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Chair

Mr. Paul Steckle

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● (1105)

[*English*]

The Vice-Chair (Mr. Gerry Ritz (Battlefords—Lloydminster, CPC)): Good morning, everyone. Seeing quorum, we will want to start the meeting. We'll be holding hearings today on the railcar disposition, as to what direction the government should or would take on that issue.

To that end, we have from Canadian National, Ross Goldsworthy, vice-president, grains and fertilizers. We have from CP Railway, Marcella Szel and Janet Weiss, and from the Inland Terminal Association, Robert Davies. Welcome, everyone.

We will have the presentations from you folks somewhere in the neighbourhood of 10 minutes, if you can do that. Then we'll open the floor to questions from our members of Parliament here today. Who would like to go first?

Marcella.

Ms. Marcella Szel (Vice-President, Marketing and Sales Bulk, Canadian Pacific Railway): I'll start, Mr. Chair. Thank you very much for the invitation.

First of all, I'd like to thank you all very much for inviting Canadian Pacific Railway to appear before your committee here today to speak about the future of the federal government hopper car. As the chairman mentioned, my name is Marcella Szel. I'm the vice-president, bulk commodities, for Canadian Pacific Railway. With me is Janet Weiss, our general manager of grain, from Winnipeg.

We have a presentation that I distributed to each of you. I'll review that with the committee here today. We would obviously be pleased to take any questions you have after that.

It's being distributed, I apologize.

By way of introduction, I'd like to emphasize that the proposed disposition of the federal hopper fleet is very important to Canadian Pacific Railway. We believe it has significant repercussions for Canada's grain handling and transportation system and most importantly for western Canadian farmers and their ability to access competitively global grain markets.

We believe the cars exist for the benefit of the entire grain industry. We believe we've put forward a proposal that is the best way to protect existing efficiencies and create better car quality and capacity going into the future.

In terms of agenda, what I'll do is briefly overview the federal hopper fleet. I'll follow with a summary of what we call our new deal lease agreement. Then I'll offer some commentary on the federal railcar coalition proposal. Throughout, I hope I will be able to emphasize that there's one essential theme for CP again, and that is the efficiency of the grain transportation handling system overall.

How do we maintain existing efficiencies and create new ones? By putting in place conditions of stability, reliability, and new investment in fleet quality and capacity.

If you'll turn to slide 2, I believe it is, I'll give you a bit of background about the cars and how they are currently used in CP's fleet, in any event. The federal hopper fleet was bought by the federal government between 1972 and 1984. At that time, railways were required to move grain at rates established in the 1920s. Eventually the railways could no longer afford to buy a new fleet, and the government did, as you know.

Since then, a lot of legislative change and a lot of investment by all stakeholders, both in track capacity and elevator systems, etc., have led to what we have today, which is an efficient, world-class grain transportation handling system.

CPR's total covered hopper fleet is about 26,000 cars. Over 6,000 of those, or about 25%, are the federal cars. That's the total hopper fleet that we use for all commodities requiring hoppers. In the grain world our fleet averages at the peak between 11,500 and 12,000. So as you can see, the federal cars represent about one-half of the fleet that we use in grain in Canada.

The removal of these cars or their constrained movement would have a significant impact on our ability to move grain to market. The cars themselves, the federal cars, are 4,550 cubic feet in capacity and they have a maximum weight of what we'd call 268,000 pounds on rail. This is not as efficient as some of the new cars that CP is putting into grain service in its own fleet, which have over 8% more capacity, but they do allow a close match between the cubic capacity and the weight on rail to move grain. So even though they're not as efficient as they could be, they do work.

More than 80% of the federal cars have greater than 20 years of economic life left. They may be old, but they're good. Railways can take advantage of this remaining life to reposition the cars into other services where the cube capacity is not a limitation. So you can allow grain to benefit from larger hopper cars and have a more efficient system.

The current operating agreement—and I say current; it has expired, but we're working on it on an interim basis with the federal government—has what are called alternate-use charges for use of the cars outside Canadian export corridors. The Canadian export corridors are basically Thunder Bay and Vancouver. What these charges do is limit the efficiency of the use of these cars because they provide us an incentive to keep them in those two lanes rather than moving them wherever grain wants to go, for instance, eastern Canada, the United States, and Mexico.

This triggers activity on the railroad part, switching cars so we keep these particular cars in particular services, and by this activity we take away some of the capacity in the system. This is what we do today, and our new deal will address that issue.

● (1110)

Some believe the federal hopper cars are in poor condition. This just simply is not true. There are several reports and inspections by Transport Canada that show that 96% of inspected cars are in average to very good condition.

If you turn to the next slide, this is CPR's proposal, which we call a new deal lease agreement. We believe it is simple and creates certainty of supply, promoting investment in new cars. The deal is essentially this. The government would retain ownership of the cars, with the railways assuming the responsibility to replace the cars in the future. As the cars wear out or become obsolete, we would put new cars into the system. The term of the lease would be the life of the car.

Both of these measures would ensure that there would be certainty of supply and they would encourage investment with this kind of stability. The railways would be responsible to develop strategies that would cascade cars into different product lines, for instance, potash, putting the new, higher-capacity cars into the grain fleet. It is only because of the railways' scope and size—their diversity of business, their diversity of customers—that we could allow these newer, larger cars to be introduced very quickly into grain service. CP would also initiate an aggressive three-year plan to improve the fleet quality through what we call a hatch and gate program. This would be above regular maintenance.

The existing alternate use charges that I referred to would be replaced by a lease payment that would remove the incentive, which would allow improved asset utilization. The existing assignment of the cars between CN and Canadian Pacific Railway would be retained, but most importantly this proposal would have a neutral impact on the revenue cap, that is, no impact on the revenue cap—the amount of money railways are entitled to earn under legislation—nor would there be any legislative changes required to implement this deal.

If I could turn to our comments on the FRCC proposal, I would like to be clear that our understanding of the proposal stems from two documents that FRCC made public in Winnipeg for a November 1 meeting. That November 1 meeting, a technical briefing from Transport Canada and some responses to the questions, is where our knowledge comes from. As we understand their proposal, they seek the immediate transfer of cars and they would resolve the details later. Some of the elements of the proposal we believe are flawed.

To start with, the proposal is not commercially based. They would obtain the cars for nominal value, that is, no compensation to the taxpayers for the value of this asset. The business model is then premised on receiving from the railways what they believe is excess revenues associated with maintenance under the revenue cap formula. This assumption is incorrect. There is no grant of money to railways for maintenance of cars. Money for maintenance comes from railway revenues. The revenue cap is not cost-based.

On maintenance, the FRCC quotes what we believe to be a fraction of the required cost to maintain these cars. We believe they account for regular in-shop and off-line car repair only. Costs for items such as in-train repairs, complete heavy bad order repairs, transportation of cars to shop, and program work are missing. As well, the estimated maintenance price seems to exclude enhancements to gates and hatches. Finally, it's not clear how this proposal would impact car maintenance jobs across the prairies, where we currently maintain these cars.

The matter of maintenance is very important, and I'll illustrate some of those elements on the next slide in just a moment.

On capacity, the plan to apportion cars in the future to various producers or grain companies, not just railways, will cause an increase of what we believe to be almost seven million empty car miles—in other words, the cars are being used for nothing but to shift them from place to place—or a reduced capacity of about 4,000 car loadings per year. In effect, the FRCC would acquire the asset for free without legislated car supply responsibilities that railways currently have.

Overall we believe there's a significant element of risk associated with the proposal. They don't have any experience owning or operating a large fleet of essential railcars, nor do we believe there are contingencies for liabilities in the event that the venture fails.

● (1115)

Moving to slide 5, this is a listing of the maintenance items that are regularly required with respect to railway cars. I won't go through them in detail with you right now, but I'd be happy to answer any questions on this at any time.

Finally, I would like to return to the fundamentals. We see the primary issues for all stakeholders involved with the federal hopper car fleet as the efficiency of the grain handling and transportation system. We believe CP's new deal proposal delivers: a low-risk, simple implementation; car quality improvements; certainty with respect to car availability for farmers; increased capacity and availability; no impact on the revenue cap; and finally, value to the government and taxpayers through a stream of lease payments.

While our recommended outcome remains the lease agreement, we certainly would want to participate in a process to purchase the cars should the federal government want to consider that alternative. Either way, terms and conditions that mitigate rate impacts on farmers and create more efficiency in the system are essential.

In the document we've handed out, in the appendix slides, there's more background information on the hopper car fleet, our grain flows, and car quality.

Once again, I would like to thank you for inviting us to appear before your committee. Janet Weiss and I, on behalf of Canadian Pacific Railway, would be happy to answer any questions you may have.

Thank you.

The Vice-Chair (Mr. Gerry Ritz): Thank you, Ms. Szel.

Mr. Goldsworthy.

Mr. Ross Goldsworthy (Vice President , Grain and Fertilizers, Canadian National): Thank you very much, Mr. Chairperson.

On behalf of CN, I would like to thank the committee for your invitation to appear and commend you for taking on this important issue. I am Ross Goldsworthy, vice-president of bulk commodities, and I am joined today by Paul Miller, vice-president of transportation services for CN.

I know you will want to spend as much time as possible on questions, so I will try to keep my comments fairly short. I do want to take this opportunity to give you a railroad perspective on the question of the future of the government hopper car fleet.

Grain transportation is key if our producers are to be competitive in world markets. The current system is complex, but it is working well. There are many players: grain marketers, including the Canadian Wheat Board and the marketers of non-board grains and specialty crops; terminal elevator operators; country elevator operators; producers, some of whom are producer car loaders; grain company head offices; processors that use grains and oilseeds to create higher-value products, such as flour, malt, and canola oil; and railroads, not just the class 1 carriers but also many short lines.

The challenge is to balance the requirements of all the participants while achieving high performance and efficiency levels for the system as a whole. Transporting grain by rail in western Canada is not simply a unit-train operation like potash or sulphur in western Canada. All of these involve trainloads of 100-plus cars, moving from less than a dozen origins, operated by a small number of shippers, to a total of three or four unloading facilities at two west coast port destinations. By contrast, grain in western Canada involves many more shippers from around 400 origins on CN alone, served by many local trains, and switching assignments that supply and pick up cars even before the grain reaches CN's main line for delivery to destination.

CN moves western Canadian grain by rail to many ports as well as domestic destinations. At the west coast we have Prince Rupert and Vancouver. At the Lakehead we have Thunder Bay. In the lower St. Lawrence we have Montreal and Quebec City. At the Gulf of Mexico we move grain to ports like Destrehan and Remy, in Louisiana. Mexico has become a more important rail destination of western Canadian grains in recent years.

There are many receivers as well at key ports. For example, at Vancouver alone there are six licensed grain terminal elevators owned by Saskatchewan Wheat Pool, James Richardson International, Agricore United, Cargill Canada, Vancouver Wharves, plus other grain receivers. There are also many domestic receivers throughout Canada and the U.S. and in Mexico.

This system is complex, but it is working well. It is delivering grain reliably and effectively. I'm happy to say that there have been some significant improvements in the system performance in recent years. These have come about from direct shipper and carrier interaction. For example, on CN the average car cycle to ports has come down to 16 to 17 days versus the 20 to 25 days in the 1990s. Today we service Canada, the U.S., and Mexico. In the early nineties, it was basically a Canadian-only origin destination. Just to give you a bit of information, one day improved cycle is equivalent to 600 cars of capacity within the grain handling logistics system. At today's cost per car of around $80,000, that 600-car figure equates to just under $50 million. Obviously, as I said, these improvements have been driven by direct shipper and carrier accountability and responsibility, with a focus on the fluidity of the pipeline.

What this all points out is that cars and car ownership make up only one aspect of a complex system, a system that is working well. CN currently has about 12,000 cars in its western Canadian grain fleet. The Government of Canada cars make up about half of this fleet. The ideal modern grain car has more capacity than the Government of Canada cars, both in volume and in terms of maximum load limit, now the standard within the system as we acquire new cars.

● (1120)

Producers on CN are currently disadvantaged because CN's portion of the Government of Canada fleet includes about 2,100 aluminum cars that carry 25% less payload than a modern car. These government aluminum cars are market obsolete and should be replaced as soon as possible. The cost to replace these cars with equivalent capacity in today's dollars is $150 million.

It has almost been ten years since the Government of Canada gave CN notice of termination of the old operating agreement. For almost three years, we've been operating under an interim arrangement. Throughout this period, CN has continued to maintain the cars, to keep them in safe and loadable condition. This has been confirmed by Transport Canada inspectors.

As a result of the government's announced intention to divest ownership of the cars, CN last February submitted a confidential offer to purchase all of the Government of Canada cars currently in CN service, at a market price. We also committed to undertake the major investment programs needed to extend the life of large numbers of cars and to replace cars that are market obsolete or uneconomical to repair. This represents a commitment of $200 million to $300 million over the next ten to fifteen years, over and above the acquisition costs. The logical place for the upgrading work to be done is in our Transcona shops in Winnipeg.

While we have made this offer, we recognize and support the government's need to optimize value for taxpayers, and we understand that the best way to do this is through a public tender. If the government chooses to sell the cars through a tender, I can assure you CN would be prepared to participate.

Before I go any further, I want to make one point very clear. CN views continued government ownership of the cars as a realistic option as well. It was made clear at Transport Canada's technical meeting in Winnipeg on November 1 that many producer groups prefer the option, because they feel it would have the least impact on rates. In fact, some of the Farmer Rail Car Coalition's strongest supporters, namely the Agriculture Producers Association of Saskatchewan, said their first choice for the future of the cars would be continued government ownership.

We would of course require a new long-term operating agreement to give us the security to make the necessary investments in replacement and rehabilitation of the fleet. However, if this were done, I could foresee government ownership continuing, but with the government clearly free of any responsibility to replace the cars.

If the government is determined to dispose of the cars, there is one principle that we see as absolutely paramount for the government to ensure under any disposal option. You must protect the system's efficiency and reliability. There must be no adverse impact on system performance. There must be continued direct accountability for allocation decisions, as is the case today with railway operation of the cars. The cars should continue to be operated as a truly common fleet. The proper capabilities and infrastructure must be in place for efficient car maintenance and the storage of idle cars. There must be proper financing in place to immediately begin a program of fleet renewal and replacement.

If CN is allowed to purchase the cars, there will be no transitional issues or long-term issues. Similarly, if the government chooses to keep the cars and we continue to operate them under our new long-term operating agreement, we believe adverse impacts on system performance will be avoided. In either case, the cars will continue to be operated and maintained by the existing operator.

Beyond the question of protecting system efficiency and reliability, we believe the disposal option chosen by government must also satisfy two other principles: maximized value for taxpayers and respect for an open, fair, transparent process.

The value for taxpayers is significant. The book value of the government grain cars is over $200 million, according to Transport Canada. Maximizing value for taxpayers also reduces trade policy risks that would be associated with subsidized benefits.

● (1125)

You may wonder why CN has an interest in trade policy risk. The U.S. countervailing duty on wheat caused the curtain to come down on an important destination market for Canadian producers. In the past eighteen months, CN has not moved a single carload of western Canadian wheat to the U.S. domestic market. Before the countervailing duties were imposed, CN alone shipped 5,000 carloads a year —a half a million tonnes—to that market. That market for wheat alone is upward to a million and a half tonnes, depending on the demands in the U.S. It's a very significant end market for Canadian producers.

As I said, if government chooses to dispose through a public tendering process, CN would bid. We believe there are many compelling reasons for railways to own or to continue to operate and maintain the government grain cars. First, railways operate a truly common fleet while one railcar is used interchangeably with another.

I know all members of this committee may not have had the opportunity yet to review the Farmer Rail Car Coalition's proposal. The Farmer Rail Car Coalition indicates that they will lease cars to railroads, shippers, and producers. This aspect of their proposal opens up a Pandora's box of operating issues: switching cars among shippers and origins; competing and conflicting priorities; new sources of delay in matching and supplying cars to orders. All of these could add days to car cycles—and remember what I said before: one day on the cycle is equivalent to 600 cars of capacity.

Second, when the cars in CN's fleet are idle, we store them on our network and without cost to shippers. A non-railway owner would have to find the space for storage of idle cars, and railways do not switch, store, or move non-railway cars for free.

Third, CN can maintain the cars operating on our lines more efficiently and effectively, we believe, than any other third party can. No third party can match the capabilities and infrastructure CN has in place, including our workforce, our repair locations, and our mobile repair trucks throughout our entire system that are on call 7 days a week, 24 hours a day. Owners and operators of private fleets bear the cost to move cars to and from contract repair shops. Private contractors will not be repairing cars on CN property. It's a fact that this is the exclusive purview of our 791 skilled, unionized car mechanics in western Canada.

Finally, with railway ownership or a new long-term operation agreement, we can carry out the necessary fleet refurbishment and introduce new, more productive replacements for obsolete cars sooner than would otherwise be the case.

The FRCC plan is not to replace any government cars, including the aluminum cars in service, for another decade—I believe the year is 2012—yet CN is prepared to tackle the issue of aluminum cars within the next four or five years. Replacing the aluminum cars with the equivalent capacity in the new modern car means $10 million to $15 million to the producers' net back—and these numbers come from the Kroeger inquiry of several years ago and were provided by several of the grain marketers; they're not railway numbers.

In conclusion, CN is willing to do its part to ensure an efficient grain handling logistics system, whichever disposal option this government decides to pursue.

Thank you.

● (1130)

The Vice-Chair (Mr. Gerry Ritz): Thank you, Mr. Goldsworthy.

Mr. Davies.

Mr. Robert Davies (Chief Executive Officer, Weyburn Inland Terminal Ltd., Inland Terminal Association): Thank you, Mr. Chairman. I appreciate the opportunity to present to the committee today on this issue of some importance.

My name is Rob Davies. I'm the chief executive officer of the Weyburn Inland Terminal, which is a 28-year-old grain company built by farmers to encourage efficiency and farmer representation in the grain handling system. My company has about 1,600 shareholders and somewhere in the neighbourhood of 2,500 customers.

But I'm here today to represent ITAC, which is the Inland Terminal Association of Canada, a group of 13 inland grain terminals similar to ours, all of which are majority owned by farmers. In total we represent somewhere in the neighbourhood of 5,000 farmer shareholders and about 15,000 farm customers across Saskatchewan and Alberta.

Our companies, we believe, represent the spirit of entrepreneurial farmers. They put up their own hard-earned cash to build facilities that provide them with a service they feel they need in the grain handling system. Each of our members ship grain from single, high-throughput facilities and therefore are captive to individual railroads and sensitive to market vagaries such as can be imposed through the actions of those railroads and also the actions of the Canadian Wheat Board and the Grain Commission through their regulatory powers.

We have issues with all of those, make no mistake. However, we are managing and adapting our business practices to make sure we can deal with them. We still do have one major concern, though, over one of the most basic tenets of our business, and that's railcars. It takes three basic things to succeed for small companies in the grain business, or in fact for anybody: get grain into the elevator from farmers; the sale of that grain to a customer; and a railcar or other transportation asset to move the grain from the elevator to the customer.

Car maintenance, fleet replacement, adequate rail competition, and cost-effective mechanisms to ensure appropriate service levels from my colleagues here at the railroads are all issues for ITAC members and for the ag sector in general. The hopper car issue has generated significant debate in recent years and certainly a more focused debate since about February of this year. We believed that the government would introduce an appropriate open process to ensure that the dispersal method for the federal hopper car fleet would provide for a smooth transition from the current rail car ownership environment and that a robust system would emerge that met the need of both farmers and the grain handling and transportation system well into the future.

The announcement in the House of Commons by Transport Minister Valeri in May of this year that the government was committed to working with FRCC on its proposal certainly put clear focus on them as the front runner. However, the minister in that statement also indicated there would be due diligence on the proposal to ensure that roles and responsibilities were clear, that value to taxpayers for this $200 million asset was optimized, and that there would be a sufficiently commercial and competitive grain transportation system in this country to meet the needs of farmers and other stakeholders.

Since that statement by the minister, it appears that the FRCC proposal has gained momentum within government without the due diligence required to ensure system performance in the long run and also without any request for proposals from others who may be interested in acquiring those cars.

In our view, there are a number of issues to be dealt with prior to proceeding with disposal. I'm going to try to touch on a few of the major ones of significance to the ITAC group today.

First let me touch on governance. The Farmer Rail Car Coalition has decided their company will have a nine-member board of directors that designates five specific current member organizations as having permanent board positions, with the other four positions to be elected from other FRCC member organizations. What this means is that even if broad spectrum, widely representative organizations like the Grain Growers of Canada were to join the FRCC, they could hold no more than a minority seat on the board, which is controlled by the five. If ITAC, with 15,000 customers and 5,000 shareholders who've put their own money into infrastructure investments, was to join, we could hold no sway over the original five either.

When I compare that to my organization, I have an 11-member board of directors, all of whom stand for election on an annual basis. They are responsive to the needs of the farmers they represent, as they should be. For FRCC to claim they represent the views of western farmers, in my opinion, is misleading at best, and there is no mandate to be responsive to the needs and demands of those farmers going forward, as control of the board of directors is well established. In fact, two major farm groups, the Western Wheat Growers and the Saskatchewan Canola Growers withdrew from the FRCC after they had a number of unanswered concerns.

How will the new board be accountable to the significant number of farmers who are not FRCC members? The FRCC answer to this question, when asked by farmers at the technical session in Winnipeg, was very simple: join the FRCC. As pointed out by the Grain Growers of Canada, why join a group where the majority of the board seats are pre-assigned?

● (1135)

The second item I'll touch on has to do with the way railcars are put into use for the movement of grain. Two of the stated objectives of the FRCC, which are outlined on their website as well, are, first, to ensure fair and equitable access by all producers to the rail transportation system; and second, producer ownership of a major asset—railcars—should provide producers with a measure of influence on grain transportation policies and practices, and will also give farmers more direct influence with other stakeholders.

These statements clearly imply that they wish to be involved in the car allocation process, so I'll give you a very brief summary of that process. On Canadian Wheat Board-controlled grains, producers are assured fair and equitable access through the Canadian Wheat Board contracting and car allocation system. There is no place for a car owner to be involved. On non-board grains—so canola, flax, for example—producers have the option to sell to any number of grain companies. If a farmer sells me his canola, it's my company's responsibility to pay him and then to sell the grains or oilseeds and secure transportation, whether that's truck or railcar, to meet the sale, but in either case the farmer is already paid. I'm not convinced I understand how this is inequitable to producers and how the FRCC would address it.

In both cases, though, there are clear rules for how the grain transportation asset, the railcar, is allocated. The FRCC has failed to answer a question at the core of the day-to-day operation that I deal with: how do they see themselves being involved in this process?

On one hand, they've stated, as I mentioned earlier, the objectives of ensuring fair and equitable access and influencing transportation policies and practices, while they told us at the technical session in Winnipeg that they won't inject themselves into railcar allocation. These two positions, in our view, are 180 degrees apart and absolutely need to be clarified before we proceed.

They have implied that they will ensure farmers have cars as they need them and somehow that farmers are being denied access. In fact, it's quite clear that the limiting factor on moving grain at most times is the sale of that grain, and that's driven by the end-use customer in markets in Canada and around the globe.

Railcars are allocated within the current system to move grain to the sale, and commercial principles regulate the availability of the railcar. While there are absolutely times where the supply of railcars is a limiting factor, that is clearly the case in any seasonal business.

I thought the other day, there are never enough pumpkins at Hallowe'en. That doesn't really mean we should have an unlimited supply of pumpkins every day of the year. That's just not the way the world works.

My view is that any attempt to manipulate the use of cars at peak demand times, which seems to be implied in some of the material we've seen from FRCC, would introduce unmanageable levels of uncertainty into the system, resulting in both lost sales and higher costs to all participants, including farmers.

At the heart of much of the discussion surrounding the FRCC proposal to acquire the cars is that they must be transferred at a nominal fee; that this savings, in addition to reducing maintenance costs, will result in significant savings to farmers on the rail freight cost component of moving their grain. Quite simply, there is no proof that freight rates will come down for farmers. There will be, though, significant cost to renewing the fleet, and those costs will be borne by the new fleet owner, whoever it is. That will be paid for both by users and through efficiency gains.

The efficiency proposals from the FRCC business plan are promises to be innovative, to promote a more commercial approach, to enhance competition, and to lead to the development of an efficient and economic rail transportation system. Not to put too fine a point to it, but those are clearly statements of principle and not plans of action. This is a significant asset with the ability to impact a whole industry and every farmer in western Canada. I think it's important that we see some meat on the bones of those generalizations.

Improved system efficiency will be the key to ensure that farmers don't bear an undue proportion of paying for the new fleet, and that needs to come through concrete proposals that are understood by all system participants, including farmers. Our concern is the FRCC may bring another level of administration and bureaucracy that doesn't aid efficiency.

ITAC is waiting for the proposed due diligence process to ensure that decisions aren't made to the detriment of thousands of farmers. The only time this issue has been studied in any formal way, as referred to by my colleague of the railroad, was by the late Mr. Justice Estey, and his answer was to sell the cars commercially for their fair market value in a process consistent with the terms of all applicable trade regulations.

It seems to me that to do the opposite of what months and years of study by Mr. Estey recommended would require a more public due diligence process than this file has had today. The FRCC had a chance to allay a lot of fears in Winnipeg at the November first technical session, which was organized by Transport, and they failed to do that.

● (1140)

In principle, let's be clear, ITAC agrees with some of the issues raised by the FRCC, especially regarding the status of fleet maintenance and the replenishment of the railcar fleet in the long-term. We also believe that an effective mechanism to ensure real competition between railways is required in the marketplace. Where we disagree, however, is on the method of resolving those issues. The FRCC has not addressed the many outstanding concerns, a couple of which I have reviewed today. To be clear, though, we don't believe the railways should receive the hopper cars by default. If they obtain the cars under any arrangement, they will need to be held accountable both on maintenance and on the replacement of the fleet.

These issues need to be addressed in the appropriate time, and processes need to be applied to find solutions that provide real benefit for farmers, for the agriculture industry, and for Canadian taxpayers over the long term. The federal government has the ability, through management of the revenue cap and other mechanisms, to ensure that car maintenance is completed and appropriate costs are charged. Enhancements to the efficient use of cars, as has been proposed, and agreements with the operators can provide for fleet replenishment. The implementation of processes to simplify taking complaints regarding levels of service to the Canadian Transportation Agency will help address service and competition issues.

We believe that regardless of who ultimately takes ownership of the fleet, failure to manage and operate the cars effectively and efficiently under commercial terms will be to the detriment of everything our industry has worked so hard to achieve. Turning the cars over to FRCC could easily result in irreversible damage to the industry, and I find it difficult to believe the federal government is prepared to take that gamble. Unfortunately, hopper car disposal seems to have become a much more political issue than is appropriate for something of such day-to-day operating importance to farmers and to the agriculture industry in general.

In summary, the first choice, from ITAC's perspective, is to address the areas of concern by maintaining the current federal car ownership and improving railroad regulation and management of some issues on the cost side. Our second choice would be the commercial sale of the cars, letting both commercial forces and appropriate regulation govern. What we can't do, though, is put a system that works, although it is fragile, at risk by introducing a third party that promises to develop its process after it receives ownership of the cars. That is quite simply too big a risk for those of us involved in the day-to-day business of transportation of grain. We strongly urge the committee and the federal government to continue their consultations with stakeholders to find a sustainable and positive solution that meets the needs of farmers and the industry over the long term.

Thank you very much for the opportunity to speak on this issue. I look forward to questions.

● (1145)

The Vice-Chair (Mr. Gerry Ritz): Thank you, Mr. Davies. Those were interesting presentations from all of you, and we thank you for them.

We'll now move to the question and answer round.

Mr. Bezan, for seven minutes.

Mr. James Bezan (Selkirk—Interlake, CPC): Out of the original 13,000 railcars that were brought on by the government, what are we actually sitting at for total cars now? It's somewhere around 9,000, I gather from the presentations.

Mr. Ross Goldsworthy: The federal government cars are at 12,000, and we have about 6,000 each.

Mr. James Bezan: I thought it was around 4,500, from what I gathered.

What percentage of those are these aluminum cars that are obsolete?

Mr. Ross Goldsworthy: CN, unfortunately, are the only holders of the aluminum cars, and we have about 2,122.

Mr. James Bezan: So that's about one-third of your fleet, less than 20% of the entire fleet. Do they need to be replaced immediately?

Mr. Ross Goldsworthy: Our car people estimate that within the next four to six years all of those cars should be replaced with equivalent capacity, and that is part of our plan, our offer to Transport to do that, whereas the FRCC proposal doesn't address that issue until 2012.

Mr. James Bezan: And with the remaining 80% to 85% of the government cars left, what would be the lifespan?

Mr. Paul Miller (Vice-President, Transportation Services, Canadian National): That varies. There are some cars that are only 20 to 22 years old; others are substantially older. We would look to extend the life of about 2,500 of the steel cars in CN service towards 50 years. So there's substantial life left in many of those cars, but that would require considerable investment. That's really why we haven't done that to date, with the uncertainty as to where the ownership of those cars is going to lie in the future.

Ms. Marcella Szel: If I may respond from Canadian Pacific's perspective, in the materials we provided to you, page 7 shows the years of the cars. You will see, as I mentioned, that the first batch of cars don't become obsolete for at least 20 years. Some are relatively new, and we would probably be going to the same kind of process if there were stability, which is to take those cars whose lives would expire in 40 years and extend them to 50 years by enhancements.

Mr. James Bezan: Mr. Davies, from a producer's and a taxpayer's perspective, your first comments were that you'd like to see the hopper fleet moved to private ownership. Can you expand upon that? Because at the end you were saying your preference was maybe taxpayer ownership

Mr. Robert Davies: Transport have indicated that they're going to divest themselves of the cars. If that's clearly their direction and it's not up for debate, there needs to be an appropriate commercial disposal mechanism. If we had our druthers, we would prefer that the federal government maintain ownership. There are some issues that I think both railways have dealt with in respect of maintenance and fleet replenishment that could be negotiated going forward, but there needs to be a process to say what's the best way to ensure that there's viability for farmers, for the industry, and to ensure that 15 years, 18 years, or 25 years from now there's a sustainable hopper car fleet to move western product.

Those are our issues, to ensure that happens under some mechanism. A negotiated agreement would be great. If there has to be commercial sale and private replenishment, that's fair as well.

Mr. James Bezan: On the whole issue of efficiencies—and everybody talked about it—what do you think would be the loss of efficiencies? You were talking about servicing the car fleet if it was moved towards the railcar coalition. What is it going to be in overall days lost in the movement of grain or things of that nature if it does come to pass that the Farmer Rail Car Coalition takes possession of these cars?

● (1150)

Mr. Paul Miller: We believe the infrastructure we have in place in western Canada is best positioned to provide for the ongoing maintenance and the heavy repair and refurbishment of this fleet of equipment. Our facility in Transcona is actually well set up for both interior and exterior maintenance on these cars, as well as the truck and brake type of work.

Concerns with efficiencies really are as follows. As has been mentioned by several of the panellists here this morning, we have a fairly complex system now, so if we get an additional party involved, you get to Mr. Davies' questions about how those cars are moved on a daily or weekly basis. That's going to reduce the effectiveness of decision-making, in our view.

As to maintenance, there are a couple of points, I guess. One would be that if cars have to be moved off our property to private shops to be maintained, that's an obvious loss of efficiency in the number of days the cars are out of position. Further, as I believe was also pointed out, our collective agreement with our unionized workforce is such that we really can't see any way we can work with a private maintenance operator on our property, so that would involve some movement, switching in and switching out of railcars.

All of these things are concerns that could affect the efficient movement and management of the fleet.

Ms. Janet Weiss (General Manager, Grain, Marketing and Sales Bulk, Canadian Pacific Railway): I just want to add that there is a third area, which is in the FRCC's documentation. They talk about apportionment of cars. At the present time both CP and CN run common fleets; what you try to do is minimize your total empty miles. The FRCC documentation talks about leasing cars potentially to grain customers and other interested parties. As soon as you start having fleets within fleets or a fragmented fleet, you have to match up particular cars against particular destinations. What that does is essentially add empty miles, add time, and reduce the cycle and the effectiveness of your existing capacity.

Mr. James Bezan: With the current fleet, though, not all of them are government cars, as you guys have already mentioned. So how do you manage it with your own leased or owned cars between the two companies?

Mr. Paul Miller: As my colleague has mentioned, it's managed as one fleet.

Mr. James Bezan: It is now.

Mr. Paul Miller: Yes. We talk about 6,000 government cars, roughly 1,000 cars from the provincial governments of Alberta and Saskatchewan, some 500 each, roughly 1,800 cars from the Canadian Wheat Board, and 3,000 to 3,500 of our own cars. A car is a car in that fleet: they're for western Canada grain service.

The Vice-Chair (Mr. Gerry Ritz): Thank you, Mr. Bezan.

We'll move to the Bloc, Madame Poirier-Rivard.

[*Translation*]

Ms. Denise Poirier-Rivard (Châteauguay—Saint-Constant, BQ): My question is for each one of you. Can you tell me why your solution would be the best for Quebec producers and consumers?

[*English*]

Mr. Paul Miller: I'll restate the question. I hope I've caught it correctly. It was why we believe that either continued government ownership or acquisition of the cars by the railways would be the best solution for the producers of Quebec. Is that correct?

I'm not sure that we would see a large impact on the agricultural producers in Quebec. We tend to have a CN-owned fleet in service in eastern Canada as opposed to these particular cars, the government-owned cars. The federal government cars tend to be in western Canada grain service for export traffic to the ports of Vancouver, Prince Rupert, Churchill, and the Lakehead. What does happen from time to time when we have, for example, winter movement of western Canadian grains to export position in Montreal or Quebec City is those cars can be used for a trip or two within eastern Canada but it is not the norm. By far the majority of the cars that we supply for Quebec and Ontario grain growers are, in our case, CN-supplied cars.

I would not see a major impact, frankly, in one direction or the other on the producers of Quebec.

● (1155)

Ms. Marcella Szel: If I may just say for Canadian Pacific Railway, I would agree generally with the comment except to add the complexion that, as we have both said, we manage the cars as a fleet of cars, so when you begin to shrink that fleet through improper allocation, or management, or excess switching, you take cars out of the fleet and you reduce the car loadings. Those car loadings would probably be spread across Canada against all producers wherever they may be located. You have fundamentally just shrunk the amount of capacity you have, so everybody feels a bit of the pain of the capacity being shrunk.

Mr. Robert Davies: I'm not sure whether the question was about the producers or people of Quebec, but, in our view, one of our primary concerns regards long-term replenishment of the fleet, and we're most interested in assuring that as much of that comes out of system efficiency as is possible. A more efficient system operated in a more efficient manner will result in more cost-of-fleet replacement by the operators or by the owners of the car as opposed to from a Canadian taxpayer perspective. Our concern would be to ensure that it's not users and that it's more system efficiency that pays for the majority of the fleet replacement.

[*Translation*]

Ms. Denise Poirier-Rivard: Right now, a grain company in the Vaudreuil-Soulanges region is having a problem. It needs 200 cars to ship 16,000 metric tonnes of grain. During the week of November 1, the company was allocated only 26 cars, and the following week, only 19 cars. The situation for this company is tenuous at best.

Could this proposal be a solution to the problems faced by this company in Quebec's Vaudreuil-Soulanges region?

[*English*]

Mr. Ross Goldsworthy: In terms of car allocation, during the peak season we have several criteria for allocating cars. It depends on the size of the car spot that the producer or customer may have, how many cars he can take, how many cars he or she could load in a given period of time, what their pipeline is like. I don't know the particular details of what you're talking about here, but I can certainly take it off-line and look at it. I know we've had some inquiries about overall pipeline management from specific customers throughout our system, but that's just a natural fallout as everyone is trying to push their grain to port in the peak. It's not uncommon, and it wouldn't go away with a private car owner. It's just a fact. As my colleagues have said, you cannot have enough resources to handle the peak, and simply adding cars is not necessarily the solution. It depends on pipeline. It depends on the customer's facilities. There are a number of factors that come into play in terms of what the allocation is.

We have a responsibility to be fair and equitable to all shippers, and when we get in the various orders in a given week we have to use an allocation system that ensures everyone has equal access and we take all their needs into consideration.

If you want to provide that individual's company name, I'd be more than happy to take it off-line and come back to you.

Ms. Janet Weiss: I'd like to make an overall observation, which is that the current fleet and its current administration basically provides the federal cars free of charge for the movement of grain from western Canada to the export positions in Vancouver and Thunder Bay. To the extent that the railcars are used outside of that geography, both CP and CN pay what is called an alternate-use charge. That charge does encourage certain behaviours by the railway. It would encourage us to keep that part of the fleet in a relatively contained geography, and to bring it back into that geography as quickly as possible. So when we think about the support of Ontario and we think about the support in Quebec, certainly there are actions taken by both railways to say the federal fleet is not a fleet we want in eastern Canada.

To Ross's point, while there is certainly an intention to provide railcars to eastern Canada, the current system, instead of charges, does discourage us from fully utilizing cars and maximizing loaded times. So at the margin there is an opportunity, if you look at a proposal put forward by CP that talks about changing those terms and making them a free-running fleet.

I believe the FRCC proposal continues to talk about providing preference to western Canadian grain.

● (1200)

The Vice-Chair (Mr. Gerry Ritz): Thank you, Madame Rivard.

Mr. Kilgour for seven minutes.

Hon. David Kilgour (Edmonton—Mill Woods—Beaumont, Lib.): Thank you, Mr. Chairman.

You've all made some very important points, and I thank you for doing that.

Can you give us your estimate of what the rail time progress will be over the next, say, ten years? Does anyone want to hazard a guess on that? Will it be up or down or the same?

Ms. Janet Weiss: Our expectation is that our total fleet requirements are not likely to change significantly. Grain is a relatively mature market. Depending upon the corridor it serves, the margin may change depending on length of haul. Likewise, most of the other bulk commodities are, relatively speaking, mature.

Hon. David Kilgour: You'd all agree with that?

Mr. Paul Miller: Yes, very much so, sir. In addition to being mature, it's also notoriously difficult to forecast, for some very obvious reasons that we've all had to deal with over the past several years. So while we see that the demand will stay probably level to some very moderate increase, the number of cars required to service that demand will probably go down somewhat. For example, we would hope to retire some of the smaller capacity cars and replace them with more modern equipment.

Hon. David Kilgour: I think these questions are to the two railways, but perhaps Mr. Davies will want to say something too.

Which of your respective proposals would lead to reduction in rail transportation times—more likely to lead to that?

Mr. Ross Goldsworthy: I'll describe one of the things we've done. As I said, in the early 1990s we were 20 to 25 days in transit times. That was when the Grain Transportation Agency was involved as a third party in terms of the allocation. When they moved out of the picture back in the later nineties and we became a direct shipper-carrier mode—

Hon. David Kilgour: Time goes quickly, so could you just give me the essence of what you want to say?

Mr. Ross Goldsworthy: What I'm saying is, working together as a shipper-carrier, we've been able to cut the transit times by 25%, and in some of the things we're doing today, we can move a railcar from the prairies to the port and back in ten days.

Hon. David Kilgour: Thanks.

How about Canadian Pacific?

Ms. Marcella Szel: I'd suggest that there will be a small improvement in transit times with, frankly, either one of the proposals, whether it be a purchase proposal or a lease agreement. The fundamental of both of them is that the fleet becomes a free-floating fleet. It does not have the alternate-use charges, which encourage us to keep the cars in particular laneways. So if it's a free fleet, like all of our other fleets are, we have more flexibility to move those cars where they're needed immediately, rather than switching them out to put them into the western grain movement. That will give a marginal improvement in capacity and time.

Hon. David Kilgour: You've probably dealt with this, but again, in terms of freight rates and global competiveness, can you say anything more about those two issues?

Ms. Marcella Szel: On freight rate?

Hon. David Kilgour: Yes.

Ms. Marcella Szel: There's a difference between the revenue cap and the freight rate.

Hon. David Kilgour: Yes. Our freight rates, then, in a prairie sense.

Ms. Marcella Szel: The freight rate will largely be determined and struck in accordance with what the revenue cap looks like. So what I'll do is speak to the revenue cap. If the revenue cap remains neutral to at least the proposal that Canadian Pacific has made in terms of a new lease, we would propose that it would be a neutral cap; your rate structures would just depend on market behaviours within that cap. So there would be little or no change to the freight rates per se.

Hon. David Kilgour: Is it the same answer for CN?

Mr. Ross Goldsworthy: Well, it's slightly different. We think that either continued ownership by the railways or a new operating agreement would have a minimal impact on freight rates and the revenue cap. That's a policy decision of government.

However, one of the things I should point out is the FRCC proposal. One of their executives, in Winnipeg, said that freight rates could in fact go up, and they're looking for the transfer of the fleet at a nominal value, much like the airport model. The airports promised they would replace the assets and there would be no fee increases. Yet today in *The Globe and Mail*, Pearson is increasing rates again to 18% per year or $4.97 per tonne. It's an interesting scenario.

In terms of a revenue cap, we'll live with whatever government decides, but it's a policy decision.

● (1205)

Hon. David Kilgour: Is there anything more on global competitiveness for our grain producers that you can add?

Mr. Ross Goldsworthy: We've done a lot working with the Canadian Wheat Board and grain producers. When I joined grain in 1998, we were moving 200 carloads a year to Mexico and now we're moving in excess of 5,000. We're working closely with them on China, through the ports at Prince Rupert.

The one thing about global competitiveness is that you have to be very flexible in moving cars from port to port. We've done that extremely well with the direct shipper-carrier relationship.

Hon. David Kilgour: Thank you, Mr. Chairman.

The Vice-Chair (Mr. Gerry Ritz): Thank you, Mr. Kilgour.

Ms. Desjarlais, seven minutes.

Mrs. Bev Desjarlais (Churchill, NDP): Get your pens and papers ready. I'm going to give you a bunch of questions and give you an opportunity to answer them.

First of all, how much work is presently being done in the Transcona shops? How many repairs are recorded en route and have to be done en route?

I want to know the actual cost per car for repairs and preventative maintenance. It's my understanding that you have a way of tagging cars so you know which car is having maintenance where, when, and why. If you don't, you probably should have, so I'd like to know if that is taking place.

Do you have records as to when a car may not be available? As was mentioned by my colleagues in the Bloc, they wanted some cars in place and they're not available. Are there records to indicate when they're available?

Is the lease agreement different for the aluminum cars? We seem to get the impression that they're not up to snuff, as compared to the other ones. How many aluminum cars are actually in use at any given time, as compared to the other cars?

If you're able to tell us, what exactly is the alternative-use charge? Exactly how much does it cost for the alternative-use charge?

I have one last comment. It's an appreciation to Mr. Davies, at the end, for giving us the best of scenarios. It was much appreciated.

Mr. Paul Miller: I won't have the numbers exactly right, but we're putting about 1,000 hopper cars through Transcona this year. Very few of them are government cars, probably less than 100. The reason for that, as I mentioned a few moments ago, is we've been waiting to find the outcome of this process before we do more than the maintenance required to keep the cars in a safe and loadable condition. Transcona is logistically very well set up for us to do hopper cars for western Canada.

As for cars repaired en route, I may not be able to give you a satisfactory answer. Roughly, in a 25,000 government- and CN-owned hopper car fleet, in round figures, we have 500 cars or roughly 2% at any one time that we call line point bad order. Those cars are not safe to move, or are safe to move to destination but then must have repairs done to them after that. So those are roughly 2% or so of the total fleet. It would be very similar for the subfleet of government grain cars.

The records of cars not available are the orders unmet, I guess, which is perhaps a way of looking at that. In western Canada grain service we have basically a weekly process where we work with the industry. It's a three-week rolling process that identifies initial orders. We finalize the train runs that are going to take place and the final orders are put into effect, and that's how we manage. At this time, we have very few orders unmet in western Canada; I think there might be 100 to 200 in the northwestern Alberta area, and that has much more to do with some logistical problems that one of our short-line partners has had serving, basically, the Ryecroft, Alberta, area. They are coming back on stream, and I expect them to be fully caught up by the end of this week. We're basically fully current on our orders in western Canada at this time.

On the lease agreement for the aluminum cars, we don't have a lease agreement for any of the government cars. It's an operating agreement, and it is the same operating agreement for the aluminums and the steels. What would be different is that there is a depreciated value in case a car is damaged or destroyed. The aluminum cars have a different depreciated value based on the year of manufacture, but series of steel cars also have different depreciated values as well. Other than that, it's about the same. As for the aluminum cars in service, our fleet is fully in service at this time, and that's 2,122 railcars.

The alternate-use charge, I believe, is $17 per car per day when they are used in other than export service from western Canada to the ports that have been mentioned.

To go back to cost per car, which you might have noticed I skipped over.... I thought I would come back to that one at the end. To answer your question from a technical perspective, yes, we do assign cost for car repairs that are done. That's necessary for our own internal costing system. It's also necessary when we have to charge someone else for the maintenance. We assign cost for the car-by-car number. We spend what's required to keep the car in safe operating condition and customer-loadable operating condition. That is a number I would prefer not to discuss in a dollars sense, because of course we're in a situation where we might wind up actually bidding for the maintenance of that equipment if someone else should happen to get ownership of them. What I will say is that we feel we are best positioned to provide that maintenance at minimum cost. Some of the numbers we've seen or heard from the FRCC seem very low to us—and I believe my colleagues from CPR mentioned this. I'm not sure how the required running maintenance upgrades, such as gate and hatchwork, could be done for some of those figures.

● (1210)

The Vice-Chair (Mr. Gerry Ritz): Thank you, Mr. Miller.

Ladies, anything else to offer?

Ms. Marcella Szel: We'll add something from Canadian Pacific's perspective. Janet and I will try to tag team to give you the answers. We'll avoid the aluminum cars, since we have none—which is a good thing.

First, you asked about preventative maintenance and the costs per car. I want to make the point that we don't in fact do preventative maintenance in the way that some people might anticipate. We used to do that. If you look at the list we have on slide 5, which outlines our maintenance, you will not see preventative maintenance on that.

That's a very conscious decision. We did a study a number of years ago on how best to repair these particular cars. Because of their use, and the miles they get on an annual basis, the recommendation from external sources was that preventative maintenance does not add a lot of value to the cars. Rather, we do them in the way we've listed on this sheet. We do regular in-shop repair, the off-line billings, the yard servicing. That is the most efficient and economical way to maintain these cars, and in a way that meets all AAR and other safety standards. So there is no preventative maintenance.

In terms of just general availability, as opposed to saying what's available, we say what's not available. So our bad order ratio, as we call it, is 1.7%. That is down over the last few years. In 2000 that bad order ratio was 2.2%. So we have in fact increased the availability of the cars; 1.7% amounts to about 60 cars a day that are not available due to repairs being done.

Janet will answer the balance of your questions.

Ms. Janet Weiss: On the remainder of the questions, I'll have to look at my notes here.

The alternative-use charge is the same. Repairs en route, I think we've already talked about. Transformer shops, not mine; cars not available....

Oh yes, you were asking about cars not available. At the present time, we're about 600 carloads behind with respect to orders taken and cars not placed. That's largely due to congestion on the Vancouver north shore. In this particular instance, we load cars in good faith, working with our customers. On some occasions, when we arrive at a destination, the terminal is unable to unload. In that case, we will have railcars sitting loaded for substantial periods of time. So our expectation is that those cars will be unloaded shortly, and we will catch up.

● (1215)

Mrs. Bev Desjarlais: Was that five minutes?

The Vice-Chair (Mr. Gerry Ritz): You pressed that into nine, Bev, so you've almost used up your second round, too.

Mr. Miller, five minutes, please.

Mr. Larry Miller (Bruce—Grey—Owen Sound, CPC): Thank you.

I need to point out that although I have a brother named Paul Miller, we're not related.

I'd like all the parties to respond to this. Under the WTO, it would appear that any sale of railcars or transfer would have to be just that, a sale, or we'd probably be challenged under the WTO.

Mr. Davies, you mentioned that your group thought they should be basically...or your first choice was to have government retain ownership. But I took it from your comments that the second-best scenario was for them to basically give them over. I'd like to hear your comments on the effects that you see that would probably have under the WTO.

Mr. Robert Davies: I don't think I said "give" them; I think we'd have them sold to a commercial party, whether that's the railroad, GE Capital, or any leasing company who chose to participate. People in our industry, leasing companies, railroads—a number of parties may choose to acquire the cars. Whether that's at effective commercial prices or not would depend on the terms, I guess, associated with them, whether there's replacement or other factors built into the price.

Clearly, if there were any significantly under-market dispersal of the cars, there'd be a trade challenge from the Americans. It doesn't seem to take an awful lot to inspire a challenge these days.

Some of the information that's been provided has indicated that the impact would be pretty small, but as we saw in the wheat case, whether it's right or not, or whether the impact is large or not, doesn't really matter. The information we have seen has said that the impact would be quite small in terms of an impact on rates. However, once the day comes where the challenge is actually launched, the impact might be quite a bit different.

So that's one of the advantages we would see of a commercial sale. Even with conditions attached to it, at least there's a market established for the value of those cars. There's been a competitive process to establish that as opposed to the nominal fee.

Ms. Janet Weiss: I think we need to recognize that the current government ownership, in the absence of compensation within the revenue cap, does constitute a subsidy of sorts, which has been challenged. We also need to ask whether Canada will be seen as moving towards a commercial system, and as we look at the options available, the signal varies. In the event of a purely commercial sale, obviously, that subsidy issue no longer exists. To the extent that you have a new lease agreement, it does establish a commercial value for the cars, and it also establishes a clearly commercial process for replacement of the cars going forward, and thus probably represents an improvement over the status quo.

The third option, if we look at FRCC, is perhaps the most difficult, in that what it really looks at doing is perpetuating what would be considered a subsidy: you've given an asset away, and then provided a policy means to perpetuate a railcar at less than commercial value. In fact, if you look at a CP proposal or our new deal, in some ways what you do is dilute the extent of the subsidy today by saying that car no longer is applicable solely on export lanes, but could move any commodity across any breadth of commodities, and it really dilutes the implications of the trade.

Mr. Larry Miller: I take it you were saying that more or less we're in a situation now where we're going to be challenged.

Ms. Szel, you made a comment that there are a number of cars the government bought between 1972 and 1984, and I take it you're referring to those cars.

Ms. Marcella Szel: That is correct. Those are all the government fleet, all those cars purchased that we have on our schedule, the 6,000 in our fleet and the 6,000 in CN's fleet.

Ms. Janet Weiss: As a final remark, I believe in a recent challenge against the Canadian Wheat Board the provision of provincial and federal cars was part of the U.S.'s arguments on unfair trade practices.

● (1220)

Mr. Larry Miller: Do you care to comment on that?

Mr. Ross Goldsworthy: No. We just feel that either the sale of the cars commercially or the continuation of a more commercial or enhanced operating agreement shields the Canadian marketeers in the trade challenge.

Mr. Larry Miller: There's a $1,500 figure that I saw in here someplace about maintenance. Personally, I find that very hard to accept, because I think most automobiles are going to cost you that or more. I hear CN talking about how they're unionized, and I think we all know unions—no disrespect—seem to have an upper echelon when it comes to cost for employees. So I'd like some justification of how you can keep that figure down there.

Mr. Paul Miller: That number you're quoting is from the FRCC, so we are not in a position to justify it. We agree with you, we find it low.

Ms. Janet Weiss: We did try to establish a benchmark with some external suppliers of maintenance, and in all cases the internal quotes they came back to us with were substantially higher than what the FRCC represent in their document.

The Vice-Chair (Mr. Gerry Ritz): Thank you, Mr. Miller.

Mr. Easter for five minutes, please.

Hon. Wayne Easter (Malpeque, Lib.): Thank you, Mr. Chair. Thank you for your presentations.

On Mr. Miller's point regarding 1972 to 1984, I think, Ms. Szel, you've tried to emphasize the point about rates established in the 1920s. But I think, Mr. Chair, it should be put in proper historical context. Those are rates that were supposed to exist in perpetuity. The railways were being compensated in other ways for those low rates at the time—the record will show that if you go back to a number of committee hearings—and the government of the day stepped in to provide the rolling stock, because the railways were not living up to their obligation to provide that rolling stock to the farming community. Those are the facts, Mr. Chair.

Let's be clear on what we're talking about, Mr. Chair. Both railways in their presentations talked about operations of the railways and how complicated they are, and that's true. It is a complicated system in respect of car allocation. But we're discussing the best approach to having high-quality, well-maintained rolling stock available to the railways at least cost to producers. Is that not correct? That's what we're really talking about. So let's not complicate it with other issues.

So I'd ask this question. Whoever owns, controls, and does the maintenance, is it not also true that the current allocation system with regard to the total fleet could still be in place if the FRCC proposal were accepted and the railways wanted to cooperate with the FRCC under a fleet management plan similar to that of today? Is it not true that this could work?

Mr. Paul Miller: It could possibly work, but I guess our concern is we don't know exactly what is being proposed there.

Certainly, in the documents we've seen from FRCC there is discussion of leasing cars to operators in eastern Canada; there's discussion of leasing cars to producers; there's discussion of leasing cars to other shippers. That is a very fundamental concern for us because it's at that time that we cannot operate the fleet as effectively as we do today.

Ms. Marcella Szel: I would agree with those comments and also add that at the technical meeting we heard the FRCC indicate that they would like to negotiate a deal with the railways on a commercial basis, leaving it open as to how the apportionment between the two railways might possibly work.

So I think your observation is correct that anything is possible, but what we've heard to date is that there would be an attempt to negotiate commercial leases, setting one railway off against the other and possibly affecting the apportionment between the two. I don't know.

Mr. Robert Davies: One of the other points, Mr. Easter, one of the statements in the FRCC plan was that logistics improvements would come, or may come, at the expense of grain companies and railways. I guess part of our concern is we don't understand what those are.

We've had varying views of the answer on whether allocation or apportionment would be part of their proposal. They talk about leveraging railways and leveraging companies and then talk about not being involved in the apportionment and allocation. That's one of the fundamental concerns we have. If those concerns could be driven out, then we'd probably be more comfortable. But there are two stories there and we're not quite clear on what they mean.

● (1225)

Hon. Wayne Easter: The FRCC will be before this committee at some point in the future, I gather, and I would hope that question could be cleared up.

Looking at it from a broad sweep approach, the FRCC proposal is designed, from their perspective, to minimize the costs to farmers. In fact I think they're claiming that they could save roughly $30 million a year, and that's over those numbers that are in dispute. As well, if you have farmers involved, I don't think there's anyone more interested in getting the product to market in good condition as rapidly, with rapid turnaround, as farmers are.

On the other hand, the railways...I understand your objective and I'm not critical of that. Your objective in terms of either owning or operating the cars would be to maximize the returns to your shareholders, which leads me to the revenue cap.

I think, Ms. Szel, you indicated earlier that under your proposal, it's true, there'd be no impact on the revenue cap. But the Canadian Transport Agency in their report of April 1 of this year indicated that they estimate an amount per car for the maintenance of Government of Canada hopper cars that would be imbedded in the combined CN-CP revenue cap for this crop year is in the range of $4,329 per car.

Under your proposal, is there not a risk that the revenue cap will be affected and farmers will end up paying more money for rail through the increase in the revenue cap, whereas under the FRCC proposal they're suggesting they would save $30 million? Can you clear my confusion there?

Ms. Marcella Szel: The revenue cap does not have an adjustment for maintenance. The revenue cap is a revenue entitlement formula that is based on cost indexation factors like fuel, labour, cost of capital, depreciation costs, average length of haul, and volume. It's not a cost-based formula.

Having said that, that's why I think we can say with a high degree of confidence that with the proposal on the lease side, in any event, we believe there will be no impact on the revenue cap, because there's nothing about that proposal that would change the revenue cap formula. There's no change to the inputs into that formula.

Hon. Wayne Easter: Well, we certainly know that there would be no change in the revenue cap under the FRCC proposal, but there is the potential for savings.

Mr. Ross Goldsworthy: Could I comment on that?

The Vice-Chair (Mr. Gerry Ritz): Yes, please.

Mr. Ross Goldsworthy: First, we disagree with the methodology and the results of the agency review as to the number that the revenue cap provides related to government care and maintenance. We think it's overstated and misleading. But irrespective of that, the revenue cap is a theoretical model. It was based upon maximum tonnage being moved, maximum mileage. In fact, CN has been, over the three years the revenue cap has been in existence, over $30 million below the cap. That's because we're moving grains, pricing it competitively, and moving it shorter distances.

The other point is that the FRCC on November 1 said, yes, they are going to save money. One of their executives said that, but on the other hand, their other executives said, we can't guarantee it; the rates in fact may go up. So the revenue cap is purely a policy issue that government will decide and railways will live with on the basis of what they decide. There is a provision that, yes, if we have to acquire the cars, the revenue cap can be adjusted for any capital cost we expend.

Relative to owning and operating and maximizing returns to shareholders, we do that with a pure lease company. If in fact FRCC, to your earlier question, was a pure lease company that did not want to get involved in policy and apportionment decisions and allowed us to run a fungible fleet, maybe there is room in the game there. But their stated objective is to influence allocation, influence apportionment, and a 10% swing in apportionment in cars between CN and CP would leave 2 million tonnes of grain exposed to the fact of where will we get the cars to move the grain on CN's line.

So there's a fundamental difference between a leasing company with a political bent and a pure leasing company.

● (1230)

Hon. Wayne Easter: We'll clear that up when we meet with them.

The Vice-Chair (Mr. Gerry Ritz): Thank you, Mr. Easter.

Mr. Davies, on this point.

Mr. Robert Davies: Very briefly to that point, three years ago I believe the Canadian Wheat Board, in their role in negotiating car fleet, had a disagreement apparently with CPR relative to U.S. movement of cars. In our business that had a huge impact. It impacted almost all CP shippers for the opportunity to move grain to the U.S.

The only reason that's relevant is one of the things we've read a number of times is leveraging railways for cost, doing some of those types of issues, would imply to me that they plan to use that as a tool for the railways. Unfortunately, it has a significant financial impact on those of us who are captive to one railway. We believe we should have the ability to negotiate with them. To have a third party involved, from a leasing company perspective, doesn't add up, and it has a financial impact on some of us who are shipping off those railroads.

The Vice-Chair (Mr. Gerry Ritz): Thank you, Mr. Davies.

Mr. Gaudet, for five minutes, please.

[*Translation*]

Mr. Roger Gaudet (Montcalm, BQ): Thank you, Mr. Chairman. I'll be brief, as my questions are fairly straightforward.

What arrangements are in place to manage the fleet of 24,000 federally owned rail cars, whether CN or CP, in Canada? Are all of these cars in Western Canada, or are some in Eastern Ontario, Quebec and Atlantic Canada?

[*English*]

Ms. Janet Weiss: The answer is that the cars are largely used in the movement of western Canadian grains. You do see the movement in eastern Canada, largely in conjunction with the winter rail movement, which is western Canadian grain moving into Montreal and Quebec City, but beyond that, no, you would not typically see those cars in eastern Canada. That would be the federal hopper car fleet.

Ms. Marcella Szel: But you would see CP-owned cars in eastern Canadian fleets; you just don't see the federally owned. So on that table we have on page 8, in the bottom left-hand corner, you will see the thousands of cars that Canadian Pacific owns in and of itself. Those cars are not allocated only to western Canadian grain, and you will see some of those cars in all kinds of use.

[*Translation*]

Mr. Roger Gaudet: Getting back to the question raised earlier by my colleague, Vaudreuil-Soulanges is close to Ontario. In fact, it's right on the Quebec-Ontario border. Some customers have been having problems with CN every year, in fact for the past 8 or 9 years. They don't want these cars year round, but merely for one month. They have 16,000 metric tonnes of grain to ship from Ontario to Atlantic Canada. I don't know why they're shipping grain to Atlantic Canada, but they encounter problems every year. Again this year, it was a struggle. Initially, they were allocated 8 cars per day. They subsequently reached an agreement whereby they would be allocated 25 cars, but last week, they were sent only 18 cars.

It happens once every year. I cannot fathom why CN, such a large corporation, is incapable of supplying 36 cars to a company once every year. That's what bothers me.

If you need the letters, I'll arrange to get them to you.

[*English*]

Mr. Paul Miller: Sir, the numbers you mention are actually quite in line with the amount of rationing or allocation we have to do in eastern Canada during this peak time. Unfortunately, we have the grain crop coming in, in eastern and western Canada and the U.S., and we have the highest demands for potash and fertilizer movement. When you add all these things up, we have never said, nor could we afford, to provide sufficient assets—covered hopper cars—to move all of this traffic on the day it's offered.

We have roughly 800 cars, mostly CN-owned, in eastern Canadian service for grain in Ontario and Quebec, and in some weeks we've had orders for upwards of 400 cars per week—of which the 36 cars from this customer would be a part—and we've been only able to supply 200 or 250 cars per week in some cases.

We will start to catch up on that backlog as orders begin to drop off a little bit, but we've never made the commitment—nor could we afford to make the commitment—to meet the peak demand every week, week in and week out. Otherwise, we'd have thousands of rail cars stored every year that our shippers could not afford.

● (1235)

Mr. Ross Goldsworthy: If I could add to that, just to pick up on Paul's comment, it goes back to the size of the individual's car spot, or how many cars his receiver can actually take.

Again, I'd be happy to take that off-line and look at it, because that's a very specific question concerning one specific customer, and I just don't have the answers right now without knowing all the details. But I'd be more than happy to do that.

[*Translation*]

Mr. Roger Gaudet: As a rule, how many rail cars are in service, not in peak season, but in the off-season, or winter, when things are quieter?

[*English*]

Mr. Paul Miller: Our total fleet of CN-owned, leased, and government-supplied is right around 25,000 covered hopper cars. What happens in the wintertime is that demand does start to drop off a bit, but our network velocity also drops off a bit due to the challenges with the Canadian winter. Oftentimes, by far the majority of that fleet continues to run into the winter. It's actually in the summertime, the time between the little bit of a peak in the spring and then the big peak that we're into now in the fall, when we can have cars stored. During the last couple of years, due primarily to the situation in western Canada, we've had 4,000, 5,000, or 6,000 cars stored during the summer.

Ms. Marcella Szel: May I just add something on behalf of Canadian Pacific Railway? CN was referring to a peak demand and the need for cars in this season. As you can see on here, in a normal year, Canadian Pacific might store up to about 4,000 out of a fleet of 26,500 in the summer, not in the winter. This year, for the first time in many years, we have stored zero cars. Demand for the hopper cars for both the grain crop in Canada and the United States and for potash and fertilizer—the key users of this fleet—has been so incredible that we have, for the first time, stored no cars. Every single car is in use and in operation.

The Vice-Chair (Mr. Gerry Ritz): Great. Thank you.

Thank you, Mr. Gaudet.

Go ahead, Robert.

Mr. Robert Davies: I'd like to make a very brief comment.

Far be it for me to defend the railways—and they'll agree with me on that—but we are a CP customer, and our demand for cars is driven by the sales perspective. Both railways have indicated that summer months are typically their slower periods. For us, in the summer months in many years we're quite often loading 300 cars a week. In our case, that is driven by sales of those grains primarily of the Canadian Wheat Board.

The demand of the export sale is going to drive the use of the cars to some degree as well. In our business, sometimes we're very busy in the fall and sometimes we aren't. It's really driven by sales, so it's difficult to ration, it's difficult to budget, and it's difficult to plan, but we try to hit an average through the year.

Quite often for us, June and July are our very busy months. This year wasn't that way. As CP indicated, we were a little slower in those months than we had been in previous years, but it is very difficult to assign a month to a specific location and say that is the way the sales program will work for that customer.

The Vice-Chair (Mr. Gerry Ritz): Thank you, Mr. Davies.

We'll move to Ms. Ur for five minutes, please.

Mrs. Rose-Marie Ur (Lambton—Kent—Middlesex, Lib.): I'd like to thank you for your presentation.

Ms. Szel, at the bottom of page 2 of the deck from which you made your presentation, it says, “Poor car quality is a myth”. On page 3, it says, “Fleet refurbishment - 3 year plan to replace or improve gates and hatches”. I have information that in the crop year 2003-04, roughly $11 million worth of grain was lost due to leakage from the railcars. That equates to $11 million worth of product, so I don't know where the myth is or whose numbers are wrong. That certainly is a huge figure, if that is accurate, and to have a three-year plan is not in sync with that amount of loss, if that indeed is true.

● (1240)

Ms. Marcella Szel: First of all, with respect to the three-year plan, the reason why we've set a three-year plan is it's just about as fast as you can get shop capacity to replace these components. It's not about how fast you might like to do it. If you could do it in one year, you would, but you physically can't. You need the—

Mrs. Rose-Marie Ur: Obviously this is has not just happened in the year 2000. Why have you not addressed this? This is roughly 450 carloads of product.

Ms. Marcella Szel: There are a couple of reasons for it. First of all, there has been instability in the fleet due to the uncertainty around this fleet. We've discussed that over the last number of years.

Secondly, the issue particularly with the gates, which is where you see the leakage, is one of the design of the car. It's not a question necessarily of maintenance; it's the way the cars were designed. The way they were designed was for a different opening mechanism from the one people currently use today. The people who unload the cars at the terminals are the ones who unload them and don't close them frequently.

The issue around the gates and hatches particularly is one around producer use. We might not actually even know about it unless we're told, because it's a facility. It's an activity that's done either at the loading or the unloading site.

Mrs. Rose-Marie Ur: With the information I have, maybe a visit along the tracks might help CP to address the concern, because apparently the wildlife has found it, and it's not being well received by communities with this kind of grain along the railway tracks. It's certainly not something the communities are welcoming. And this is not something that has just happened. To say it's the design of the car.... Surely to God, over the years, in the last *x* number of years, this should have been addressed through upgrades in cars.

Ms. Janet Weiss: Just for clarity, I'm not sure of the report that's representing a loss of 11 million tonnes. Can you help me out there?

Mrs. Rose-Marie Ur: This is information that I have received stating that there has been that kind of loss.

Ms. Janet Weiss: The 11 million tonnes is a surprise to me. What I can tell you is that it is in the railway's best interest—

Mrs. Rose-Marie Ur: It's $11 million.

Ms. Janet Weiss: Oh, $11 million, I'm sorry.

It is in the railway's best interest to repair cars—

Mrs. Rose-Marie Ur: I would think so.

Ms. Janet Weiss: —because to the extent that a grain company loads a car at origin and it arrives at destination empty, we are responsible for the loss of that product and would be responsible for paying for it. In the event that we are aware of it, there's immediate action taken, because that is not in the shipper's interest, nor is it in the railway's.

With respect to spillage on the side of cars, we have done quite a bit of research work on that and are discovering that the primary source of spills, or a large source of it, is that when grain cars are loaded, sometimes grain is spilled onto the sills of the car itself in the loading process. As we haul the cars, the grain that customers have placed on the sills then spills onto the track.

I do not want to in any way understate the importance of keeping your tracks clean. I know we invest significant money in cleaning track. We have vacuum cleaners that literally vacuum grain out of the mountains. But to our knowledge, if there's a gate that is faulty and leaking grain, we would repair that immediately. That is something that would be addressed.

Mrs. Rose-Marie Ur: The source was the Canadian Grain Commission.

Does CP or CN presently lease hopper cars, and is it net lease or full lease?

Ms. Janet Weiss: We have a combination of both. We have some full and some net. It would depend upon the commercial terms and what is most attractive for us as well as the leasing company.

Mrs. Rose-Marie Ur: Do you know the breakdown in your leasing?

Ms. Janet Weiss: I don't have the percentage breakdown, no.

Mrs. Rose-Marie Ur: Do you really believe that should the railcars be sold to FRCC, the railway can work with FRCC? It's a little different kind of sale from most areas where even FRCC would require some kind of union with CP or CN to use their railway track rights. Do you really feel there would be a working agreement available should that take place?

Ms. Janet Weiss: Like all things, we have thousands of commercial arrangements with suppliers of everything from maintenance to our IT systems. If it was on a commercial basis, you have to believe that grounds for mutual benefit would exist.

● (1245)

Mrs. Rose-Marie Ur: I have had information from grain people who are certainly in a strong position, wanting to have a commercial- and contract-driven system to be the most viable for grain producers.

Mr. Davies, maybe it's rather difficult, but you're in the business. What would be the best venue for the farming sector? To continue in which manner?

Mr. Robert Davies: Do you mean with regard to hopper car ownership?

Mrs. Rose-Marie Ur: Yes.

Mr. Robert Davies: I guess the position we're in right now is the devil you know, and we look at it as the devil we know with some modifications. I think Transport has indicated they may review some issues around the revenue cap and negotiate some kind of different mechanism for fleet replenishment over the long term.

In our view, the system is...fragile is probably the best way to put it. It's a very finely balanced system that I think hardly anybody is very pleased with, but we all at least understand how it works. It has better days and worse days. There are car shortfalls we don't necessarily like but we understand. The system is a fairly difficult system to manage with the number of facilities, the number of farmers, the number of export positions—the number of weather events, for that matter. We would prefer to see a system that we understand and that we believe has some commercial consequences for bad decisions, as opposed to seeing a failure of the system to perform for other reasons.

That's why our suggestion at this point would be: leave us where we are; put some additional constraints around the railways; let's do some things with level of service to make our ability to help manage our close partners a little easier. Those types of issues, we think, can be put into place without throwing the baby out with the bathwater.

Mrs. Rose-Marie Ur: Thank you.

The Vice-Chair (Mr. Gerry Ritz): Thank you, Ms. Ur. Thank you, Mr. Davies.

Mr. Vellacott, you have five minutes.

Mr. Maurice Vellacott (Saskatoon—Wanuskewin, CPC): I have three questions.

The first one is to our CN reps. Ross might answer this one.

If you've not had a response from the federal government for 10 months since you offered to buy half the fleet, have you had any verbal communication? Is there any kind of vibe sent to you as to why?

My second question I would ask to Paul Miller. Mr. Miller, you mentioned that under the FRCC cars would be leased to eastern—meaning non-grain—needs and interests and would therefore not be available to western Canadian farmers. Is that what I understood you to say?

As the last question—I wonder if any of you have any response on this one respecting the western wheat growers and the canola growers withdrawing from the FRCC—have you had any kind of detailed discussions with them in writing or by phone, or just in chance meetings or whatever, to know why those two particular groups have stepped away or backed out of the FRCC?

Going in that order, I guess the CN question is first.

Mr. Ross Goldsworthy: We were quite surprised on November 1 when our offer, which we made 10 months ago, as you said, was viewed as simply an expression of interest. We have had no real substantive or concrete response, other than that recently our CEO received a letter basically saying, “Thank you very much for your expression of interest; we'll take it under advisement.” We view it as a very firm, concrete offer.

Mr. Paul Miller: As regards the cars for eastern service, sir, it was for eastern Canadian grain service, as I understand it. There was some discussion about whether those cars would or would not be required, but I'm quite sure it was for eastern Canadian grain shippers, not shippers of other commodities.

Mr. Maurice Vellacott: Was that known through the Winnipeg meetings?

Mr. Paul Miller: No, this was in documentation that had been provided prior to that by FRCC.

Mr. Maurice Vellacott: Okay. Obviously, from the point of view of a western Canadian farmer's interest, we want to be sure they are available for them. That, I think, was the original intent of the mandate. As far as you know, then, any of that discussion was with respect to eastern grains and not other commodities?

Mr. Paul Miller: That's correct.

Mr. Maurice Vellacott: The other question is whether any of the groups have had any contacts, ad hoc or whatever, with the canola growers or the western wheat growers with respect to why they're backing out of the FRCC.

Ms. Marcella Szel: At the hearing or meeting Transport Canada hosted in Winnipeg on November 1, both were there, and they were both specifically asked that question. I don't want to put words in anybody's mouth, but I happen to have a couple of notes from what they said. I can repeat those to you, but be very clear I'm repeating my notes from what I heard them say.

The SCGA, according to the notes I have, say it was because of liability issues, of there being no business case, and of some trade concerns.

The WCWGA had a seven-page letter of withdrawal, which they provided. The note I took was they wanted to see a move to a completely commercial system. They did not see this as being a move toward a commercial system for grain handling; it was more of a command and control system. They had a concern about the $1,500 per car for maintenance and the alleged zero level of bad orders.

I'm sure there was much more in their seven-page letter. These were just the notes I took—some observations.

● (1250)

Mr. Maurice Vellacott: Thanks.

Mr. Robert Davies: Mr. Vellacott, Saskatchewan Canola Growers Association, as I understand it, are speaking to this committee next week. They're probably better prepared to answer that question directly, and I think they've had some discussions with the wheat growers as well.

The trade impact question, I know, is one that was high on their list. As the governance model has come forward, they have both looked at it as being a significant issue, and it's one we can't stress strongly enough: the farmer representation issue. The number we've heard is that 90%-plus of farmers are supporting the FRCC, but the numbers game is a very difficult game, as I'm sure you understand.

One group that is one of the five members who are forever on the board, as we understand it, is the Saskatchewan Association of Rural Municipalities, which is probably made up of farmers but isn't really a farm group. Anybody who votes for a rural municipality member is considered a supporter of FRCC.

As to representation from the canola growers and from the grains council and from the wheat growers, all of those people are concerned about whether their views would be adequately represented as part of the FRCC.

I think the answer we were given in Winnipeg was that "we are inclusive, not exclusive". However, when the board is made up of five people who are already established, those who choose to be one of the four minority could consider themselves excluded as opposed to included. I think that governance issue is a huge issue for an awful lot of people in western Canada who may or may not agree with the FRCC.

The Vice-Chair (Mr. Gerry Ritz): Thank you, Mr. Vellacott.

Mr. Easter, did you have a short redirect?

Hon. Wayne Easter: Yes. Thanks, Mr. Chair.

With the railways, has the trend in recent years been to rely on your own cars more or to rely on the government hopper car scene? What's the dependency here? Is there less reliance on government hopper cars or more?

Ms. Janet Weiss: I don't think there's a trend. I can tell you that both are absolutely critical to the movement of grain and other products. You can't look at the federal fleet, with 6,000 railcars, and say it is not important. So I would describe it as no trend: all are absolutely critical for supporting our business.

Mr. Paul Miller: Yes, generally we would agree with that, sir. There are 6,000 cars out of 12,000. Replacements have been added to the fleet over time, but that's reflected in about the 3,000 to 3,500 cars we have in the fleet right now.

Hon. Wayne Easter: I believe it was you, Mr. Miller, who earlier made the point that it's impossible to move all traffic on the day it's offered, and we certainly understand that. But with a fleet in which there's more railway control and less outside influence on allocation or control over hopper cars by the FRCC other than by the railways —and we talked earlier about understanding that you have to maximize returns for shareholders—is there a danger if you have more control of the fleet? We base that view on historical performance.

Is there a danger, when using hopper cars for multi-use purposes such as potash, etc., that even though there has been a lot of Canadian taxpayer investment in these cars and you now control them, from your perspective you're going to allocate the car to where it provides you and your shareholders with the most profit? Is there a danger here, if your proposal moves forward and it doesn't go to FRCC, that we could find a situation where the western grain farmers in particular are shorted in terms of allocation of cars to move their grain to market in a timely fashion because you're maximizing your profit potential by having those cars allocated elsewhere?

● (1255)

Mr. Paul Miller: I'll make a couple of points on that, sir. One is that the farmers in western Canada and all other shippers in Canada are protected under the legislation by common carrier obligations and level of service avenues open to them. They have exercised those rights in the past, and we've tried to deal with that.

The second thing is that our commercial drive is not at odds with the needs of producers. We and our shareholders are better served when we use these cars very efficiently. It's the same for the producer: the faster we turn them, the more we move, and the more the producer moves during the peak period, which as I understand it, provides additional net-back to them.

Again, there's just the basic point that the more we move, the more money we make. On grain, like just about everything else we handle, we make some profit, so we're happy to move it on behalf of our customers.

Ms. Marcella Szel: I want to support everything CN has said and assure you that the more we move, the more we make. We want to move everything we can.

Let me simply add one thing. In our proposal on the proposed new lease on page 3, we identified that if there was a concern about capacity for western grain farmers, we would be prepared to include that in a lease agreement where we would commit to equivalent capacity. So there would always be an assurance.

Mr. Robert Davies: As I understand it, the level of service provision, the common carrier obligations from the railway, would not go away in any circumstance. As I understand it, the FRCC proposal—I'm just trying to track it down here—also includes alternate use and provision of cars to others on short-term leases if not required for western movement. So I think there's probably a similar obligation there.

However, in that case, somebody else would own the cars and move them to alternate use and the railway would have the common carrier obligation. Is that correct?

Mr. Ross Goldsworthy: Well, I think that was one of the issues that was unclear from the November 1 meeting. If, in fact, FRCC owned the cars, apportioned them to railroads, and then did not have enough to handle a peak or a valley type of thing, or more importantly a peak, who would have the common carrier obligation? I think even the Department of Transport couldn't answer the questions.

The Vice-Chair (Mr. Gerry Ritz): Thank you, Mr. Easter.

Thank you, ladies and gentlemen. I'll use the chairman's prerogative to finish out the meeting and ask a couple of questions myself.

The FRCC proposal is based on the frustration of producers, that they're not seeing the best value for their dollar in the freight rates. A full third of the costs, on any given farm in western Canada, are freight, getting the product to tidewater. It is a concern as to how we get the most bang for our buck from that. That's what gave rise to the FRCC proposal, I'm sure.

I would like to know what the percentage of revenues that grain movement is of CN and CP. Can you give me a ballpark number in terms of a percentage of what you do? I'm looking at the fleet you operate and I guess it has to be high.

Ms. Marcella Szel: For Canadian Pacific, the percentage of revenue from grain in total is 17%. That's the United States and Canada.

Mr. Ross Goldsworthy: For CN, for a $6.2 billion company, grain, on the Canadian side, in a good year, is $650 million. That's in a good crop year.

The Vice-Chair (Mr. Gerry Ritz): Based on those numbers, then, in the 10 years FRCC has been working toward this end and the government has been talking about disposal of the hopper cars, what percentage of product now moves other than bulk railcar? I know a lot of product coming out of my communities is piggy-back, containers other than rail, truck, bagged, all that type of thing, so that these hopper cars do not have the same impact on the marketplace that they had 10 years ago. Do you have any numbers that show that?

Ms. Janet Weiss: Is your question the extent to which containers are used for moving grain?

The Vice-Chair (Mr. Gerry Ritz): I'm simply saying that there has been a shift out there, at the farm gate, away from bulk containers, as used in the hopper car fleet and so on, into bagged containers, piggy-back trucks, trucks themselves. Do you have a bit of a percentage or an impact on your hopper car requirements to the extent that it has an impact? Or does it not impact?

Ms. Janet Weiss: It's relatively small. I can tell you that—

The Vice-Chair (Mr. Gerry Ritz): Is it growing or is it static?

Ms. Janet Weiss: Intermodal business is growing by anywhere from 8% to 15% per year, most of it being merchandise product as opposed to bulk product. When we look at our stats and how much grain moves under the revenue cap, because the revenue cap does include intermodal movements, containerized movements, it makes up less than 2% of our revenue base.

So it's relatively small and relatively stable. It's largely a back-hall market, so it's really dependent on merchandise moving into the prairies, and then utilizing that container in a back-hall move to export. So to the extent the containers show up, they are well-utilized, and it's a very volatile but exciting market for farmers.

● (1300)

Mr. Robert Davies: One other point along those lines. I know we have a special car business as well, so we ship lentils and carry seed in containers other than bulk hoppers. We have been involved in discussions around containers from bagging facilities at port, because bagging in the country and trying to put it into containers or other mechanisms is not nearly as efficient as bulk hoppers to the port.

I think while there has been that trend, some of that has been a capacity issue, some of it has been a lack of bagging capacity in port facilities. So we may see a trend away from some of those container moves on special crops if we had facilities at port that could accommodate different types of packaging at that location.

The Vice-Chair (Mr. Gerry Ritz): Great.

Thank you, ladies and gentlemen, for your presentations here today.

I know these hearings will continue. Next Tuesday we will have the FRCC before us and some of the other people who are involved in this issue. The Western Grain Elevator Association will be here and the western Canadian grain growers. I heard talk of the canola producers, but I don't see them on the list. We've had a lot of requests, so we will put together a panel again for next Tuesday as we continue striving for answers.

Thank you, again.

Perhaps we can keep the panel here for a short minute. We have a bit of housekeeping to do.

We've had a request, and it would take a motion to make this happen. I'll read the motion. It is that the committee accept a request forwarded by CIDA for James Morris, executive director of the World Food Programme, to appear jointly before this committee and the Standing Committee on Foreign Affairs and International Trade on Monday, November 22, at 3:30 p.m. in room 308 west block.

Are we available for that meeting?

Mrs. Rose-Marie Ur: Is that regarding—

The Vice-Chair (Mr. Gerry Ritz): I'm not sure what they're going to cover.

Monday at 3:30 p.m., Roger.

Mrs. Rose-Marie Ur: Personally, I would like to be there.

The Vice-Chair (Mr. Gerry Ritz): All right. So there will be a quorum if we put this together. I will be here.

(Motion agreed to)

Is there anything else we haven't covered?

This afternoon at 1 o'clock CFIA is putting on a technical briefing on BSE upstairs. On Wednesday we have a briefing from CFIA on processing. That's tomorrow at 3:30 p.m., I believe. That should be on your calendars as well. Then on Thursday we have the minister before us. It's a full week.

The meeting is adjourned.

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