



## Can the Railways Meet Ottawa's Demands?

### Description

In a recent op-ed in the *Financial Post*, Gluskin Sheff chief economist David Rosenberg highlighted a Conservative defeat in next year's election as one of the Canadian economy's 10 biggest risks. He said it would lead to "anti-business" policies from Justin Trudeau and the Liberals.

But Mr. Rosenberg forgot one thing: Stephen Harper's Conservatives can be anti-business too. If the politics demand it, then nothing is off-limits. And the best example of this occurred just a month ago, when Canada's two major railways, **Canadian National** ([TSX: CNR](#))([NYSE: CNI](#)) and **Canadian Pacific** ([TSX: CP](#))([NYSE: CP](#)) were each mandated to ship a minimum of 5,500 grain cars per week.

The Conservatives' move came in response to high pressure from Canada's farmers, who were having trouble moving their crop. A record harvest, combined with a harsh Canadian winter, meant that farmers were facing a serious rail car shortage. Now with the law set to take effect in less than a week, the rails are facing penalties of up to \$100,000 per day if they don't comply with Ottawa's mandate.

#### **Canadian National: Don't point the finger at us!**

The first reaction from CN, besides blaming the cold weather, was to say that the company can comply if "everyone in the supply chain works together." But it was also very critical of the legislation, arguing it would "lead to adversarial relationships within the supply chain, at a time when collaboration is essential."

Now as the mandate goes into effect, CN's words are getting harsher. CN chief executive officer Claude Mongeau is saying that the supply chain simply cannot handle the required minimum – specifically, that the port terminals and grain elevators do not have the capacity. As he put it bluntly, "I'm saying watch me – pretty soon they won't be able to unload the cars I'm bringing."

#### **Canadian Pacific: Just as upset**

Anyone familiar with Canadian Pacific CEO Hunter Harrison knows that he is not the kind to mince words. And after the Canadian government introduced the mandate, he said he was “irate” and demanded an “eyeball to eyeball” meeting with federal officials.

He also pointed out that during the harsh winter, intermodal (container) traffic often took priority over grain shipments because it was more time-sensitive. In other words, farmers would still be captive to the rails even if their grain was shipped late.

### **Foolish bottom line**

This mandate, which only lasts for 90 days, will not have a significant impact on the bottom line of either railroad, even if they have to pay the fines. But it is certainly part of a broader trend, one where farmers tend to win political battles. This is something investors simply have to get used to – no matter who wins next year’s election.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. NYSE:CNI (Canadian National Railway Company)
2. NYSE:CP (Canadian Pacific Railway)
3. TSX:CNR (Canadian National Railway Company)
4. TSX:CP (Canadian Pacific Railway)

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