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Chair

Mr. Paul Steckle

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● (1105)

[*English*]

The Chair (Mr. Paul Steckle (Huron—Bruce, Lib.)): Good morning.

We will begin our meeting, continuing our study and hearing witnesses on the matter of the grain transportation hopper car fleet issue.

This morning we have with us, from the Department of Transport, Kristine Burr, assistant deputy minister, policy group, and Helena Borges, acting director general, surface transportation policy. From the Canadian Transportation Agency, we have Neil Thurston, director of rail economics, and Jim Riegle, manager of the grain division.

We will be going from eleven o'clock until ten minutes after twelve.

Are you first, Ms. Burr?

Ms. Kristine Burr (Assistant Deputy Minister, Policy Group, Department of Transport): I think so.

The Chair: Okay, we'll let you go first.

Now, we want the information, but we don't want a long commentary. Perhaps you could quickly go through that and then we'll have some questions.

[*Translation*]

Ms. Kristine Burr: Mr. Chairman, first, thank you for the opportunity to speak about the future of the government's fleet of grain hopper cars—a matter of great importance to grain producers, the grain companies, the Canadian Wheat Board, and the railways.

[*English*]

As members of the committee are likely aware, between the early seventies and the late eighties the federal government purchased around 13,200 grain hopper cars. These cars were provided free of ownership charges to Canadian National and Canadian Pacific railways for export grain movements to the ports of Vancouver, Prince Rupert, and Churchill, as well as domestic and export movements to Thunder Bay. The government implemented the hopper car purchase program, as the railways at that time had no incentive to invest in grain traffic due to the non-compensatory Crow rates dating back to 1897.

Currently the federal fleet numbers around 12,400 hopper cars, as we've lost around 800 of the cars to accidents. These 12,400 cars represent roughly half of the railways' total fleet for moving prairie grain. Additional hopper cars are also owned by the provinces of Alberta and Saskatchewan, the Canadian Wheat Board, private sector car leasing companies, as well as the railways themselves.

In the 1996 budget, the Government of Canada committed to disposing of the federal hopper car fleet. However, this transaction has been delayed for a number of reasons. There were several extensive reviews of the grain handling and transportation system, one by the late Chief Justice Estey, and one later by Mr. Kroeger. Other considerations that necessitated a delay in the disposal were the expiration of the railways' right of first refusal to purchase the cars, along with a trade challenge by the United States involving the federal hopper car fleet. Many of these factors have either been resolved or minimized to an extent that a delay is no longer necessary.

The Government of Canada has received a detailed proposal from the Farmer Rail Car Coalition, or the FRCC, as we usually call it, to acquire the entire federal fleet. In addition, the two railways, CN and CPR, have also expressed an interest in either acquiring or renewing the existing operating agreement for their share of the fleet. Transport Canada has been conducting both general and specific due diligence of various options for the disposal of these cars.

In addition, a technical briefing session was held in Winnipeg on November 1 to update grain industry stakeholders on the current status of car disposal. In fact, the Minister of Transport and some opposition members of Parliament attended this event as observers. I understand it was a constructive and informative day. The briefing sessions provided an opportunity for the FRCC, CPR, and CN to explain their positions and proposals. The meeting provided an opportunity for industry stakeholders to pose questions, provide input, and exchange information. The feedback we've received from the recent session will contribute to the government's continuing assessment and due diligence of the disposal options, as well as the terms and conditions for any disposal transactions.

A number of issues were addressed by Transport Canada officials during the meeting. Seven general principles have been established by the Government of Canada to guide the hopper car disposal process. These include: encouraging system efficiency, competition, commercial discipline, and accountability; fostering good relations within the industry, including meeting the needs of producers and other stakeholders without impeding overall efficiency of the grain handling and transportation system; minimizing the risk of trade challenges, especially by the United States; ensuring an adequate car supply for western grain movements; optimizing the value for taxpayers; minimizing the financial impact on western producers; and finally, yet very critically, ensuring an orderly transition. These general principles will be used when assessing any disposal option considered by the government.

At the present time, three main options exist. The first is to maintain the status quo: the government would retain the cars, yet potentially adjust the statutory revenue cap, which limits annual grain revenues for the railways, to better reflect the actual cost of maintenance. The second option is for a fully commercial disposal through a competitive bidding process. The third and final option is for a negotiated transfer to the FRCC, through a transaction that is as commercial as possible but that does not jeopardize their financial business case.

I should note, Mr. Chair, that as of this time, no final decision has been taken by the Government of Canada.

We in the department are completing a thorough and comprehensive due diligence review of the various disposal options. I'll provide an overview of some of these due diligence steps.

● (1110)

In March 2002 the department invited industry stakeholders to offer their views of various disposal options and possible terms and conditions. Responses from 19 organizations were received. Since then numerous stakeholder consultations have occurred with both the Minister of Transport and officials from the department. The comments received have helped shape possible disposal options and have also refined our due diligence work and the development of potential terms and conditions for the disposal.

In addition to stakeholder consultations, a safety inspection of the cars was completed by Transport Canada rail inspectors in April 2002. This assessment found that the hopper cars met all safety requirements. A detailed inspection focusing on the cars' gates and hatches was completed this summer. The results indicated that the federal hopper cars have gates and hatches that are as good as or in fact better condition than other hopper cars used for moving prairie grain.

Finally, we have issued a request for proposals to inspect a sample of the cars to determine their condition and also estimate the cost of non-maintenance repairs that might be required. This assessment is expected to be completed by March 2005.

Another key component conducted by Transport Canada has been the commissioning of two market value assessments of the federal hopper car fleet. The results are confidential but will be used as a benchmark in optimizing the value for taxpayers from the disposal.

As previously mentioned, the transportation of grain in Canada is subject to a maximum entitlement established by the Canadian Transportation Agency annually, and this limits the revenues the railways can receive from the movement of grain, known within the industry as the revenue cap. One important issue in connection with any hopper car disposal option is the potential impact that option may have on the revenue cap. As outlined in a document released publicly in April 2004, the agency has estimated that $4,329 per hopper car is currently embedded in the revenue cap each year for costs associated with the required maintenance of the federal fleet. The FRCC claims that should it acquire the cars there would be a net reduction in the railways' revenue caps, since the increase in the caps from railway lease costs would be offset by the reduction related to maintenance costs.

As I mentioned at the outset, Mr. Chairman, the cars are presently made available by the federal government free of ownership costs. In other words, there are no annual lease payments for these cars. The Canada Transportation Act allows for an adjustment to the revenue cap to reflect the railways' incremental costs as a result of the disposal of government hopper cars. This would clearly include an adjustment for new lease charges the railways may face. However, an amendment may be necessary to the legislation to clarify the agency's authority to make a downward adjustment related to reduced maintenance costs.

Along with assessing possible adjustments to the revenue cap, we have discussed potential trade implications of various disposal options with federal government trade experts. The general conclusion is that from a trade perspective a commercial disposal is preferable; however, no significant impact is anticipated if the cars are sold for less than fair market value.

In addition to the general due diligence steps noted, the government has undertaken several measures to assess the specific proposal being advanced by the FRCC. Transport Canada engaged an outside financial adviser to assess the feasibility of the FRCC's business plan, financial model, and its ability to compensate the government for the value of the cars. The department has also acquired the services of outside legal counsel as well as Department of Justice legal counsel to review the constating documents of the FRCC, including their letters patent, bylaws, and governance structure. Ths prompted a number of discussions with the FRCC to ensure that their constating documents properly state the FRCC's purpose, objectives, board of directors composition, transparency, accountability, reporting, and other governance matters.

In addition to the FRCC's proposal to acquire the hopper cars, the government examined the proposals being advanced by the railways. Due consideration is being given to the positions of the two major railways concerning their preferred disposal approach, along with other important factors and issues.

Mr. Chairman, if you will permit me, I will briefly outline the anticipated next steps for the disposal of the federal hopper car fleet.

● (1115)

The Chair: We're nearing the end of our explanation time, so could you do that very quickly, please?

Ms. Kristine Burr: Three more minutes.

A number of additional questions from stakeholders were forwarded to Transport Canada, CN, CPR , and the FRCC following the November 1 session in Winnipeg. Answers were provided and distributed to industry stakeholders on November 8. Stakeholders were asked to forward any comments on the disposal options and terms and conditions to Transport Canada by November 12, 2004. We've received comments from 23 organizations. This feedback will help Transport Canada complete its review of the options.

Mr. Chairman, the department has not yet completed its due diligence review of the options. It would be premature to select an option before this work is completed and ministers have had the opportunity to consider the advantages and disadvantages of all the options, including the impact on producers and other stakeholders. The Minister of Transport has indicated that he would like to take this matter to his cabinet colleagues before Christmas. We are working very hard toward that objective.

Mr. Chairman, before I conclude I'll give a brief status report on potential changes to the shipper protection provisions of the Canada Transportation Act, since some of your previous witnesses have raised this issue. In February 2003 the government tabled Bill C-26, amendments to the Canada Transportation Act, which included a number of amendments to the shipper protection provisions, the details of which I won't go into. Bill C-26 died on the order paper when the election was called.

Minister Lapierre is again looking at possible amendments to the CTA. It's too soon to commit to a specific timeframe, since the amendments need to be considered within the government's overall legislative agenda, but we are very busily consulting with shippers and other stakeholders to assure ourselves that we are still *au courant* with their views. Minister Lapierre has indicated he plans to bring them to the attention of his cabinet colleagues at the earliest possible opportunity.

Thank you, Mr. Chairman. That concludes my remarks.

The Chair: Thank you very much.

Now we'll move to Mr. Thurston. Do you have some short comments?

Mr. Neil Thurston (Director, Rail Economics, Canadian Transportation Agency): Yes, I do.

Good morning, Mr. Chair, committee members. Thank you very much for asking the agency before your committee to speak about our role regarding the economic regulation of railways involved in the movement of western grain. I have a short statement explaining our role, some work we have done and are currently doing for Transport Canada on the hopper car issue, and what responsibility the agency will have if and when the hopper cars are disposed of by the federal government.

The agency has a mandate under the Canada Transportation Act and other federal acts to administer the economic regulatory provisions affecting all modes of transport under federal jurisdiction. From a western grain rail transportation perspective, the agency resolves complaints between shippers and railways concerning rail rates, service and other matters, administers the railway revenue cap regime, and undertakes studies upon request by the Minister of Transport.

Now turning to the revenue caps, the agency annually determines the revenue caps for both CN and CP and the respective revenues derived from the movement of western grain. The policy was implemented on August 1, 2000, and replaced the old policy of rate regulation. The new policy provides for a cap on total railway revenue for western grain movements to offshore export points and at Thunder Bay and Armstrong for eastern Canadian domestic markets.

Grain is the only commodity carried by the railways that has a cap. Railways and shippers negotiate specific freight rates for western grain movements under this regime. The railways keep one proviso in mind during negotiations: that the revenue to be generated from all movements is not to exceed the respective revenue caps. The caps are derived using a formula set out in section 151 of the act. Each year the agency is required to determine the caps and grain revenues by December 31 for the crop year ending on July 31. Inputs into the formula include a base year average revenue per tonne, an inflation index tonnage, and a small adjustment for changing average lengths of haul, the latter three items for the year in question.

You might ask how can the railways operate under this regime if they don't know what their respective caps are until after the close of the crop year. Think of the regime as a mechanism that regulates the average revenue per tonne earned from all movements. As long as the average revenue per tonne for the year in question is less than that given by the legislative base year figure, adjusted by the inflation index that is determined in advance of the crop year, the railway will remain below its cap.

I should say a few words about the above-mentioned inflation index. We determine that index by April 30 each year for the upcoming crop year commencing on August 1. We hold a consultation session in Winnipeg each year in March with grain industry participants, including farmers and their associations, grain companies, the Canadian Wheat Board, the railways, federal and provincial government officials. At that session we present our preliminary determination and seek comment, input, and acceptance of our calculations prior to a formal determination.

The index simply reflects a composite of the forecasted prices for railway, labour, fuel, material, and capital purchases for the upcoming year. While forecasting things like future fuel prices can be very difficult, the process we follow has resulted in acceptable results. Over the past 20 years since we have conducted this exercise, our composite forecasted inflation index has been, on average, within 0.2% of actual figures. The input that we received from participants at that consultation session has greatly assisted in acheiving this result. Since the 2000-01 crop year, the inflation index has risen only by 1%.

Our work under the revenue cap regime also involves the determination of railway revenue from western grain for the crop year in question. This calculation is made at the same time as we determine the revenue caps. Legislation sets out the revenue items that are to be included and excluded from the calculation. This is not to say that it is cut and dried. Each year interpretations and new issues arise requiring decisions to be made as we make the annual determination. For the first three crop years under the regime, the railways have not exceeded their respective caps. The gap between actual revenue and the combined caps has grown significantly over the three years, rising from about $6 million the first year to almost $24 million last year. In other words, shippers have benefited, since the railways have not earned all of which they were allowed to earn under the regime over the past three years.

We are currently in the process of determining the revenue caps and revenues for the crop year just ended. These determinations will be made public before December 31. As you know, the federal and two provincial governments as well as the Canadian Wheat Board supply the grain hopper cars to the railways for the movement of western grain. The ownership costs of these cars are not included in the underlying costs that were used in the development of the revenue cap formula. However, the cost to maintain this equipment by the railways is included in these underlying costs.

Earlier this year Transport Canada requested the agency's staff to determine an estimate of the amount per car for maintenance of the Government of Canada hopper cars that would be embedded in the combined CN and CP revenue caps for crop year 2003-04. We estimated this amount to be $4,329 per car. It is derived from the 1992 cost base and reflects railway maintenance practices at that time.

● (1120)

I won't go into describing the details behind the estimate—suffice to say that we arrived at that figure through analysis of railway costing and grain revenue data consistent with established methodologies.

In the event that the federal government sells or leases its fleet of hopper cars, section 151 of the act requires the agency to make adjustments to the inflation index to reflect the incremental costs incurred by the railways in acquiring cars following the government's disposal of the cars. In short, the agency is required to incorporate an adjustment to the inflation index to capture incremental costs incurred by the railways if they buy the railcars or lease them from a third party.

Over the past year we have been asked by the FRCC to estimate this adjustment, assuming various scenarios for the disposal of the cars. To this end, we have met with the FRCC on a number of occasions and discussed matters with them, but we have not been able to identify what exactly will happen. Basically, at this point there are too many uncertainties. The language of the act does not clearly specify that downward adjustments can be made. As well, uncertainties exist regarding the final terms and conditions attached to any disposal.

In determining the revenue cap each year, we act as a regulatory tribunal, like a court, where we hear from all sides on the facts. We consider what the law means when a particular interpretation issue arises. Then we issue a decision. We can't issue decisions on hypothetical questions or answer questions when we are not in possession of all the facts.

Just before closing and on the topic of current hopper car maintenance, various figures have been placed on the table regarding what it might cost currently for the maintenance of the hopper car fleet. Transport Canada has requested that the agency develop an estimate of the railways' current costs of maintenance as part of its due diligence review of disposal options. We are currently working on this request.

I've not mentioned anything about the dispute resolution provisions found in the CTA, which can be used by parties to resolve matters regarding rail service and rail rate complaints. We can provide a separate description of these provisions if you wish.

I would like to mention, though, that the agency offers a mediation service to assist parties in finding solutions to disputes without having to trigger a formal application to the agency under the act. This is often a preferred mechanism for resolving disputes between parties. Mediation is quick and inexpensive and allows parties to take ownership of their own solution. We have participated in a number of highly successful mediations involving western grain rail service issues and are prepared to assist on matters that remain at issue today.

Thank you very much for your attention.

● (1125)

The Chair: Thank you, Mr. Thurston.

We'll now begin our question period.

Mr. Bezan, for seven minutes, please.

Mr. James Bezan (Selkirk—Interlake, CPC): In the presentation, Ms. Burr, you were talking about the questionnaire you had just circulated out to industry stakeholders and the replies that have come back. Can those replies and the questions be made available to the committee?

Ms. Kristine Burr: Yes, we could make those available.

Mr. James Bezan: I think it would be very important for us to be able to look at that when we have to make a decision down the same pipe that you have to as well.

You had also mentioned that you were working on the terms and conditions for the disposal. When will those be available, and would you make that also available to the committee for our review?

Ms. Kristine Burr: Those would be part of the decision-making process involving the ministers. So at a particular point when a decision is made around the disposal, I think we'd be in a position to make everything public.

Mr. James Bezan: I think we should see those terms and conditions before the exact decision on the mode of disposal is drawn up, so that the principles are defined before we make the decision on what proposal we're going to pursue.

Ms. Kristine Burr: The overall principles for the disposal are the ones I annunciated this morning, and they're in the public domain. We'd be happy to make those available immediately. For the rest, we'd have to consult with our minister.

Mr. James Bezan: One other thing, Mr. Chair, is that we're talking about the FRCC proposal primarily, yet we haven't seen a copy of their business plan at the committee. I think it's important that this business plan is tabled so that we all have the ability to look at it from their business perspective, so that we can make the best informed decision possible.

The Chair: I think the question was broached at last week's meeting on this very issue. If I'm not mistaken, there was indication given that some of the details of that business plan were not in the public domain. Am I correct in that, or am I interpreting something here?

Mr. James Bezan: I agree with you on that, but at the same time we need to have all the details to make all the proper decisions. We as a committee have gone out in the past and taken the initiative to get some business information to make proper decisions, and I don't think this is any different.

The Chair: In terms of the confidentiality of a business plan, I think we have to respect the fact that the ones who make the ultimate decision have to determine that the business plan is sound. It would take more than this committee to make that determination. So I would suggest that we may not be able to have that information come to this committee simply because it may not be an acceptable format for them to move forward in their plan, and ultimately someone will make a decision based on what they see, similar to what we're doing with another matter before this committee.

● (1130)

Mr. James Bezan: It might be an issue we'll want to discuss at a later date.

The Chair: Yes.

Mr. James Bezan: The one thing that I'm struggling with is that in the FRCC proposal they say their maintenance costs are going to be about $1,500 a car. Mr. Thurston, in your report you stated that earlier this year you guys determined it to be over $4,300 a car and that you're again looking at that. I'm just wondering what is the right number.

Mr. Neil Thurston: The $4,300 figure is an estimate of the amount of money that's embedded in the revenue cap for the crop year 2003-04 for hopper car maintenance. I think the FRCC's number of $1,500 was an estimate of what it would cost them currently to have those cars maintained. As I mentioned in our remarks, and Ms. Burr mentioned it as well, the Department of Transport has asked us to come up with an estimate of the current maintenance costs that are incurred by the railways today, and we're doing that work right now. So it's a little preliminary to speculate on some of those numbers, but we're just in the process of making that determination.

Mr. James Bezan: Essentially, the current formula, as you said, is from a 1992 cost base, and then you adjusted it for inflation. But if FRCC is correct, it's $1,500 and we're overpaying by $2,800 for the maintenance of the cars.

Mr. Neil Thurston: We've estimated the $4,300 based on inflation and adjustments for productivity. It's down significantly from what was embedded in the 1992 costs of over $5,000 a car. So that number is an estimate of what's embedded in the revenue cap. It's based on the same methodology that was used to develop the revenue cap. The current maintenance costs will be something different from that figure, I suspect, and we'll have that figure out to the transport department at some time, hopefully soon.

Mr. James Bezan: We're talking about all the options, and right now all we seem to ever talk about is the two proposals, that either we sell to the rail lines or we sell to FRCC. Has there been any other interest expressed from other entities, and has there been an active tendering process to bring more proposals to the table so that we have the whole gamut of interests represented?

Ms. Kristine Burr: At the moment we haven't gone out with a broad tendering process, but we are looking at the three types of options that I mentioned in my initial remarks: you hold on to them, the status quo with perhaps a tweaking of the maintenance cost provision; or the question of a full commercial disposal; or a negotiated disposal. More recently we've had a couple of expressions of interest by other parties, not a formal offer as much as an expression of interest, I'd say, at this stage. Perhaps as this becomes more well known we will hear from others, but the main parties that have expressed a vocal interest are the two railways and the FRCC, of course.

Mr. James Bezan: So in the decision-making process, are we going to rush to embrace the FRCC proposal, or are we going to wait until all proposals are on the table, all invitations have been put out to the industry so that we can make sure we don't face the political reality down the road of somebody else coming and saying they were never asked, that they had a heck of a good idea and weren't even entertained?

Ms. Kristine Burr: I think it's fair to say that in the circles in which hopper cars are talked about, this is a well-known issue. We would hope we wouldn't be getting a lot of unforeseen expressions of interest beyond the next few months. Ministers themselves are going to have to decide in the near future whether to keep going on this or not, and I think then we'll know, when they've signaled that there is a preferred option, how we'll proceed after that.

Mr. James Bezan: I would make the argument that it hasn't been out there in the public domain to any great degree, other than the few players that are directly involved in it, and that this has been flying under the radar until just in the last few months, when it has again come to the forefront. Everybody kind of thought it was a dead duck a while ago. So I think we need to make sure everybody is aware that this is moving ahead, and it's the responsibility of Transport Canada and GTA to make sure that all the players are involved and that a public call for bids is essentially put out there.

● (1135)

The Chair: Your time has expired, Mr. Bezan.

I should point out for the ones who are new on the committee that this is not a new issue. This has been around since 1996.

Mr. James Bezan: I think everybody thought it had kind of slipped away.

The Chair: I know, but this has been brought up yearly. I think the committee has dealt with it almost on a year-to-year basis. I'm not trying to mitigate what you have just said, but I think we have to be clear that this is not a new issue.

Hon. David Kilgour (Edmonton—Mill Woods—Beaumont, Lib.): On a point of order, why do we deal with it every year? What's the point?

The Chair: Why do we deal with it? Because there have been no decisions made.

It raises its ugly head each time there is a new transportation year anticipated. There is anticipated to be a resolution forthcoming, and of course everybody has to put forward their case and it always ends up at the table of the committee. That's why we deal with it every year. But we really don't deal with it; we talk about it every year.

Let's continue our discussion with questions from the Bloc.

Mr. Plamondon.

[*Translation*]

Mr. Louis Plamondon (Bas-Richelieu—Nicolet—Bécancour, BQ): This situation has been under discussion for years, but I would like to ask some questions anyway to fully understand it.

The government owns a certain number of cars. Does it lease them or does it lend them to companies like Canadian Pacific and Canadian National?

Ms. Kristine Burr: They are given to the railway companies completely free of charge.

Mr. Louis Plamondon: They are loaned free of charge?

Ms. Kristine Burr: Yes, that's right.

Mr. Louis Plamondon: Is it the government that repairs and maintains them?

Ms. Kristine Burr: No, the railways do.

Mr. Louis Plamondon: So the government has the cars built, pays for them and then gives them to the railways.

Ms. Kristine Burr: Yes, because in the 1970s, the railways didn't have the money to buy cars.

Mr. Louis Plamondon: That was done to facilitate grain movement from coast to coast. Is that right?

Ms. Kristine Burr: Yes.

Mr. Louis Plamondon: But I assume that at the time, ceiling prices were imposed on the railways since they were being provided with the cars. Was there any government price control?

Ms. Kristine Burr: There is a limit on the railways' total revenue.

Mr. Louis Plamondon: Since the government owned the cars, it had a certain amount of control and could, to a certain extent, dictate the maximum prices private companies could charge to haul grain or other bulk freight.

Won't selling or giving the cars to private companies have the opposite effect? Is it fair to say that since government will no longer have a hand in that, it will no longer be able to control or set prices?

● (1140)

Ms. Kristine Burr: The price of the cars could affect the future cost of grain transportation, because the revenue cap would have to be changed to reflect the cost of the cars. However, if the cars are given away or sold at a lower price, the impact on grain freight rates will be less pronounced.

Mr. Louis Plamondon: Yes, but the impact will be temporary. I am sure that after two, three or four years, the companies that have acquired the cars will forget they got them free of charge. They will charge the market price, the going rate, and the fact that the government provided them with the cars at a bargain price will no longer have any impact on their prices.

Ms. Kristine Burr: That's one of the considerations. We are studying all of the options.

Mr. Louis Plamondon: Earlier, you referred to a comparative study that you did between your cars and other cars in the private sector. You found that the government-provided cars were generally in better condition than the other cars. When the cars are handed over to the private sector, isn't there a risk that the private sector will not maintain them as well, as your research demonstrated? Couldn't transportation safety be compromised by poor car maintenance that might lead to more accidents?

Ms. Kristine Burr: The railways are required by law to provide services, and that includes car availability and maintenance quality.

Mr. Louis Plamondon: When the government owns cars, it has a say. I guess it would require the railways to provide service to less profitable parts of the country. If the government disposes of all of its cars, won't the private companies say in two, three or four years, that it is not profitable to provide that kind of transportation to those parts of the country and that they're abandoning those routes, and that people will have to fend for themselves by truck or some other mode of transportation? So the only principle they will go by is profitability, with no regard for the public good and the interests of people who used to be able to count on a service because of government intervention.

Ms. Kristine Burr: We have seen a number of changes in grain transportation over the last two decades. Currently, there are regions where more grain is hauled by truck than by train. In most cases, it works fairly well. Grain companies pay to encourage producers to go to certain elevators. There is always that kind of tension in grain transportation. Grain transportation is a major part of both railways' business planning. I suppose it will always be desirable to provide service to all regions, but there may be some adjustments to make in some smaller regions, where transportation will be done by truckers rather than by the railways.

In recent years, we have seen the establishment of short-haul railways, which sometimes replace the major railway companies because they can provide service that is better tailored to the needs of shippers, at a lower cost.

[*English*]

The Chair: Your time has expired, Mr. Plamondon.

We move to Mr. Easter for seven minutes, please.

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

My first question is to Mr. Thurston. On the subject of the revenue cap , you mentioned that grain is the only commodity carried by the railways that has a cap, which seems to imply that the cap is kept down.

Can you tell us what the railways are basically guaranteed as a return on capital under the cap? What would that figure be?

● (1145)

Mr. Neil Thurston: I don't think there's any guaranteed figure that the railways are assured of getting. As I said, the cap is based on the 1992 costs that were developed 12 years ago.

Hon. Wayne Easter: If I recall correctly, the railways were at the time of the 1992 costs looking for a return on capital somewhere close to 20%.

Mr. Neil Thurston: That's right.

Hon. Wayne Easter: The return on capital on a farm, Mr. Chair, would be substantially less.

The point I'm making is that the railways are doing very well, thank you very much, under the revenue cap. I think that points needs to be made. If I or any of us in this room could be assured of a return on capital of 20%, we'd feel we were in pretty reasonable shape. Add into that the fact that for a number of years, it seems, the railways.... Your figures are $4,329 for maintenance. I understand the railways are arguing those figures, or are going to. But if you go back to 1984.... If those are the figures—and I know you are doing an investigation—will the figures on actual maintenance costs be made public? Or will that be commercially protected information?

Mr. Neil Thurston: We'll provide that figure to Transport Canada. They've asked us to do the work. I would suggest what they do with that figure probably rests with Transport. We're bound by the legislation to provide information that's confidential to the Department of Transport when requested to do so, but they hold the cards on whether it's released.

Hon. Wayne Easter: I understand that.

If you go back to 1984, if your figures hold true at $4,329, and the maintenance costs are in the range of $1,500, it would seem to me the railways have basically, since that time, overcharged about a billion dollars. The whole intent when this new transportation system came in was that some of the efficiencies gained within the system would be passed on to farmers. I think we're beginning to see that really hasn't happened.

I have a question to Ms. Burr. In your remarks, if I'm correct about what you said, you went through the feasibility of the FRCC proposal on a number of points you raised. The FRCC, when they were before us, told us their proposal meets the feasibility test. Is that true, based on your observations in the studies you did?

Ms. Kristine Burr: We have spent a considerable amount of time with the FRCC over a period of months. We are still talking to them a little bit about some of their constating document plans, but generally, we have found the plan to be quite good.

Hon. Wayne Easter: They do have a full-fledged business plan, as I understand it. Is that correct?

Ms. Kristine Burr: Yes.

Hon. Wayne Easter: What about the railways? Do they have a full-fledged business plan in their proposals? There's been a suggestion here that there have been three proposals on the table, one being the FRCC's, the others being the railways'. Have the railways provided you with a full-fledged business plan for you to review?

Ms. Kristine Burr: I'm going to ask Ms. Borges to respond to that question.

Ms. Helena Borges (Acting Director General, Surface Transportation Policy, Department of Transport): The railways have provided us with a proposal. One is an offer involving a confidential letter, with a price and conditions they would accept. The other one is basically a variation of the current agreement that is in place for the cars. It would basically be modifications to that agreement.

Hon. Wayne Easter: The railways, then, in effect haven't provided you with a full-fledged business plan, as the FRCC has. They've put a proposal or options on the table, but no business plans.

Ms. Helena Borges: No.

Hon. Wayne Easter: Okay, thanks.

Ms. Burr indicated that 23 organizations, I believe it was, had responded to the discussion on this. As I view it from where I sit—and, Mr. Chair, we have been dealing with this issue for about eight years—we have a proposal by FRCC that's been on the table for pretty nearly that length of time, that has been reviewed and reviewed and has been found to be sound, and all of a sudden we have what seems to me is almost a lobby, in which the railways and grain companies have got together to basically critique the FRCC proposal and lay a lot of questions out on the air, without putting on the table any of their own proposals upon which others could do a critical analysis and ask questions. I haven't seen their proposals. They were before this committee, and I heard what they had to say, but we do not have a full-fledged business plan, as we have with the FRCC.

● (1150)

Ms. Kristine Burr: Mr. Chair, if I may respond, I don't want to leave any misunderstanding. The FRCC plan has matured over the period of time we have been aware of their interests, and I think they would be the first ones to say they feel the plan they have today is a better plan than maybe they had in 1996 or 1997. I wouldn't want to leave you with the misapprehension that we've been dealing with the same plan all this time.

Hon. Wayne Easter: I think it's a good thing that it's matured and is better than it was in the beginning.

The other question I had—

The Chair: Make it quick, Mr. Easter.

Hon. Wayne Easter: The railways, CN and CP both, objected to the CTA estimates on compensation for government railcars in the revenue cap; they made that point, Mr. Thurston.

Does Transport Canada share the opinion of the railways that the embedded figure of $4,329 is too high, or do they feel it's about right?

Ms. Kristine Burr: We have asked the agency to do some work for us. We haven't actually received the final report yet, so I'm really not in a position to comment in an informed way.

Hon. Wayne Easter: The reason I ask is because if the FRCC is right in its proposal—and they've said before this committee that they've done a lot of investigation of what maintenance costs should be, and they assure us they won't be overcharging and the savings would be passed on to farmers—I think this figure is critical in terms of ensuring that, from the decisions we make here and you make, farmers gain some advantage out of the new changes being proposed.

Ms. Kristine Burr: Yes, I would agree, Mr. Chair, that this is one of the key elements of the whole proposal. I would just add, if I may, that we are also equally interested in making sure the FRCC estimate on maintenance is a good one—not just on specific maintenance, but as to how the cars would be moved out of the fleet to be repaired and then moved back in. They have some very creative ideas, but we feel we still have to do a bit more due diligence on it as well.

The Chair: Thank you very much, Mr. Easter and Ms. Burr.

Ms. Desjarlais.

Mrs. Bev Desjarlais (Churchill, NDP): Thank you. You mentioned that you're down to 12,400 cars presently and said that 800 were lost to accidents. I'm curious. Was there insurance on those cars that the government was able to collect on when those cars were lost to accidents?

Ms. Helena Borges: When the car goes into an accident and cannot be repaired, the car is sold for salvage value, and we get a return back on that salvage value from the disposal of the car.

Mrs. Bev Desjarlais: Is there no other type of insurance on the car, such as we would normally have on a vehicle or something like that?

Ms. Helena Borges: No, the federal government does not insure any of its assets.

Mrs. Bev Desjarlais: Out of curiosity, then, just because it would seem that when cars go down you're going to possibly have to replace them, I'm curious how much would have come back from the salvage, and whether it would have been then put back into the hopper fleet.

It's nothing you have to have today; it was just a curious question.

The railways pay a fee when the western grain cars go out of their normal area. Are there figures as to how often that happens and what type of revenue comes back in from the periods when the cars are out?

● (1155)

Ms. Kristine Burr: We have an office in Winnipeg. We have staff there who are responsible for monitoring what's called the alternate use of the cars. It's very closely monitored. We also audit after the fact to make sure everything is accurate.

The department does get a fair bit of revenue every year. It goes into the consolidated revenue fund, so we don't benefit as a department. It goes directly to the government accounts.

Mrs. Bev Desjarlais: I would be curious as to what those figures are. If we have a rail hopper car program and there seem to be issues with whether things have benefited producers, I'd be curious as to exactly what those numbers would be.

Ms. Helena Borges: On average, it's between $10 million and $15 million a year. It depends on the commercial rates, because that's how the alternate revenue is calculated.

Mrs. Bev Desjarlais: Were the safety inspections done on all the cars when the inspections were done, or was it a random inspection?

Ms. Helena Borges: It was a random inspection of about 1,200 cars.

Mrs. Bev Desjarlais: So roughly 10% of the cars.

Ms. Helena Borges: Roughly 10%, yes.

Mrs. Bev Desjarlais: I guess this question should probably go to the CTA, but whoever knows the answer can respond.

If the railways were to purchase.... Say the cars go to the FRCC, just hypothetically, and the railways decide, “Well, we're not going to lease the cars back from them, but we're going to purchase our own cars”. Is there any mandate they would have to allow FRCC to have the cars on the line? Would that be an issue?

Ms. Kristine Burr: That's something we would assume would be negotiated between the railways and the FRCC.

I mentioned in my opening remarks that we would have to ensure an orderly transition. There are all kinds of issues like those that would need to be looked at, because of course they would need to have some kind of an understanding, just from a commercial standpoint, for both sides to be able to operate.

Mrs. Bev Desjarlais: And the CTA wouldn't be able to intervene in that type of a process?

Mr. Neil Thurston: I think where we might get involved is after the fact. If the FRCC had problems in getting access to the rail lines, they could probably bring a complaint to the agency under the obligation sections of the act, and we'd probably look at it through that vehicle.

Mrs. Bev Desjarlais: There are presently other companies with cars that get used on the rail lines. It has been suggested by the rail companies that it would be really tough to have those cars now being leased from the FRCC to the rail lines, because of a variety of issues. But presently that happens with other cars through other companies. Is that correct?

Ms. Helena Borges: The railways operate the cars. They lease them from other parties, they own some of them, and they have our cars, as well as other government cars. But the railways operate all the cars. There aren't individual leasing companies operating the cars for grain; it's the railways that do it.

Mrs. Bev Desjarlais: The railways do it.

Ms. Kristine Burr: This is probably one of the issues that's the key to the whole dilemma, because as long as the FRCC were to operate like a leasing company, it would probably be immaterial. It's the degree to which there's enough trust in the system that they would operate in a way that is satisfactory to all the business parties.

Mrs. Bev Desjarlais: Just for clarification, the revenue cap that's in place is not based strictly on maintenance costs. So it's not as if we can say the revenue cost is this much, and that's what the maintenance cost is. I'm curious. I find it really, really strange that we can't get an absolute figure of what the maintenance cost is.

You're all experts in this; I would say you've been dealing with it for years. Do you know what the actual maintenance cost is? Are we just not being told, or is it real that nobody knows what the cost is?

Ms. Kristine Burr: I'm going to let Neil handle that one.

Mr. Neil Thurston: Well, that's one thing we're doing right now. The Department of Transport has asked us to make an estimate of the current maintenance cost, and we—

Mrs. Bev Desjarlais: I'm not talking of an estimate.

Mr. Neil Thurston: No, no, but at this point in time we don't have the specific information from the railways to make an accurate costing determination, as we did in the same process in 1992. In 1992 we had a jurisdiction to go in and calculate the exact costs the railways incurred in the transportation of western grain. That was under the WGTA.

We essentially now no longer do that costing review every four years. The railways have freedom to set rates accordingly, through commercial negotiations. We set a cap and the revenue derived from all those rates can't exceed that cap. We're not into rate regulation, which means that we're really not into the exact costing of rail operations. We can give an estimate of what we think those hopper car maintenance costs are based on some information we have for other costing purposes.

I don't want to get too technical here, but we do have information and we feel we can give a pretty good estimate of what we think the current maintenance costs are, but we're not in the same mode as we were 10 or 12 years ago with specific costing. It was a conscious decision of the government to move away from that.

● (1200)

Mrs. Bev Desjarlais: You mentioned the magic number of 1992. Can you tell me what the cost would have been prior to 1992?

Mr. Neil Thurston: In 1992 the hopper car maintenance cost was $5,230 a car. That's what came out of the costing review, and that number has fallen to the $4,329 we have estimated in the revenue cap.

Mrs. Bev Desjarlais: That was the actual maintenance cost, then, the $5,230?

Mr. Neil Thurston: That was the actual maintenance cost for the maintenance of the hopper car fleet that was operating in 1992.

Mrs. Bev Desjarlais: Thank you.

The Chair: We'll leave it at that.

We're going to start our second round, and I'm going to the Conservative Party and Mr. Miller for five minutes. Then we'll conclude this round with the Department of Transport and our friends from the Transportation Agency and move to the next round.

So to conclude this, Mr. Miller for five minutes.

We'll do a normal rotation on the second round, so we will begin with the Liberals coming back.

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

If I get into another coughing fit, I'll be turning it over to my colleagues.

My questions are in relation to what's best for the taxpayer, but first I want to go back to a question or comment Mr. Easter had; it goes back to the railways putting forth a business plan. If the other rail lines would like to put one forth—the FRCC have put theirs forth—what's the process for the rail lines?

Ms. Kristine Burr: What we're envisaging is that the minister is going to have a discussion with his cabinet colleagues in the near future after having had at least a good airing of the issue in Winnipeg in November and considerable discussion amongst stakeholders with visits here to Ottawa by many stakeholders. The minister is going to have a discussion, and if they decide on a disposal option, then there will still be ample opportunity for parties to come forward with more detail than they have provided at this point in time.

Mr. Larry Miller: So any party could come forth with a proposal at some point.

There seems to be with the FRCC—and you mentioned “trust” a little while ago—a lack of trust in there. Do you want to speak to that? It seems to be implied that they can't be trusted.

Ms. Kristine Burr: I meant to say that within this grain transportation sector there are many views, and certainly in the session in November I alluded to in my remarks there were many divergent views expressed about what was best for the hopper cars and what was best for the grain transportation system. The proposal the FRCC has put forward is somewhat different from the normal practice, and I think it's a question of whether people are willing to take a chance on something that has not been tried before.

Mr. Larry Miller: Thank you.

I'm going back to lease fees. In the proposal by the FRCC, is there a proposal for annual lease fees and that kind of thing? Do you want to speak to that a little bit?

Ms. Helena Borges: The FRCC proposes to charge lease fees to the railways for the cars based on commercial rates minus 25%. As you can appreciate, commercial rates are volatile from year to year, but it would be slightly below. For the alternate revenue, like Ms. Desjarlais said, they would charge the commercial rate, 100%.

● (1205)

Mr. Larry Miller: You said “slightly below”.

Ms. Helena Borges: For the western grain movement it would be the commercial rates minus 25%.

Mr. Larry Miller: On the status quo, I understand the government now pays for the maintenance on the cars.

Ms. Kristine Burr: No.

Mr. Larry Miller: Who pays that?

Ms. Kristine Burr: It's covered in the freight rate. It's just part of the rate, and the interest of the government is, in a broad way, primarily that the cars should be there and the system should work. That was why the cars were bought back in the seventies.

Mr. Larry Miller: I'm now going to Mr. Thurston on a comment you made a little while ago. I think I have the figure of $5,200 and some dollars of maintenance costs in 1992, but now it's at $4,300. There aren't many things in this world or in this part of the country that ever go down. It doesn't make sense. There must be a logical explanation.

Mr. Neil Thurston: Yes. What's happened in the railway business—and I'm sure the railway officials can speak about this a bit further—is there have been productivity improvements in their operations and they've changed the way in which they approach some of their services, including maintenance.

They've become more productive in the way in which, for example, they may pull cars. What they may have done in the past is pull cars into the main shops for repairs. They now have the ability to take that capability out to the line with repair trucks and do maintenance there.

There's a lower cost of operation arising from the productivity that the railways have developed over the last 10 or 12 years.

Mr. Larry Miller: Or you could look at the other side of the coin and say there's been a lot of government waste or mismanagement over the years.

Mr. Neil Thurston: I'm not sure I follow you on that one, because we haven't really been involved in the maintenance of the government hopper cars or anything like that. That's been a railway responsibility from day one.

The Chair: The time has expired.

Thank you very much for appearing this morning. Obviously, we could go on for much longer.

Mr. David Anderson (Cypress Hills—Grasslands, CPC): I have a point of order, Mr. Chair, for clarification on a statement that was made earlier. It may have to do with some questions later.

You said that the railways pay no lease payments at present. Is that correct? I think that's what you said.

What is the cost to them of running the cars? They pay the maintenance. Is that the only cost they incur?

Ms. Helena Borges: They incur all operational costs associated with the cars, but they don't pay any lease.

Mr. David Anderson: They don't pay any annual lease.

Okay, thank you.

The Chair: Thanks for the clarification. Hopefully sometime soon we can have finalization of this matter and move on to what may be a new chapter in the transportation of grain in this country.

While you are taking your leave I would ask the new members of the next segment of our meeting this morning to take their places at the table. While that is happening we'll have a slight break in the meeting.

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(Pause)

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The Chair: Now we'll hear from the Canadian Wheat Board. We have two members: Mr. Ward Weisensel, who is the chief operating officer for the Canadian Wheat Board, and Ian McCreary, director of district 6.

Who's first?

Mr. McCreary.

• (1210)

Mr. Ian McCreary (Director, District 6, Canadian Wheat Board): Thank you, Mr. Chairman.

Mr. Chairman, honourable members of the committee, I'd like to thank the committee for agreeing to hear from the Canadian Wheat Board.

As the chairman mentioned, my name is Ian McCreary. I am a grain and livestock producer from central Saskatchewan, the small village of Bladworth. I am an elected farmer member of the CWB's board of directors.

By way of background, the Canadian Wheat Board is now a farmer-controlled marketing organization, with 10 of the 15 directors elected to the Canadian Wheat Board. Each elected member requires the support of at least 50% of the producers in his district through a preferential ballot system. Being in the final days of an election campaign, I can tell you those campaigns are rigorous.

With me today, as you mentioned, is Ward Weisensel. Ward is our chief operating officer. And I can tell you that in addition to being a top-notch operator and a smart guy, Ward has some farm roots in Saskatchewan and is one of those individuals that we producers have a great deal of pride in having on our team.

The Canadian Wheat Board markets wheat and barley for export and domestic human consumption for approximately 75,000 farmers in western Canada. Our job is to maximize returns to western farmers on those sales. In total, some 18 million to 22 million tonnes of products are moved from the prairie region to customers in an average year.

We've provided for the committee's reference a couple of diagrammatic pieces. I think it's an important piece, in that it places in context one of the challenges we in Canada face, in the sense that we are, in a compared advantage, the furthest competitor in the grain market from the core markets, and also the very diverse market base that we have developed through the single desk. I think it's a package that we, as Canadians, can take some pride in, but we need to recognize the challenges that this economic situation presents.

At the core of that, we can end up with two key pieces. The first is that transportation costs are the single largest component of the costs of getting my grain from the seed through to the customer's plate. In my operation, for the wheat alone, transport costs will represent a bill of approximately $20,000 in the current year, and that's only rail costs to put it into export position.

Thus, an efficient, accessible, low-cost transportation system is essential to a viable farming economy in western Canada. As a result, farmers and the Canadian Wheat Board, as our marketing agency for wheat and barley, have a direct interest in the grain handling and transportation system. We believe that any changes to the system should have the farmers' best interests in mind. Proposed changes to the ownership structure of the federal government's fleet of hopper cars has the potential to impact farmers through hopper car availability and through changes in rail freight rates.

The CWB supports a proposal by the Farmer Rail Car Coalition to acquire and manage the federal hopper car fleet for a nominal value, because the coalition plans to maintain and replace the hopper cars without increasing costs to farmers.

This proposal contrasts with the position of the railways, which tend to favour a commercial bid process for transferring ownership of cars. Any commercial bid process would give the railways a distinct advantage in such a process, being able to outbid all other interested parties by passing the costs of acquiring the hopper cars back to farmers through an increase in freight rates.The revenue cap provides for this eventuality, and there is specific language in the section of the CTA around the revenue cap that does specifically outline the mechanisms for that.

Thus, farmers would clearly be worse off if the government divested itself of the hopper cars by a commercial bid with the railways as participants. In 1996, I want to remind you, farmers soundly rejected a similar proposal by the railways on the issue of hopper car ownership.

● (1215)

As we look from the current situation forward, I want to touch briefly on three pieces. The current hopper car fleet will need to be replaced over time. This is anticipated in the Farmer Rail Car Coalition's business plan, which provides to do this without increasing costs to farmers.

The railways' proposals are far less detailed in the area of fleet replacement, raising two issues of concern from the Canadian Wheat Board's perspective. First, the potential effect on farmers' freight rates is unclear. Second, we are concerned about the railways' commitment to replace the current fleet.

The reason the federal government originally acquired the hopper cars was to address the substantial deterioration and inadequate capacity of the railcar fleet at that time. History must not be allowed to repeat itself. Any transfer in the ownership of the hopper cars must include a plan to ensure that western Canadian farmers are left with an adequate hopper car fleet in the future.

The FRCC proposes to maintain the current fleet car leasing arrangements with the railways for a period of two to three years following the transfer of the hopper cars. It's important that the committee recognize the difficulty of a longer-term view, given the unclear nature of the rail policy environment that is out there. We note that Canadian Pacific Railway has announced that, despite ever-increasing demands on its network, it will not make new investments in its infrastructure until there is greater certainty in the future of the regulatory environment.

I want to say from the farmers' perspective that we believe that changes in that regulatory environment to more competitive access running rights are not only necessary but are inevitable.

The railways have raised concerns about introducing a third party into the rail system if the hopper cars were transferred to the FRCC. They claim this would increase uncertainty for both shippers and railways. However, the railways already lease cars from third party companies such as General Electric, GATX, and Procor. Clearly, third party leasing is not a unique situation for the railways.

Hopper car maintenance costs is an important related issue. The CTA recently determined there was an implicit allowance of $4,329 per car per year for the maintenance of hopper cars, and you've just heard from the CTA, who we have a great deal of respect for on the subject, so I'm treading on somewhat nervous ground. This allowance comprises part of the railways' revenue cap calculation. The FRCC disputes this figure, arguing that the maintenance costs are actually in the range of $1,500 per year. Regardless of the outcome of the ownership issue, the maintenance cost component of the revenue cap should be investigated to ensure that farmers are not paying more than the actual value of the maintenance work being performed.

In conclusion, it's our view that the only option for divestiture of the hopper car fleet that is consistent with lower costs and greater value to farmers is the proposal presented by the Farmer Rail Car Coalition. Other divestment options presented or discussed would significantly increase farmers' costs with no commensurate benefits. In essence, farmers would be paying for an asset owned by another entity. This is as unacceptable today as it was eight years ago, when this issue was last debated in the public forum.

Again, Mr. Chair, I'd like to thank you for this opportunity and look forward to the dialogue that we can have through the question period.

● (1220)

The Chair: Thank you very much, Mr. McCreary.

We now move along with our five-minute segments in the rotation we would do in second round, beginning with Mr. Kilgour.

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

What you say is, I take it, endorsed by the Wheat Board as an institution.

Mr. Ian McCreary: Yes.

Hon. David Kilgour: Okay. You're from Saskatchewan; you must have a big farm. We were told at a conference not too long ago that the average farm in Saskatchewan, I believe, was losing something like $20,000 currently, or last year. I don't know what the period was, but does that sound reasonable to you?

Mr. Ian McCreary: Sorry, what was the number again please?

Hon. David Kilgour: Farms in Saskatchewan were losing about $20,000 this year or last year, or perhaps both years.

Mr. Ian McCreary: This year has been described on the farms as the lottery ticket that got away. The frost on August 20 was devastating, throughout Saskatchewan in particular, and I would say the district that I represent specifically. It has been a devastating year.

Hon. David Kilgour: All of that is to say we want to do what's best for the farmers—not what's best for the railroad, the Wheat Board, or anybody else.

Can you shed some light on where we got this figure? I think this $4,329 is a completely notional figure. Can you explain to us as lay people how the CTA has come up with that figure?

Mr. Ian McCreary: I can relay my understanding. My understanding is that the revenue cap, with its genesis in the regulated freight rate structure, as determined by quadrennial costing reviews with all of the components of costing built in, provided for all of the different operating provisions of railways, and one of those was cost. Those have been subsequently adjusted for indexing and inflation. The two experts you just heard from have more detailed understanding of it, but the $4,329 would be the component tagged to the maintenance of cars.

Hon. David Kilgour: It strikes me that it's a notional idea. The $4,329 is Alice in Wonderland, isn't it?

Mr. Ian McCreary: The difficulty is that the revenue cap is by and large a reflection of the freight rate we pay. The only piece that's not notional is that it's part of the $20,000 that I've got to put out to the railways every year.

The ultimate piece out there, the real numbers we've taken a look at, is twofold. First of all, if you look at the lease market for cars, you can see that the difference between the lease values of railcars that are provided with maintenance in, versus railcars that are provided to carriers with maintenance out, is about $1,500 a year—or something less than that. It seems to validate a number not far off from what the Farmer Rail Car Coalition indicates is the real cost. Clearly, however, when you add up all the revenue cap components, they are the costs that we as farmers have to write a cheque for every year, so in that sense they are real costs.

Hon. David Kilgour: How do you calculate that $1,500 per year from the FRCC? Can you tell us how you understand they arrived at that figure?

Mr. Ian McCreary: Our own understanding of that is twofold. We understand that they surveyed companies in the business of providing car maintenance services to both carriers and leasing companies, and got indicative values of around $1,500 a year. The second piece of work they've done, and that we in fact have done ourselves, was to look at the difference in the cost of a lease if the provider of the car is providing the maintenance, compared to the carrier providing the maintenance. If you assume those markets are quasi-competitive, it provides you with an indication of what the underlying costs are. The difference between those two lease rates tends to come out with quotes somewhat less than $1,500 per car.

● (1225)

Hon. David Kilgour: Do you think the $1,500 is realistic?

Mr. Ian McCreary: Yes, we think the $1,500 is a ballpark number that probably provides them with some room. The quoted spread was about $80 U.S. per car per month. If you look at the differences between those two leases, which works out to be something in the order of $1,200 or $1,300 Canadian per car per year, it gives them a couple of hundred dollars for the work we believe is required on the gates and hatches.

The Chair: Mr. Lapierre, for five minutes.

[*Translation*]

Mr. Réal Lapierre (Lévis—Bellechasse, BQ): You will have to excuse me, I have only just recently been entrusted with this subject matter. At any rate, I saw that among the three potential buyers, there was one co-op. I hardly need remind you that we in Quebec are quite familiar with co-ops.

If the co-operative were to become the buyer, could Quebec be given a guarantee that that would be more beneficial to Quebec than if one of the other two companies that are in the running were to be chosen?

[*English*]

Mr. Ian McCreary: As the Canadian Wheat Board, which has specific knowledge of the four western provinces, I wouldn't be able to speak with any level of expertise on the potential impact on Quebec. To the best of my knowledge, it would be neutral to Quebec in any of the alternatives presented. I think it would be reasonably neutral, particularly to the producers of Quebec.

[*Translation*]

Mr. Réal Lapierre: It would have no impact.

[*English*]

Mr. Ian McCreary: I would not be familiar with any impacts.

Mr. Ward Weisensel (Chief Operating Officer, Canadian Wheat Board): If I could, I'll just add this. Under the Canada Transportation Act the railways have a common-carrier obligation. They have an obligation in terms of level of service. None of those things would change as a result of what we're talking about here today, and they would still have the same obligations they have today with respect to servicing that environment in Quebec.

[*Translation*]

Mr. Réal Lapierre: It's your belief that at harvest times, transportation will be provided both to western producers and Quebec producers, and that won't create any particular problems.

[*English*]

Mr. Ian McCreary: We don't anticipate that there would be any new problems. As producers in both Quebec and Saskatchewan, we all know that some of those other provisions that were referenced this morning are important to keep in the Transportation Act provisions, and I think farmers across the country have some similar concerns on service provisions. But I don't think the issue of the transfer of the designated hopper car fleet would have an impact on those.

[*Translation*]

Mr. Réal Lapierre: Given its population size, Quebec may have paid one quarter of the price of the cars. If they were sold, what share might Quebec receive, because it definitely has a share in the cars? We have to get something out of it eventually.

[*English*]

Mr. Ian McCreary: I'm not familiar with the demands for transportation service in the province of Quebec. It's my understanding that much of the grain trades domestically and rail requirements are thus much less. It would certainly be the case that the primary demand for rail transport services will remain in western Canada, and I suspect the cars would be, not unlike they are today, leased and used by the railways in their fleet in those areas where the demand is the greatest.

● (1230)

Mr. Ward Weisensel: Again, if I could, I'll just add to that.

Ultimately the government has a decision in front of it here in terms of how to approach this particular issue. If the cars are sold on a commercial basis, which is one of the options we heard Transport Canada talk about earlier today, then the revenue earned from those cars goes into the general revenues of the Government of Canada, and it's for them to determine how to use it. If the move is towards the Farmer Rail Car Coalition proposal, since they're talking about a nominal fee, that would be a lesser amount, and the implications from that are that there'd be less money to distribute.

[*Translation*]

Mr. Réal Lapierre: Thank you. You have answered my question.

[*English*]

The Chair: That's all, Mr. Lapierre?

[*Translation*]

Mr. Réal Lapierre: Yes.

[*English*]

The Chair: We move to Mr. Easter.

Hon. Wayne Easter: Thank you, Mr. Chair.

There are really three questions. One is about what's extremely important to the Canadian Wheat Board. Your job is to be the single-desk selling agency, basically be the marketer, to maximize returns to primary producers. And certainly transportation is a key component of marketing, especially when you're 900 miles on average from tidewater position. No other country has that kind of disadvantage, and you can't truck it there in most instances. You don't have that competing factor. So what's important for you, no doubt, is the allocation system, the allocation of railcars and how you get the product you sell to seaport position. Will there be any impact by the FRCC proposal in terms of that allocation? That's question number one.

Secondly, the trade impact of the FRCC proposal has been raised before this committee before. Is there from your perspective any trade impact that would affect Canada's position relative to trade, negatively or positively?

I'll leave it with those, and if there's time, I have a third one, Mr. Chair.

Mr. Ian McCreary: Thank you.

I'll deal briefly with the allocation-apportionment question, and I'll ask Ward to speak to the trade question.

We do not foresee any change in the railcar allocation procedures. If the Farmer Rail Car Coalition becomes the owner of those cars, it will be a leasing company. Car allocation is currently done on the basis of where farmers want to haul their grain. The Canadian Wheat Board, when the farmers took it over, changed that to be a more reflective commercial mechanism, one designed and driven by the choices farmers make on who they choose to do business with. That transparency has been in place together with the 25%, which we tender.

We actually can't imagine, whether the railways are leasing those cars from the Farmer Rail Car Coalition or from any of the other leasing companies or own the cars, how that would have any effect on car allocation. I can't frankly imagine how that would be the case.

Mr. Ward Weisensel: There are really two components to the trade issue. The first one is the World Trade Organization component in terms of Canada's obligations as a country within that, and from the perspective of the type of dollars we're talking about here, we really see that this type of transfer that is proposed by the Farmer Rail Car Coalition is very manageable within Canada's commitments with respect to its aggregate measure of support. It would have to be managed in terms of the year for how it was done, but clearly Canada has a lot of room to manoeuvre in taking that action with respect to our commitments to the WTO.

On the U.S. trade side, one thing that's important to recognize—in reading through the notes from the committee I saw this has been an issue over time—is that in the current countervailing duty tariff we face on wheat today, 0.35% of that tariff is based on the fact that the hopper cars are provided for western Canadian use essentially free, as was talked about here by Transport Canada today. That is there today, and this transfer could be managed so that impact would be no different from what it is today in terms of what it means from a U.S. trade perspective. If that was the only subsidy at issue here, that would be *de minimus* and there would be no trade impact. What I'm saying here is it's no worse if you manage it appropriately.

I think the key issue from a U.S. trade perspective is, to our mind and in terms of how we have argued this case in conjunction with the Government of Canada, that none of these subsidies cause injury to the U.S. farm programs or to the U.S. farmer. On that basis we do not think that any countervailing or anti-dumping duties should apply, and we feel confident of that case. That's why we've appealed it to a NAFTA panel, and that would take all of this off the table from that perspective.

I do want to make one other comment because one of the things that has been laid out from a railroad proposal perspective is this whole question of alternate use. They're really saying take out the alternate use because it's affecting their managing the cars.

I want to point out that one of the key arguments made in the context of the U.S. trade case was when we made it clear to the U.S. Government that when cars were ordered and shipped into the U.S. marketplace, alternate use fees applied. That was a key argument, that even if the federal government is providing these cars for free to the industry for western grain movement to port, that same issue does not apply in terms of accessing the U.S. market. That was occurring on a fully commercial basis. That is an important trade issue to consider as we go forward on that particular issue, because it took the issue of movement to the U.S. directly off the table.

● (1235)

Mr. Ian McCreary: If I could, Mr. Chairman, I'll just add one piece to that, from a farm gate perspective. As long as policy-makers in Canada, where we have very little support, focus entirely on whether or not Canada has to get rid of every potential benefit to farmers that comes from the public sector, when we trade into the United States, which is the worst offender on transfer payments to their farmers—

Hon. David Kilgour: Hear, hear!

Mr. Ian McCreary: —we will continue to have the situation, identified by the honourable member, where we have an unsustainable farm income position.

Hon. Wayne Easter: My last question relates to that area, Ian. You said in your presentation it's costing you $20,000 in rail costs to get your grain to shipping position at an export port.

I want to put this into a little bit of an historical context, if I could. The whole thrust behind rationalization of the rail system, so to speak, and creating greater efficiencies on the rail.... And there have been those efficiencies on the rail—if you go to one main line, it's going to be a heck of a lot cheaper for rail costs than if you have all those branch lines out there. So as a result of all these changes to the railways over the years, which to a great extent have been on the backs of.... Well, your trucking costs likely have gone up.

My question to you is this. If these are your rail costs, what's happened to your trucking costs on the farm since the Crow rate has changed and there's been greater branch-line rationalization? Have your costs on that end increased?

What we have to do at the end of the day, I think, is yes, have a good business plan and a good proposal, but we have to ensure that for once some of the benefits go back to the farm gate.

Mr. Ian McCreary: In our case, on our own operation, I might add that the $20,000 is for wheat alone. Wheat represents probably on average less than a third of our total production. All of the other pieces also include rail freight, albeit the value is less transparent.

Our costs of trucking have gone up exponentially. The location of our farm was such that prior to the mid-nineties, with two small trucks, you literally didn't have to shut the auger off, because I could see at that time three elevators from my back door, and it was less than a quarter of a mile. So my position was a bit unique in that sense, and clearly that's not an option. I watched all of those facilities being torn down, and our commercial trucking fees have become—actually after chemicals, fuel, and fertilizer—one of the key big line items on our annual expense bill. Our neighbour is a commercial trucker, and we're a big customer of his.

The Chair: Thank you very much.

We move to Ms. Desjarlais. Any questions from you?

● (1240)

Mrs. Bev Desjarlais: Sure. I wasn't expecting to be next. I appreciate it.

I'm still trying to get my head around not being able to get a real costing on the maintenance, which I think seems to be part of it. I know it's not necessarily through the Wheat Board side that you would know this. I'm curious, is it possible that the costing figures on maintenance are being charged on the basis of U.S. dollar, as compared to Canadian dollar?

Mr. Ian McCreary: Again, the two people you had here are clearly the experts in Canada for the component of the costing piece that is embedded in the revenue cap. I have a lot of respect for their work. I probably couldn't add value relative to that. I would say that I think the guys have done their homework in terms of the FRCC's piece.

When you look at that spread between net-service and full-service leases at roughly $80 U.S. a month, multiply that by 12 and you end up with roughly $1,000 U.S. At one time when we started this debate, it was about $1,300 Canadian, and now it's probably something less than $1,200. So no, I don't think that's the issue. I think the issue is that the two factors have a very different genesis, one being the quadrennial costing reviews, a process of the agency estimating those.

I might add that clearly since 1992—and no opportunity to have a formal rebasing—there's no way to know whether farmers are paying actual costs or a piece. So we haven't had an opportunity to share in the productivity gains that either happened or were potential to happen. There may also be a component of the difference in costs between doing it in-house versus some of the cost structures that are possible with some of the maintenance firms that exist across the prairies.

Mrs. Bev Desjarlais: The Wheat Board has been involved with western farmers now for a good number of years. I have to willingly admit that I actually toured the facility in Winnipeg for the first time not all that long ago and was extremely impressed with the work that's being done there, but also their commitment to the western farmers in ensuring that more benefit does go to producers.

I just want to acknowledge that your representation of supporting the FRCC's proposal I think says a lot for the proposal itself, because I would imagine that they've shared the business plan with the Wheat Board. Even though I can see their reason for not sharing it totally in public at this point, I would imagine they've shared that plan with the Wheat Board.

Mr. Ian McCreary: We have had an opportunity to review the business plan in detail.

Mrs. Bev Desjarlais: Okay, and being a marketing agency, you would certainly have a sound knowledge of the business plan as related to the shipping of the product in Canada.

Mr. Ian McCreary: Yes. I don't know if Ward may want to comment additionally on that, but yes.

Mr. Ward Weisensel: We've certainly seen the elements of the plan and have seen the case they're making in the context that they can achieve a lower-cost environment for farmers based on the proposal they have presented to the federal government. That's one of the key objectives we are looking for in terms of this particular issue.

Mrs. Bev Desjarlais: Thank you.

The Chair: Mr. Anderson, five minutes.

Mr. David Anderson: Thank you, Mr. Chair.

You would have seen the business plan because you're one of the two organizations that's funded the FRCC from its beginning. I guess I want to talk a little bit about that.

We were told last week that you put $30,000 into the FRCC. Is that the total commitment you've made to that?

Mr. Ian McCreary: If you go back through the six-year time period since the farmers took over the governance of the Canadian Wheat Board, the total is $135,000 that we have provided—$85,000 of that was in the form of a grant initially, and $50,000 in total has been through repayable loans in the event that the FRCC's proposal is successful. If that is not, we would recognize the forgiveness of that loan.

I might just comment on that, because it's important in a political environment to remember the alternative that was on the table for farmers.

Mr. David Anderson: If you could fairly quickly finish your answer, I'm limited in time.

Mr. Ian McCreary: Okay.

I just say that if the FRCC had not started, we as farmers would have paid an additional $1 a tonne for eight years. So we estimate that just the mere existence of the Farmer Rail Car Coalition to keep the recognition that the railways would have been the primary benefactors on the table has given us a rate of return as farmers on that $135,000 approaching infinity, because—

● (1245)

Mr. David Anderson: Excuse me, but the government never made a commitment to turn them over to the railways, so the money that was saved wasn't really saved. This is interesting, because we were told last week it was $30,000 and now we find out it's $135,000. I don't know of any farmers who knew that this happened.

Mr. Chairman, I'm going to ask today if we can have all the documentation involving any discussion with the Wheat Board involving this loan, including the minutes of any meeting in which FRCC was discussed, delivered to the committee. I would ask that you see that those documents are made available to us.

The Chair: Might I just ask, Mr. McCreary, are those public minutes?

Mr. Ian McCreary: The minutes of our board meetings are not public minutes, no.

Mr. David Anderson: I'm going to follow up on this, because we've gotten other documentation and I think it's important that this be delivered.

You're supposed to be a farmers organization representing farmers. You're in the middle of an election as a candidate sitting at the table, which I have some questions about as well, but farmers need to know what's going on. There's a commitment made here that nobody knew about until right now. So I'm going to ask for that documentation. If you insist on hiding it from us, that's up to you.

Mrs. Bev Desjarlais: Clarification, Mr. Chair.

The Chair: Yes.

Mrs. Bev Desjarlais: Mr. Chair, we're here as the transport committee. We're not here as people being involved in the Wheat Board's elections. Quite frankly, I don't think there was any intent to hide any information. We've just been told what the overall costs were, so I'm a little bit taken aback. I don't have any objection to someone wanting to do whatever they want to do and question the Wheat Board outside this table, but what we're dealing with here is the Wheat Board's position on the hopper railcars, not on issues related to spending within the Wheat Board and the farmers—

The Chair: I think, in fairness to your point of order, Mr. Anderson has a legitimate question. The response, of course, is that these are not public minutes, and the chair of this committee and this committee cannot mandate them, unless it's sought through other mechanisms that are available.

Mr. David Anderson: I didn't expect any other answer from them, by the way, Mr. Chair.

I want to ask, what other forgivable loans, repayable loans, have you got out there that farmers are unaware of? Are there any others to any other organizations?

Mr. Ian McCreary: Just in terms of producer awareness, Mr. Chairman, in the process of the last year, I know that I, for one, have had corporate accountability meetings in the order of about 15, and—

Mr. David Anderson: Mr. McCreary, I just need an answer to the question, because I have a couple of other ones here as well.

Mr. Ian McCreary: Okay. I'm not at this time aware of any other forgivable loans that come to mind.

Mr. David Anderson: Would the chief operating officer be aware of any?

Mr. Ward Weisensel: No, I'm not.

Mr. David Anderson: Okay, thank you.

Mr. McCreary, you've made the statement that more competitive access to running rights is essential in western Canada. I'm wondering how you see the FRCC helping in this.

Mr. Ian McCreary: I'm not sure that is a central piece, one way or the other. I think it is certainly the case that in competitive environments shipper-owned cars are a competitive lever, but I'm not sure it's a central plank.

Mr. David Anderson: Actually, Mr. Thurston made a comment earlier that if the FRCC couldn't get access to the lines, they could launch a complaint. He said that this morning. One of the questions has been what is going to be the political involvement of the FRCC in car apportionment and allocation? You folks allocate the cars in western Canada. I'm really starting to wonder here what the political agenda is that's going to affect the transportation system in western Canada.

If you're talking about them somehow having some tie to more competitive access to running rates and Mr. Thurston is talking about them launching complaints, farmers need to know ahead of time. If there's an agenda here, what is it?

Mr. Ian McCreary: My understanding—and perhaps Mr. Thurston would want to speak to this—is that with regard to the level of service provisions that are in the act, those provisions are available to shippers. The arrangements that would exist or be negotiated between a leasing company and the railway would be a separate area of discussion.

Mr. David Anderson: Mr. Easter and Ms. Desjarlais had mentioned the farm gate and the advantage there. There is another possibility, another suggestion here, and that would be that we lower the rate cap, that if it's $3,000 too high, we lower the rate cap, turn those savings back to farmers and then start to talk about disposition of the cars. Farmers would realize an immediate savings on their freight rates. We can talk about disposition or replacement of them after that.

I'm simply surprised, and I guess I'm asking you, why haven't you taken that position?

Mr. Ian McCreary: I would only make the observation that prior to and in the absence of the Farmer Rail Car Coalition's work, the evidence and the debate around the maintenance costs wouldn't have been on the table. Clearly, as we've outlined in our proposal, regardless of the direction of the government, this is new information that's been part of the public policy debate, and clearly the maintenance cost needs to be adjusted, regardless of any—

● (1250)

Mr. David Anderson: You folks own cars and you don't know what the maintenance costs of those are either. The government doesn't know on their cars. You don't know on your cars either, is that right?

Mr. Ian McCreary: We've done some similar work. The difficulty, of course, with a small player in that package is that in order for us to pass on the benefits of the cost structure, our costs are part of that revenue cap as well. In order to get that adjustment in the rate structure, it would have to be through an adjustment in the revenue cap.

The Chair: Your time has expired.

We'll go to Mrs. Ur for five minutes.

Mrs. Rose-Marie Ur (Lambton—Kent—Middlesex, Lib.): I thank you for your presentation here today.

Mr. McCreary, could you tell me what benefits you would see for the FRCC to be the winner in this for the farmers? What made your decision to perhaps lend your forces behind FRCC? I'm not questioning that you did that, I'm only....

Mr. Ian McCreary: I think it's actually an interesting question. I would say that on a personal level—and I think I can speak on behalf of our board—we came at this, initially, entirely from the ownership cost side. As mentioned by Transport Canada earlier, these cars are available to farmers without ownership cost. We saw the only reasonable way of maintaining that ownership benefit at no or minimal benefit into the future was to have those transferred to farmers, if the government chose to dispose of them.

Subsequently, I think it's important to note that we've seen dramatic changes in the lease market within North America. For those who heard the debate six years ago that said that leased cars are available, leased cars are a dime a dozen, and it's a liquid lease market, I'd like to point out that leasing arrangements were at or around $200 only two years ago, and in the past few years we've seen them rise to $400 and at times to $450, with cars simply being unavailable.

Having a base fleet in North America is key to our long-term competitiveness. As farmers who own the land and have a very long-term planning horizon, having that long-term commitment to a base fleet is part of our recognition of long-term competitiveness.

Mrs. Rose-Marie Ur: Thank you.

I find it very interesting for the railways to have had this option for so long and this revenue cap, not only regarding their access and the costing.... If FRCC are good business people, I don't believe they would put in a number of $1,500 if they didn't feel they could survive with that cap. I feel that whatever happens in the end, FRCC has certainly come to the table and made the railways a little bit more accountable, all of a sudden. Previous presenters indicated they hadn't done any costing. I can't believe a company of that size would never have done any costing. They had indicated that railways have their freedoms. I appreciate that, but farmers would certainly like their freedoms as well.

That being said, do you feel that...? We had previous presenters here last week, the Western Grain Growers Association, I believe. They represented a group of farmers as well. Obviously, you're helping farmers and their position is not shared by you. So how do you proceed as an advocate for the FRCC when you have this other group out there speaking against the proposal by FRCC?

Mr. Ian McCreary: I think that's an important observation. The key, from a board perspective, is that we are ten farmers who must get 50% plus one support in hard-fought elections every four years. There is a plethora of voices, and I would say, frankly, at the commercial harm of our industry in western Canada. We, as board members, go out and fight elections, and I would say that I have put the FRCC piece on as part of my agenda, both in the last election and in this one, and we get elected.

We ultimately take a voice and we're accountable and we have a host of public meetings, which I'm sure you're aware goes with being an elected person who represents a large district, and ultimately, if farmers are offside, we hear about it. I would say this is one issue we do not get pushed back on.

Mrs. Rose-Marie Ur: All right.

Do you believet the grain transportation system would be less efficient if the fleet were broken up?

● (1255)

Mr. Ian McCreary: I think that for the long-term viability of a landlocked production area that is that far from market, having a core base fleet that Canada has made the initial investments on is a key long-term thing, and keeping it as that unit is clearly of value.

The Chair: Mr. Lapierre.

[*Translation*]

Mr. Réal Lapierre: My question may seem out of place to you. At the end of your document, there is a map of grain product shipments throughout the world. I see that in Quebec, there are three little stars. I guess those are shipping ports.

Other than grains from western Canada, are there Quebec grain products going through those ports? Can things other than grains be transported in those cars? On the return trip, can those cars transport Quebec products to western Canada? If not, I am wondering why I should take any interest in this, because as a Quebecker, I see no commercial interest.

[*English*]

Mr. Ian McCreary: Thank you.

I'm going to turn that one over to our operations guy, because he deals with those ports on a continuous basis.

Ward.

Mr. Ward Weisensel: The three ports that you point out are the Port of Montreal, Port of Quebec, and Baie Commeau.

We do significant business through all three of those facilities by laker, so during the period when the St. Lawrence Seaway is open, we are predominantly using those facilities as transfer houses on the St. Lawrence to serve export markets in Africa and export markets in Europe. It is lakers coming through the seaway, unloading and then reloading on ocean-going vessels, that we're doing that business through.

Montreal and Quebec also have railways, so they do have rail access. When the seaway closes down for the winter months because it's freezing up, we have what we call a direct rail program, a winter rail program, and we use Montreal and Quebec on that program. They are very key ports and very key business partners in terms of our ability to execute a program, and, quite frankly, we are in discussions with all of these players on a daily basis.

Montreal and Quebec are also involved in domestic grains within Quebec, so they will actually look at purchasing, particularly Quebec City. They will actually buy in domestic grain and remerchandise it to feed users in Quebec. Both Quebec and Montreal have imported grain from the U.S. In some cases...a couple of years ago they actually imported grain from the Ukraine to be used in eastern Canada, predominantly in Quebec, for the livestock industry.

They are very much a going concern as far as business operations, and our business with them is part of their overall business operation; it's not just Wheat Board grains.

Baie Commeau is separate because Baie Commeau is not served by rail. It is strictly a transfer house that is serviced by laker. We work very closely with them. We try to get them in a position at the end of the shipping season where they can continue to supply customers through the winter months or for as long as possible.

That gives you a flavour of how we work very closely. These are key business partners for us.

The Chair: That's it, Mr. Lapierre.

I think Mr. Easter has a short question, and then we'll—

Hon. Wayne Easter: Yes, I do, and I certainly take the opposite position to David. I think the Canadian Wheat Board made a wise investment in terms of looking at other options for farmers out there, so I congratulate you on that. I am absolutely amazed, though, that the Conservatives didn't ask for the books of the railways when they were in here.

In your brief you mention that an efficient, accessible, low-cost transportation system is essential to a viable farming economy in western Canada. Could you very succinctly tell me why you feel the FRCC proposals would move us in the direction of an efficient, accessible, low-cost transportation system?

● (1300)

Mr. Ian McCreary: I'll speak on the low cost. They've introduced a responsible replacement plan that does not increase the requirements under the revenue cap to get that.

On the efficiency, I want to speak briefly to the issue of proactive maintenance. They have indicated that they want to run these cars through and do some proactive maintenance, specifically to gates and hatches, I think. There have been claims that this isn't a big issue. The bottom line is that even Canadian Pacific Rail, when they appeared before this committee, admitted that if they were going to be in the ballpark for having a responsible alternative, they had to have a gates and hatches program. Again, it's an issue that wouldn't have been on the table if FRCC had not put their oar in the water.

Anecdotally, I can tell you that as the lead director on transportation, I hear from our line company agents, our inland terminals, and producer car shippers that bad-order cars are a consistent hassle factor. In fact, we have line company agents who keep gates and hatches on stock at their facility so they can make those replacements themselves, because that's less costly than sending back a bad-order car.

The Chair: Ward, do you want to add anything on that?

Mr. Ward Weisensel: No, I think that covers it.

The Chair: Thank you, gentlemen.

We want to thank you very much for appearing today, Mr. McCreary and Mr. Weisensel. Obviously this is another day, another chapter, and I guess we'll await the outcome that we hope is imminent. What that is, I am not sure yet. Anyhow, we will adjourn this meeting and meet next time.

Mr. Ian McCreary: Thank you, Mr. Chair.

The Chair: The meeting is adjourned.

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