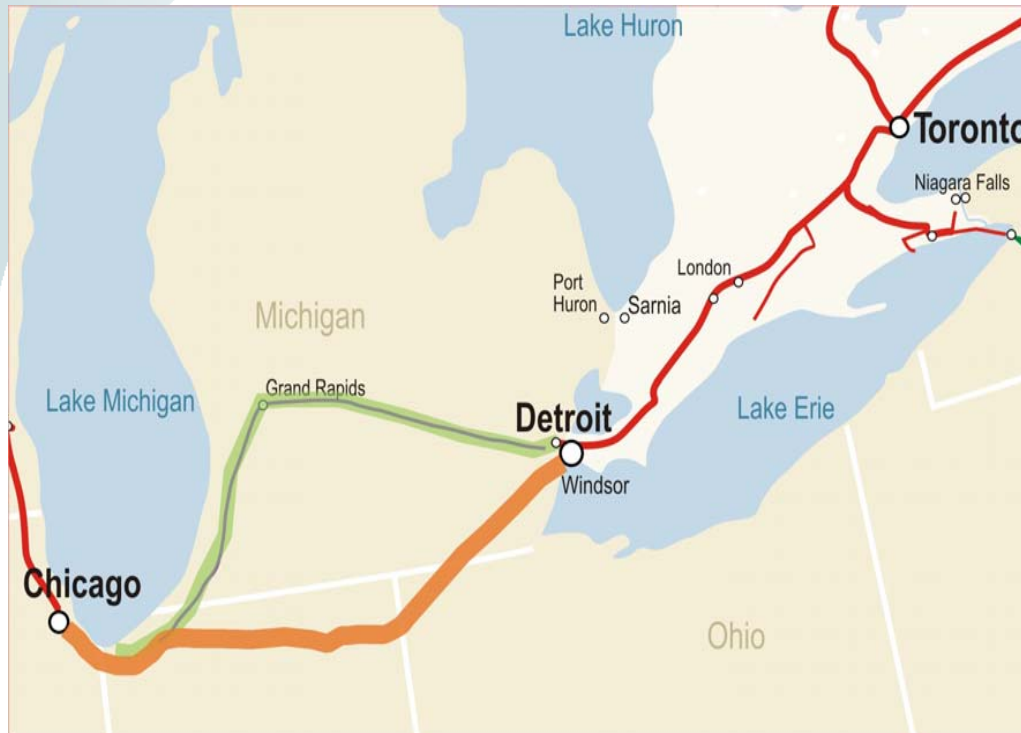
- Haulage
- Running Rights
- Switching

## Benefits:

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

**Railways working collaboratively and competing vigorously . . . .**





NS Route — CSX Route —

## Implemented August 10<sup>th</sup>, 2005

- Phased implementation with all trains on new route by December 15<sup>th</sup>
- 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







CPR  CN 

## 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**



- 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



- 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**

# Supply Chain Coordination

# Demand Management

*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

Optimized handling and resource allocation

## Exit From Network

Optimized terminal and vessel interfaces

Right product, right time, right place

Multi-modal planning

## Seasonality

Actively mitigate peaks and valleys

Pre-planning and notification

Sales strategies

Better capacity, asset & labour utilization

**Focus has to be on demand smoothing and balance**



- 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**





- 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**

