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Chair

Mr. Gerry Ritz

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● (0910)

[*English*]

The Chair (Mr. Gerry Ritz (Battlefords—Lloydminster, CPC)): Good morning, ladies and gentlemen. Welcome to this edition of the Standing Committee on Agriculture and Agri-Food.

This morning we have before us Bob Barss, Sinclair Harrison, and Bernie Churko, representing the Farmer Rail Car Coalition, to give us the first hour of our meeting today.

Gentlemen, you can start off with a 10-minute presentation.

Oh, Mr. Anderson, did you have a point?

Mr. David Anderson (Cypress Hills—Grasslands, CPC): I'm sorry to cut in here.

There has been some interest in the report that's been done by Transport Canada, and I would like to table that this morning. I have half a dozen copies in English and half a dozen in French. I can hand them out to the members of the committee, if they're interested.

This is the report by Transport Canada that people have been interested in.

The Chair: Okay, good. Thank you, Mr. Anderson.

Monsieur Bellavance.

[*Translation*]

Mr. André Bellavance (Richmond—Arthabaska, BQ): First of all, I would like to get some information from the clerk concerning the next meetings dealing with milk proteins, a subject we already started discussing last week. It would seem that we are having difficulty getting certain witnesses to come. I would therefore like to make sure that we are not forgetting this issue and that we will be able to begin to study it as soon as possible. I would like to know where we are at and during which meeting we might begin to study the issue.

[*English*]

The Chair: I certainly thank you for the question, Mr. Bellavance. It's absolutely true. There was a problem getting witnesses from the WTO team and that type of thing on the timeframe we had in mind. Everyone is tied up in Geneva or is working to backstop that group over there.

Possibly Philippe will have some other information as to how soon they will be able to get back to us.

[*Translation*]

The Clerk of the Committee (Mr. Philippe Méla): It would probably not be this week, because either they are in Geneva, they are away, or they are not returning my calls. If one calls and leaves a message, and they do not call back, it is impossible to know whether they are there or not.

I telephoned the Canadian International Trade Tribunal yesterday. The people at the tribunal asked me to explain explicit exactly what we expected of them. The reason they gave was that the ruling that was made was sufficiently clear in and of itself, and that we could not ask a judge to come and explain himself here, nor can we ask an official to come and explain the judge's position. Therefore, you will have to spell out what you expect of them, but it is quite unlikely that they will come.

The Consumers' Association of Canada has not responded. The officials from Agriculture and Agri-Food would only be prepared to send one person, Mr. Steve Verheul. He is the only person they want to send, but he is in Geneva.

Mr. André Bellavance: We could invite him to talk about the WTO, but as he is Canada's chief negotiator, it will not be easy to get him up here before the committee. However, I cannot understand that Agriculture and Agri-Food Canada would have only a single person they can suggest to us to discuss milk proteins.

Moreover, there must be people from the Department of International Trade who are surely not in Geneva who could come and speak to us about the issue overall. This is not a new issue; we have been discussing it for some time. Therefore, there must be officials with the Department of International Trade and from Agriculture and Agri-Food who could come and discuss it with us, even if the International Trade Tribunal judge does not appear.

As far as the consumers are concerned, we could try and find someone from Quebec as well. In fact, I could work on that if you wish.

The Clerk: I left a message yesterday with the Customs Agency, but they did not return my call. I have no way of coercing the departments. I can ask them to provide me with names. However, if I am told that there are none, it all depends on the committee's attitude in this regard. The committee could send a letter to the minister demanding that the officials appear. That seems to be a popular way of doing things these days, because officials are not very keen on the idea of appearing. I have done this elsewhere.

[*English*]

The Chair: We can turn up the heat a little bit, André, and try to get some movement on this. We've moved ahead on the agenda and gone to other issues that were in our top eight. I understand the top eight are different for different people, and we will certainly keep putting the pressure on these officials to come before us at their earliest convenience.

Other than that, I guess there are a couple of other options open to us.

Mr. Steckle, correct me if I'm wrong, but we can send a letter to the Speaker saying they are hindering our progress, and ask for him to put some pressure on as well through the departments. We can do those types of things.

I can sit aside with one or several of the ministers today and put pressure on them to make sure they send someone, if that's okay with you.

[*Translation*]

Mr. André Bellavance: Mr. Chairman, I find this strange, even if the clerk is telling us that this has happened at other committees. Since 2001—and other more seasoned members than myself could confirm it—every time we have discussed an issue, it has been relatively easy to find officials from the department concerned to come and testify before us. I do not understand what is happening. We should not be very patient in this matter.

[*English*]

The Chair: Okay, we'll continue to work on it.

Yes, Philippe.

[*Translation*]

The Clerk: I can assure you that I am making all the necessary efforts.

Mr. André Bellavance: I am not blaming you.

The Clerk: I am informing you of the situation in which I find myself. I am somewhat between a rock and a hard place. On the one hand, you are trying to convene people that you absolutely have the right to hear from, and on the other hand these people are giving me evasive answers or say that they are only prepared to send us a single person who is not there. That is the answer I was given yesterday by Agriculture and Agri-Food, just to give you that example.

● (0915)

Mr. André Bellavance: That is unsatisfactory.

What do we do in this situation, Mr. Chairman? We can bring pressures to bear, but how can we do so in practical terms? What do you suggest we do?

[*English*]

The Chair: I'm suggesting that I will personally sit down with the ministers involved and ask them why there are no officials coming before us in regard to that issue. That's the best I can do at this time.

We did not know until later in the day that they were not going to come, so we're scrambling to make sure that our committee time is used appropriately with some of the other issues that were in our top eight. I think we've done that, and I give the clerk a lot of credit for tap dancing and making that happen today.

Please take our word for it that we will continue to put pressure on them and get them here as quickly as we can.

[*Translation*]

Mr. André Bellavance: In conclusion, I suggest that the committee, through you, draft a letter to these ministers in order to ask them... We could also take steps with the Department of International Trade, where there must be some witnesses.

[*English*]

The Chair: Letters to two different ministers, okay, fine. I'll take your direction, Mr. Bellavance. We will make that happen. Thank you.

Mr. Anderson.

Mr. David Anderson: I think things will work more smoothly once we get rolling here too. We're only getting up and running. We had three different clerks last week trying to do the job. Once we get rolling here, I think it will go a lot smoother than it has been.

The Chair: Thank you.

Okay, back to the business at hand.

Mr. Harrison.

Mr. Sinclair Harrison (President, Farmer Rail Car Coalition): Thank you, Mr. Chairman.

Mr. Ritz and committee members, my name is Sinclair Harrison, and I'm president of the Farmer Rail Car Coalition.

This is Bob Barss, board member for the Alberta Association of Municipal Districts and Counties, which represents all municipalities and all counties in Alberta. Bob is one of 17 board members. We have 17 farm organizations from right across the prairies and represent well over 90% of farmers in western Canada.

This is Bernie Churko, the chief executive officer of the Farmer Rail Car Coalition.

I want to thank the committee for taking time to hear from the FRCC on our concerns respecting recent announcements by the federal government. In the announcement, western farmers were advised that the federal government planned to keep the hopper cars and lower the freight rate to reflect the fact that the FRCC discovered that farmers are grossly overpaying for maintenance.

The FRCC has said from the very beginning, which was over 10 years ago, that our overall objectives were three. The first objective is to ensure an adequate supply of hopper cars to be used as a first priority for transportation of western grain. The second priority is to ensure that the hopper car fleet is replaced as expeditiously as practical with modern, up-to-date cars that are of higher weight and higher cubic capacity than the current fleet, and that the cars be available at the lowest cost possible to farmers.

Based on the recent government announcement, we were very concerned that the farmers of western Canada were again going to be asked to pay a heavy price for a decision made with not all the facts being revealed. As indicated in our letter of May 15, which I have supplied to the clerk in both the English and French versions, there are three key questions that remained unanswered at the conclusion of the previous hearings before the agriculture and transport committees, which we appeared before last year.

I will speak to these briefly.

Concern number one is the cost of maintaining cars. During its business plan development, the FRCC wanted to ensure that cars would be properly maintained at the lowest possible cost. We researched maintenance models throughout North America and determined that the annual maintenance costs for hopper cars that haul non-corrosive products like grain, of comparable age, would be about $1,500 per car, per year. We also were convinced that western farmers were paying far too much under the revenue cap for the maintenance of these hopper cars. We asked Transport Canada to, first, determine the value in the revenue cap of maintaining the hopper cars, and, second, we asked Transport Canada to determine the actual expenditures being made by the railways.

While the numbers will vary from year to year because there's more grain hauled depending upon the size of the crop, on this particular year the Canadian Transportation Agency determined that in 2004 the component in the revenue cap attributed to maintaining the government fleet was $4,329 per car, per year. That's $4,329 per car, per year. Based on this information published by *The Western Producer* , the Canadian Transportation Agency determined that the railway's actual expenditure, including a 58% contribution for overhead, was $1,686 per car, per year.

This is the document Mr. Anderson tabled this morning. I assume now it becomes public since it has been tabled at this committee.

This means that in this one year farmers paid over $47 million more than they should have for the government fleet alone. When I speak about the government fleet, in legislation it is defined as the federal government cars, the Saskatchewan government cars, the Alberta government cars, and the Wheat Board cars. That was $47 million more than what the farmers of western Canada should have paid.

● (0920)

If one assumes that this ratio would apply to the approximately 8,000 railway-owned or leased cars provided for the grain service, we are talking about another $21 million. The government fleet makes up 18,000 cars and the railroads supply another 8,000 cars. These same numbers, we assume, apply to the railroad-supplied cars, so that's where the $21 million comes from. This has been going on for years. It is for this reason that the FRCC believes that the Auditor General should examine this issue, and we would ask for your support for that.

To its credit, the government heard this argument and in the announcement they made it clear that the overcharging would end, at least for the government cars, and that farmers could anticipate a reduction of approximately $2 a tonne in the revenue cap. We congratulate the government for proceeding with this legislative change.

The number two concern is program maintenance. A second question that remained unanswered was whether the proper maintenance was being performed. At the FRCC, we were constantly receiving information, particularly with respect to the gates and hatches—and for those of you who don't know, the gate is what lets the grain out in the bottom; it opens and closes.The hatch cover is the lid on top and is very important to the integrity of the load. Were they being properly maintained? We determined that this was not the case. In fact, one report, based on a sample of 458 cars, concluded that nearly 75% of the cars were not suitable for loading when they were spotted. This is a situation where elevator operators, farmers, when they're loading cars, use duct tape, silicon, whatever they can to try to seal up that car. That's unacceptable.

Our own observation led us to believe that this required program maintenance was not being carried out. In effect, a deferred maintenance program was in effect. At our request, Transport Canada commissioned a company called QGI, a consulting firm specializing in car inspections, to inspect approximately 1,000 of the 12,000 federal government cars, which is a representative sample. In our opinion, the confidential report prepared by QGI confirms FRCC's observation on the extent of programmed maintenance being deferred.

The dollar figure is in the report here and is in the hands of Transport Canada. Again, perhaps it should be released to this committee. The dollar figure put to the deficiencies in the cars, Transport Canada, and the FRCC agreed, was $35 million worth of work that has not been performed on these cars but was paid for.

With this in mind, why would the federal government reward the railroads with another maintenance contract after such a dismal performance? Folks, there are over 12 privately owned maintenance companies on the prairies that are capable of doing this work. It's very simple to set up repair tracks, like the ones set up in Ogema, Saskatchewan, and Rocanville, Saskatchewan, this year to repair cars. So we would ask that this be looked into.

The third concern was the impact of the FRCC plan on the revenue cap. A final concern raised at the hearings was whether the Farmer Rail Car Coalition plan would result in an increase in the revenue cap. It has been FRCC's contention that implementation of its plan would result in a slight decrease in the revenue cap. At our request, Transport Canada asked the Canadian Transportation Agency staff to develop a methodology to determine how a plan similar to the FRCC plan would affect the revenue cap, assuming Bill C-44 was enacted—and that was the transportation bill of the previous government.

This study was carried out in consultation with the railroads, the Western Grain Elevator Association, the Inland Terminal Association, and many farm organizations throughout western Canada, so everybody at the table was involved in this study. This confidential study was completed on October 28, 2005, and in our view confirms the FRCC contention. This report is here, it's in Transport Canada's hands, and again, we suggest that this report be tabled before this committee.

● (0925)

With regard to car replacement, our major concern with the government's recent announcement is the strategy for replacing the hopper cars. While the press release was silent on this issue, the press release attributed statements to Transport Canada indicating that the railways would be replacing the hopper cars on a timeline determined by the railroads.

By our estimates and the estimates of the railroads, farmers' freight costs would have to increase by $4 to $5 per tonne to pay for the new hopper cars. You'll recall that in the minister's statement, he's talking about bringing the revenue cap down $2. If we leave it to the railroads to replace the cars, it's $4 to $5. As a result, when you take into account the anticipated reduction for maintenance in the proposed legislation and the added cost of purchasing new cars, farmers would be paying anywhere from $2 to $3 a tonne more on their freight bills over the long term.

There would no longer be a fleet of cars dedicated to western grain movement. Once these become railroad cars, it's up to them where they dedicate them, and they may not dedicate them to western grain. This would recreate the very reason that cars were purchased by the government in 1972. It was unacceptable in 1972 and it will be unacceptable to farmers in the future.

Based on the above, we firmly believe the decision announced by the government was not in the best interests of farmers. It would not ensure the long-term supply of hopper cars committed to western grain movement, and it would result in increased costs to farmers in the long term. However, I will put a caveat on that; we were somewhat confused when we heard a report just this last Friday, on Regina radio station CJME, indicating that the government would be replacing the fleet. That is good news. If this were done in an expeditious timeframe, it would resolve our major concern with the recent decision.

So the replacement of the cars is the number one issue that we are concerned about. The investment of $1.1 billion to $1.3 billion in new modern hopper cars would be well received by farmers and would eliminate our concerns with the initial announcement.

Thank you for your time. We look forward to your questions.

The Chair: Thank you, Mr. Harrison.

Mr. Barss, Mr. Churko, anything to add at this point?

Thank you, gentlemen.

We'll open the floor and move to five-minute rounds right off the bat, if that's okay. We lost a few minutes at the start of the meeting.

Mr. Steckle.

Mr. Paul Steckle (Huron—Bruce, Lib.): Thank you very much, gentlemen, for appearing.

I know you've appeared a number of times before this committee, and we've had questions on some of these issues before. But the reason we're here today, of course, is the fact that there's been a reversal of the current government's position in terms of the Farm Rail Car Coalition becoming the custodians of the railway fleet over the long term. That was the proposal brought in November of last year, and something the government accepted. We've had a turnaround in policy.

You say that car replacement is your number one concern. You might give us an idea of what that might cost, given that those costs weren't included in the current budget that just was approved. When might we expect the need for those cars to be replaced?

As well, from your coalition body of people, how do you view the decision taken by the government, given that there was, I'm sure, some action taken on your part to expedite some of the need for you moving forward and taking ownership of this issue? Where does that leave you people at this point?

● (0930)

Mr. Sinclair Harrison: Thank you for the question.

I think we're all here to support the farmers of western Canada. At the end of the day, that's our ultimate goal. We want a decision that will come up with the best solution. If we can resolve the ownership issue—as indicated, it is a $1.2 billion to $1.3 billion liability—in the FRCC plan, we can take the savings on the maintenance and apply that to the car replacement. That's how we can keep the revenue static.

As far as when they have to be replaced, by North American rules, the first cars that were built and purchased by the federal government in 1972 have to be replaced in 2011 and 2012. Those dates can't be pushed back, and we're getting closer every day. Regardless of who owns the fleet at the end of the day or who's responsible, that wall is going to be hit.

The cars purchased in 1972 and 1973 have a 40-year life, according to the rules. Because of changes in structural design, the remainder of the fleet has a 50-year life. So there's a 10-year window between the first batch that has to be replaced and the remainder of the fleet.

Bernie, is there anything you want to add?

Mr. Bernie Churko (CEO, Farmer Rail Car Coalition): I might add that the aluminum cars, which perhaps technically have a longer life, have become obsolete for two reasons. They're a smaller-capacity car, and there are some maintenance issues that are not being addressed. They'll either have to be scrapped or some fairly major investments will have to be made. So there's even more of an urgency on the aluminum fleet than on the first set of steel cars, which must be addressed in 2011.

On the need, I think there are two components we need to be aware of. One is the technical life of a car. By Association of American Railroads rules, it's 40 years for some of the cars and 50 years for the others, but there's the actual obsolescence issue that needs to be addressed.

All of these cars weigh 263,000 pounds, which is no longer the modern capacity. A study was recently done looking at this very question, and 37% of the American fleet in 2003 had been upgraded to the higher fleet. Union Pacific expects that by 2010, 60% of their fleet will be at the new weight, and with BNSF it's about 50%. So there's a competitive advantage of perhaps 10%.

Mr. Ray Foot, the assistant vice-president of grain for CP, previously suggested that they could haul 25% more with some of the modern cars. So there's a competitiveness issue that has to be addressed, as opposed to just the technical life of the cars.

When we address need, one is the life of the car per se, as identified in the rules, but a very important one from the standpoint of farmers is to get a modern fleet that will keep us competitive.

Mr. Paul Steckle: You say there was a $35 million shortfall in work not done that was charged for. Farmers paid $35 million, according to your statement this morning, for work that was never done.

Where is that money going to be recovered from? Are the railways going to have to come good for that? What's happened here? Obviously, when people are in default of something, a corrective measure has to be taken somewhere. How do you see that being corrected?

Mr. Sinclair Harrison: As I indicated, we have called for the Auditor General to look into this. Certainly we need some well-respected, independent body in this country to, first, look into why the $35 million wasn't spent, and, second, why the farmers of western Canada have been charged three times what they should have been. The $1,500 per car should have been enough to maintain the cars without having to pay the $35 million. So there are really two issues there: three times the amount has been spent, and we still have a deficiency of $35 million.

● (0935)

The Chair: Thank you, Mr. Steckle.

Mr. Bellavance is next for five minutes.

[*Translation*]

Mr. André Bellavance: Thank you for your testimony. In the letter you sent to the committee, Mr. Harrison, you speak of your disappointment in light of the government's decision to change the previous government's decision concerning the possibility of selling the hopper cars. You say that farmers should really understand what the repercussions of this decision mean for them both in the short and the long term. This is more or less what you tried to explain to us earlier on. I would like to have a clearer understanding of what the government decision could represent, practically speaking.

We know that when the government transferred the ports and airports, there was a deterioration of the equipment. This deterioration was due to the fact that the government was no longer maintaining them. This was not to the benefit of the community.

In the present case, I was wondering what the difference was and whether or not farmers were not concerned that if the government were to transfer the hopper cars, it would compromise their integrity.

[*English*]

Mr. Sinclair Harrison: Certainly we've looked at the airport transfer to not-for-profit corporations, such as we would be if we had gotten the asset.

As far as the integrity of the cars is concerned, we are the users of those cars. There was another study done by the grain commission showing that there is over $10 million in grain dribbling out the bottom of these cars on their way to export.

It's of great importance to the farmers of western Canada that these cars be well maintained. It's in our best interest, because it's our grain that is going to export. I think it's inherent in our business plan and in our maintenance plan. We had contracted AllTranstek, a company out of Chicago that manages the maintenance of 100,000 cars, to help us manage the maintenance. Then we were going to contract that out to the private shops and repair tracks. The railroads could bid on it. It would be put out for tender.

It's in everybody's best interest, for the safety of the car, for the safety of the travelling public, and for the transport of grain, that these cars be well maintained.

Did I catch your point?

[*Translation*]

Mrs. Claude DeBellefeuille (Beauharnois—Salaberry, BQ): Good morning.

I would like you to explain to me how a private company can do the job for less than the railway, as far as the hopper car maintenance is concerned. Where would the savings come from?

[*English*]

Mr. Sinclair Harrison: Right now the railroads have a monopoly on the maintenance. We are suggesting that in a commercial system, where they have to bid or compete for the business, history has demonstrated that sometimes prices come down.

Our figures are based on the North American market. We've talked to other car owners about maintenance. It's not as though we picked the $1,500 per car, per year out of the air; it's a hard number. This study backs it up. We're confident that by going to the market, by being nimble and robust and quick to act, and with competitive bidding, we can do it for that amount.

Did you want to add, Bernie?

Mr. Bernie Churko: We're confident, based on our research, that our business plan would have been able to maintain the cars on a long-term basis for about $1,500 per car, per year. There is evidence throughout the industry. Whether or not the railways could match or exceed that is a question whose answer we don't really know, because we've never had access to their information; they have never given us the data. We have a report that looks at one particular year. It certainly might be possible the railways could do it for less, but we don't have the data to be able to support that or to refute it, quite frankly.

● (0940)

Mr. Sinclair Harrison: I might add that the Government of Canada owns these cars. You would think they could go to the railroads and get the maintenance records. When you go to your garage about your automobile and ask what they spent on your car, they'll give you an itemized list. The federal government has gone, and Saskatchewan and Alberta. They will not tell you what's been spent on those cars. They say there are no records.

How can you run a business the size of CP and CN and not have accurate maintenance records? That's what we're asking. Some of this is done in this report, and that's why we think the Auditor General's is the right organization to examine this and put the facts on the table, and collectively we'll all benefit from it.

The Chair: Thank you.

Mr. Atamanenko, you have five minutes, please.

Mr. Alex Atamanenko (British Columbia Southern Interior, NDP): Thanks very much for appearing, gentlemen.

I've been following this whole file for a little while. My party also supports having the Auditor General investigate this apparent misuse of funds, and hopefully that will happen and we'll get some answers.

Right here we're trying to see the best deal for farmers at a minimum cost to the taxpayer, if we can do this efficiently.

My question is this. I understand, according to your calculations, we can maintain these cars, if the FRCC was to take them over, for around $1,500 per car, per year. This would, in effect, strengthen our rural communities by providing contracts to different maintenance companies. I just wanted to clarify that.

My concern is that when your priority is the replacement of cars, that's the number one issue. If the government owns the cars, then obviously it's up to the government and the taxpayer to replace the cars. That's how I would understand it. If the cars are owned by the Railway Coalition, where is the money coming from to replace these cars? It's over $1 billion, and there's a timeline; you mentioned 2011 or something.

I agree with the idea that farmers are in the best position to control their destiny and the cars, and there will be good maintenance and we won't let the railway companies get away with cutting costs and making a profit. Who's going to pay to replace these cars? Is there going to be a lot of cost to the farmers? Those are my questions looking at this.

Those are the concerns. The investigation is important. Hopefully, if it is found this money has been misused, the railway companies will then reimburse the farmers for the millions of dollars they have been charged. I suspect that could also go to buying new cars, but the idea of the replacement I think is a key issue. Who's going to pay for this? I'll stop there.

Mr. Sinclair Harrison: Thank you for the question.

I think most of the answers lie in this document, as to how our plan would apply to the revenue cap. Essentially, what it says is the savings, the $3,000 per car that we're overpaying as farmers now, we would put into reserves, as the FRCC. We would have that money in reserves to replace the cars when they need it.

Now the government has made an announcement. It perhaps needs some more discussion and more detail. As we said earlier in our presentation, if the revenue cap was to come down, as the minister mentioned, and if the federal government was to replace the cars, and if the maintenance was done on a competitive basis and it was being monitored very closely, that would be the best solution for the farmers of western Canada. We can take the present decision by the current government and, with some slight adjustments, make it work for the betterment of everybody. But if the government chooses not to replace the cars and turns over that responsibility to the railroads, again, we have major concerns. They will own the fleet, they will maintain that fleet, and it will be at the expense of farmers.

● (0945)

Mr. Alex Atamanenko: Can I just follow up on this?

The Chair: Yes, a short question, Alex.

Mr. Alex Atamanenko: So the farmers, since 1992, have been paying $4,329 per car, per year for maintenance?

Mr. Sinclair Harrison: That was for one year; $4,329 was for that one year.

Mr. Alex Atamanenko: In 2004.

Mr. Sinclair Harrison: Right.

Mr. Alex Atamanenko: And we're assuming that's similar to—

Mr. Sinclair Harrison: That's what we're going to ask the Auditor General to examine: what's been paid.

Mr. Alex Atamanenko: The government is saying they want to bring this revenue cap down so the farmers will pay less, and you're saying the $3,000 difference would be used to pay for new cars. Would that mean the farmers would continue to pay the $4,300 under FRCC? I don't quite understand how—

Mr. Sinclair Harrison: We can't mix the two plans. The FRCC had a complete package, which is contained in this document, and when it is released, you will see how that would affect the revenue cap.

The announcement by the minister, as we understand it, is that the federal government would retain ownership. The thing that is unclear and is not stated is who is replacing them.

In 2011, someone has to start replacing those cars. We're suggesting that if the federal government would take on that responsibility, tender out the maintenance, monitor the maintenance, that's the best situation. And we're prepared to work with the government to come up with massaging its announcement.

The Chair: Thank you.

Go ahead, Bernie.

Mr. Bernie Churko: Perhaps I could summarize that. There are three options before us. The lowest cost for farmers would be the continued ownership by the.... Let me back up. It seems to me the government has addressed or is addressing the crucial issue that has to do with excessive maintenance costs in the legislation, so I think that is being addressed in some fashion.

One option is the replacement to be by the Government of Canada, and that would be the lowest cost for farmers. It would be the highest cost for taxpayers but the lowest cost for farmers.

The FRCC plan is probably somewhat more middle of the road in the sense that we have to charge a lease fee, ladies and gentlemen, to get our revenues and therefore we will be charging farmers. That will be more than the first option. But it would be a lower cost for taxpayers, and there are some other benefits for the farm community.

The highest cost of the three would be if the railways were responsible for maintenance, and we mentioned it in the opening statements. Again, I can quote Ray Foot in a statement in 2001 before the Canadian Canola Growers Association. He indicated $4.57 per tonne would be the increased cost if the railways replaced the cars. So that more than offsets the potential $2 saving that's been identified.

So there are three options. Ours would be about the middle of the road one. If we have to charge a lease rate, which we will, of course, to pay our costs, there will be some increased cost to farmers.

The Chair: Thank you.

Mr. Bezan, five minutes, please.

Mr. James Bezan (Selkirk—Interlake, CPC): Thank you, Mr. Chair.

Good morning, gentlemen.

I want to take exception to one of the comments that was made during the presentation. When you were here last time, Mr. Harrison, you told us you guys represented 90% of farmers, and I can tell you that in my riding, probably 10% of the farmers might know what the Farmer Rail Car Coalition is. The other 90% don't have a clue who you guys are and what you're about. After the decision was made by the government not to transfer the rail cars to the FRCC, I never received one negative comment. It's quite the contrary; farmers are coming up and saying we made the right decision.

I come from a western agricultural riding. I'm a farmer myself, and what you're saying doesn't jibe with what farmers are telling me out in the field.

I appreciate what you're saying about the cost of maintenance. And, yes, I believe the cap was too high and we weren't getting value for the money we were paying into the revenue cap for maintenance on the cars.

I see in the CTA letter here that they did value that cap at around $1,700 versus $1,500, yet we know that cars are in disrepair and it will take at least another $35 million to get them back to par. So how do you make $1,500 work as your maintenance level, knowing that the railroads have put in $1,700 per car, per year and they're still in disrepair?

Mr. Sinclair Harrison: First of all, we question whether they did put in $1,700. On page 3 of that report, the actual direct cost for parts and labour going into the car was $1,083. That's the direct cost of maintenance.

The figure on the front page—the $1,680—takes into consideration all administration costs in the railroad system—the bonus for the president and CEO, everything is in there. So we're suggesting that our administration costs are not going to be $700 per car. Our $1,500, we think, is very comparable with their numbers, even though they say they're at $1,700. But there is a lot more administration in there than we would have.

● (0950)

Mr. James Bezan: You keep quoting that report, and you say you wish it was tabled. Can we get that report tabled?

We've got the letter, but you have the full report.

Mr. Sinclair Harrison: That's the same report.

Mr. James Bezan: That's the whole report? Okay.

Do you have another report there, or have you only got the one?

Mr. Sinclair Harrison: No, I've got three reports.

Mr. James Bezan: Have all of them been circulated to the committee?

Mr. Sinclair Harrison: No, these two are in the hands of Transport Canada.

This is the study of what would happen to the revenue cap if a plan like the FRCC was put forward toward the cars.

The second report, which is still confidential, is the QGI report on the inspection of the cars. This is the $35 million report, if you want to call it that. It demonstrates that there's a shortfall of $35 million of maintenance not done to the federal fleet.

Mr. James Bezan: I think both of those reports that haven't been circulated to the committee are important for us for dealing with this issue. I'd ask that those reports be tabled, Mr. Chair.

Mr. Sinclair Harrison: If I could, I'll just follow up on your comment about the farmers in your constituency. I guess the fact that the announcement was silent on replacement, who is going to replace them.... Nobody knows. I think that's one thing that has to be clarified in the minds of farmers. I'm like you. We need more information on the announcement.

The Chair: Can we get those reports tabled?

Mr. James Bezan: They're actually in the hands of Mr. Harrison. It's up to him whether he wants to share them with us or not, or whether he is able to.

The Chair: When....

Mr. James Bezan: I'd ask Mr. Harrison to table those reports so we have a chance as a committee to view them, to make the proper decisions as we discuss this. This has been a problem in the past. When you guys came forward with your business plan, you didn't want to table that business plan, so again, members of this committee were kept in the dark and weren't aware of all the issues that you guys had been talking about.

Mr. Sinclair Harrison: These were developed after March 9, 2005, in negotiations with Transport Canada. We had an agreement on confidentiality. These reports were done at the request of Transport Canada. They are in Transport Canada's hands. You are in control of Transport Canada. So they're not ours to release. But I would suggest that you know where you can get them.

The Chair: You have your answer, Mr. Bezan.

Is there any other short question? Thirty seconds.

Mr. James Bezan: When you guys are sitting around talking about the cost of maintenance and how you, the FRCC, are going to be able to keep those costs down, where is your expertise to be able to say you're going to be able to keep these costs down, versus the railroads, which have been doing it for the last 25 years?

Mr. Sinclair Harrison: I mentioned a company by the name of AllTranstek, out of Chicago. We searched the North American market. They manage the maintenance on 100,000 cars. They have the expertise and they have a wide range of cars. We think we have the people and the wherewithal to manage the fleet and to do it for $1,500.

Bernie.

Mr. Bernie Churko: I was going to add that we did search the whole North American market, Mr. Bezan, and we're confident that this is about the right number. We went to at least half a dozen. One should remember that about 60% of the cars out there are privately owned now in North America. So it's not that it's new in terms of maintenance of the fleet. We went to large owners and small owners, and we actually had about half a dozen specialists come to the office and spend weeks there and go component by component on these cars to develop our maintenance program. We're confident that the $1,500 is about right. Whether the railway number is right or not, we can't really judge, and again, we don't have access to that data.

The Chair: Thank you, Mr. Churko.

Mr. Boshcoff, for five minutes.

Mr. Ken Boshcoff (Thunder Bay—Rainy River, Lib.): Thank you, Mr. Chair.

I would like just a quick clarification. It seems to me that this report can go one way or the other, depending on a clarification of what you heard over the radio last week. What did you hear, and who was it? Was it the minister himself? Are we deciding this on hearsay—casual evidence—as opposed to anything that has some credibility?

● (0955)

Mr. Sinclair Harrison: We, like you, listen to the radio, but I think it has to come from the government themselves who they intend to have replace the cars. It doesn't really matter what the radio said. I think for everybody's sake, everybody around this table, the government has to come forward and say what their intention was in their announcement of May 4 for replacing the cars. And that will clarify it.

Mr. Ken Boshcoff: You're convinced that a dedicated system is necessary. So is that an absolute premise that everybody should be agreeing with?

Mr. Sinclair Harrison: Well, it goes back to 1972. I don't like going back that far, but that was why the federal government, Saskatchewan, Alberta, and the Wheat Board started buying cars, because the railroads weren't dedicating. In a competitive market, the cars go to the highest-value product. If you've seen the grain prices lately, most products that are hauled in hopper cars are of higher value than grain. So that dictates where the cars go.

Mr. Ken Boshcoff: Will there always be complications with this hybrid system, where we have some owned by the government and some owned by other parties? Would a totally homogenous system be practical or achievable?

Mr. Sinclair Harrison: Actually, it is homogenous. Once they go in, they go into a common fleet. So the 2,500 to 2,600 cars the railroads have in grain service.... The federal government cars don't go to any particular location. They're in the pool. They are allocated to wherever, so it is a homogenous fleet as we speak today.

Mr. Ken Boshcoff: Last fall there was an agreement in principle, essentially, with the FRCC. I don't know how sudden the May announcement was—or was it expected? Had things gone—no pun intended—off the rails? Were you surprised by this, or were you expecting this to happen?

Mr. Sinclair Harrison: We knew the agreement was under review. Mr. Green, the president of CP Rail, said in Winnipeg at Agricore United, that they were going to do everything in their power to nix the deal, so we knew there was a move to nix the deal. We got half an hour's notice before the minister made his announcement, so, yes, it did come as a surprise.

Mr. Ken Boshcoff: Half an hour's notice—that's fair. So all this resistance was coming primarily from the railways, as opposed to from Transport Canada? Would you say that the government, the public service, was in fact supportive of your efforts and your research, which was proving that we're paying too much?

Mr. Sinclair Harrison: We were negotiating in good faith, and I believe they were also, from March 9 until the agreement was struck. Then the election appeared on the horizon, and things came to a standstill. We had one meeting in January of this year before the election, but they were privy to all these documents. They understood the FRCC business plan inside and out. We supplied them with a lot of information. The negotiations were going along well.

Mr. Ken Boshcoff: Then I would be puzzled, in the face of all this evidence—the triple costing, the lack of a plan for replacement at this stage, the lack of accounting for the expenditures for life extension—as to why Transport Canada wouldn't have said that the railways were taking farmers for a ride, so the best plan for us, and the taxpayers, and the nation, and grain operations, and ports such as the one I represent in Thunder Bay, would be that the FRCC would take over this. It would save the farmers money, save the taxpayers money, and get maximum efficiency out of the system.

Mr. Sinclair Harrison: We just want all the information on the table, and that's why we have brought these. We would like them brought forward, but I certainly think there are still some things that can be added to the decision and the announcement, and we're here to work with whoever it takes to make that happen.

The Chair: Mr. Steckle, you may have one short redirect.

Mr. Paul Steckle: In response to the point that Mr. Bezan made earlier, I'm going to ask this committee to request of Transport Canada that the three reports that are in the hands of Mr. Harrison this morning be made public and be placed in the hands of every committee member, in both languages.

The Chair: Okay, we can ask for that. We'll need the actual names of those reports, Mr. Harrison. The clerk will get those from you at the end of the meeting. Thank you.

We'll have Mr. Anderson for five minutes, and then that will wrap up this segment.

● (1000)

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

It sounds as if you're still questioning the maintenance cost of $1,700. You said so much is administration and so much is actual cost. Were the costs of maintenance of the cars not available from the Saskatchewan provincial government and the Canadian Wheat Board? They've got a fleet of cars that, over the years, have been maintained. Do they have the same lease agreements that the federal government did with the railways?

Mr. Sinclair Harrison: There are separate operating agreements for each government—the federal government, the province of Saskatchewan, the province of Alberta, and the Wheat Board—and none of those owners can get the maintenance records from the railroads. They've all tried.

Mr. David Anderson: So they signed the same lease agreements, but none of them signed a lease agreement that would accommodate the request for maintenance costs.

Mr. Bernie Churko: Mr. Anderson, I would just mention that in my previous life I was head of the Saskatchewan cars. Initially, if you look at the agreements, they are very much transferred—at least the Saskatchewan agreement—to the railways, which were not required to provide the maintenance information. Perhaps a decade ago we started becoming concerned about it. We probably should have sooner, as manager of that asset. On several occasions we specifically requested the maintenance costs. We were able to collect one set of maintenance costs about 10 years ago, when they provided some information, but since then they have not been prepared to provide any further information on the maintenance.

Mr. David Anderson: How long were those leases signed for? For the life of the cars?

Mr. Bernie Churko: They had an evergreen clause, which meant they continued. There were some clauses in our agreement under which we could jump out based on 90 days' notice, but for the most part they were ongoing. I think ours was a 12-month notification. You may recall the debate about the right of first refusal; the federal government had had a five-year term.

Mr. David Anderson: Okay.

I have a couple of other issues.

One is that this winter, the Canadian Wheat Board bought some cars. That's impacted their freight rate to the point of an increase of 1.2% that farmers will be paying in terms of freight, just because the board bought those cars and then had to lease them back to railways. That was a couple of thousand cars. What would the purchase of 13,000 cars have done to that rate count?

Mr. Sinclair Harrison: In the North American continent cars are leased under two basic leases. A net service lease is one in which the railroads are responsible for the maintenance. The full service lease is one in which the owner of the car is responsible for the maintenance.

Our business plan is based on a full service lease; we are responsible for the maintenance. The Wheat Board, for whatever reason, chose to go with a net service lease, so they are not taking control of the maintenance. They've left it in the hands of the railroads.

Again, when you see this document, you will see that the revenue gap would have come down under our scenario, because we're taking the maintenance out, so it's really comparing apples and oranges when you look at what happened with the Canadian Wheat Board and the revenue cap and the FRCC business plan.

Mr. David Anderson: I want to talk a little about the upgrading of the Saskatchewan hopper car fleets in terms of weight. I know that's well along.

I understand there are some deadlines on when this needs to be done. I understand one of them is July 1 of this year. I'm wondering why this hasn't been a bigger issue with you. I don't remember, other than kind of peripherally, that it was being raised or that we were being made aware it needed to be done quickly. Now we see a situation in which 12,000 cars are not being upgraded. Are they going to be at an obsolete weight? Where does that issue sit? Why wasn't it a bigger issue for you in notifying us that it needed to be done, and that there needed to be a sense of urgency?

Mr. Sinclair Harrison: We have discussed that over and over with Transport Canada. An application was required to the Association of American Railroads for that work to be done. That application was filled out by the Saskatchewan Grain Car Corporation officials and given to Transport Canada. The application went in. It's been approved, but the work has never been started.

I'm sorry we haven't got that information to you, but certainly Transport Canada was well aware. We have slide presentations of what it would have done. About 8,000 cars in the federal fleet could be upgraded, and, as Bernie indicated, there is about a 10% increase in efficiency, so what you're really doing is adding 800 cars to the fleet by that upgrade. I think you were at Ogema, where they were carrying that out. This work can be done outside; it can be done on a repair track, and it costs less than $1,000 per car. It's just unthinkable that this work has not started.

● (1005)

Mr. David Anderson: It's going to cost a lot more than $1,000 after July 1, I understand.

I've got a short time here. You said it would cost about $4.50 a tonne, the increase on the rate cap, if the railways replace the cars. Mr. Churko said your lease rate is going to cause a small increase.

How much will your lease rate cost per tonne? What is the increase going to be on that lease rate?

Mr. Bernie Churko: I would have to do an assessment, but we've always looked at it from the perspective of the current legislation when there was a reduction, so my quick assumption would be that it would be somewhat under, but very reasonably close to, $2 a tonne.

Mr. David Anderson: Okay, so you're suggesting a $2 increase. The government has actually come through now with a $2 decrease, so I think that's a good deal for farmers.

The Chair: Thank you, Mr. Anderson.

Gentlemen, thank you for being here this morning.

We move on to our next witness now. If Mr. Urban could take a seat at the end of the table, we've got a few minutes for him to make a presentation.

Thank you.

Mr. Sinclair Harrison: Shall I give you these titles now or at the end of the...?

The Chair: Yes. The clerk will get them from you. Thanks, Sinc.

● (1005)

(Pause)

● (1005)

The Chair: Let's take our places and move on, ladies and gentlemen.

We have with us Mr. Frank Urban, acting director, rail economics directorate; and, Alain Langlois, counsel.

Thank you, gentlemen.

I understand you have a short presentation. We'll have some short, concise questions for you at the end of it.

Mr. Frank Urban (Acting Director, Rail Economics Directorate, Canadian Transportation Agency): Good morning, Mr. Chairman, committee members.

Thank you for providing me and agency counsel with the opportunity to speak before the committee on this very interesting topic—government hopper cars. The agency has been involved with this file for a number of years.

I would like to preface my presentation with some preliminary remarks. As noted, I am acting director of the rail economics directorate of the Canadian Transportation Agency and have occupied this position since the beginning of April. However, I have been a manager within the directorate for a number of years, and while I have not directly worked on this file until very recently, I have participated on an ongoing basis.

Yesterday afternoon I was requested to provide a presentation to this committee, which provided me with only a short time to prepare. Having said that, I will endeavour to answer all questions within the purview of the agency, either at this time or as soon as possible after the conclusion of the meeting, while respecting the confidentiality of any information that is requested.

I trust this meets with your satisfaction, Mr. Chairman.

While I was invited to make a presentation about hopper cars, I am a little uncertain as to the committee's specific interest. If I may, I think it is important to understand the context of the hopper cars as it relates to the agency's statutory responsibilities. The agency is a quasi-judicial body whose decisions have the full authority of a court of law. This is important to note, as the agency's roles and actions are bound by the Canada Transportation Act as passed by the Parliament of Canada.

One of the agency's primary responsibilities is the determination of the maximum grain revenue entitlement as prescribed in subsection 151(1) of the Canada Transportation Act and ensuring that railways do not exceed this entitlement. The act directs the agency to determine the amount of the maximum revenue entitlement for Canadian National and Canadian Pacific Railways for the movement of regulated grain during each crop year. This started in crop year 2000-01. I would like to emphasize that the agency's responsibility is to determine revenues, not costs.

Determining the revenues is done by applying a price index, determined by the agency, to the base year revenues as prescribed by the act after adjusting for differences, the tonnes moved, and the average length of haul between the base year and the crop year under review. Further, the agency conducts detailed audits to ensure that neither Canadian National nor Canadian Pacific exceed their prescribed entitlements. In the event that a railway exceeds its entitlement, the railway is obligated to pay the excess plus a penalty to the Western Grain Research Foundation.

As I mentioned, the price index is determined by the agency. As part of its determination, the price index is further directed by subsection 151(4) of the act to adjust for any leasing cost arising from the sale, lease, or other disposal or withdrawal from service of the government hopper cars. This was applied for the first time by the agency in its current determination of the price index for the upcoming 2006-07 crop year. The additional leasing cost added approximately 1.2% to the price index.

It is important to note that the maximum revenue of grain entitlement is designed to compensate the railways for their operating costs for the movement of regulated grain. This includes the cost of maintenance of the hopper cars. There are approximately 12,000 government hopper cars, 3,400 Canadian Wheat Board cars, 2,000 provincial cars, and 8,000 railway cars, for a total of 26,000 hopper cars.

This concludes my presentation, and I would be pleased to answer any questions you may have.

Thank you.

● (1010)

The Chair: Thank you, Mr. Urban.

Mr. Langlois, anything at this point? Nothing?

All right, we will move to Paul for one short question.

Mr. Paul Steckle: I'll try to keep it short.

For clarification for all of us around this table, we talk about a price index, and that's a variable. I'm wondering, how long has the price index been in effect? How long have you been using it or calling it a price index? How can you make the proper assessment of costs attributable to the farmers' rates when in fact you really don't know the costs because some of them are hidden? How do you arrive at what you believe is the correct number?

Mr. Frank Urban: The correct number, from the agency perspective, would be as prescribed by statute. The agency is allowed to look at changes in prices.

Mr. Paul Steckle: Prices of what?

Mr. Frank Urban: Prices of the various inputs in the railway operation, like labour—

Mr. Paul Steckle: But when you don't get correct numbers, how do you know what those input costs are? We've been told this morning that you haven't been able to get that information. How are we to expect to get the proper numbers from you in assessments to farmers' costs when in fact you don't know?

Mr. Frank Urban: Now we're talking about the maintenance cost.

Mr. Paul Steckle: Absolutely. That's one of them.

Mr. Frank Urban: In the report that was just tabled this morning, which was undertaken at special request from Transport Canada, $1,800 was the estimate of the cost. That determination or study is not normally within the responsibility of the agency. Now we did undertake that study, investigate the costs, consult with the railways, and talk to main shop personnel to determine their costs.

Mr. Paul Steckle: When and why did you do that?

Mr. Frank Urban: We undertook that study because of a direct request from Transport Canada.

The Chair: Thank you, Mr. Steckle.

Mr. Bellavance, do you have any questions? No.

[*Translation*]

Madam.

Mrs. Claude DeBellefeuille: Good morning. Thank you for your presentation.

The last witnesses informed us that they had information to the effect that the maintenance of the hopper cars could be qualified as questionable. What tools do you have to ensure a more rigorous follow-up of the state of the hopper car fleet?

● (1015)

[*English*]

Mr. Frank Urban: Quite simply, we do not monitor the state of maintenance of the hopper cars. It is not within the purview or responsibility of the agency to do so.

[*Translation*]

Mrs. Claude DeBellefeuille: And yet, the government owns the hopper cars and spends a significant amount on them. You have no report from either CN or CP on the state of the hopper cars?

[*English*]

Mr. Frank Urban: As I mentioned earlier, we're a quasi-judicial court that applies the statute and the policy of the government. That's a policy issue, and questions about the actual ongoing maintenance costs of the hopper car fleet, as owned by the Government of Canada, should be directed to Transport Canada.

[*Translation*]

Mr. Alain Langlois (Counsel, Canadian Transportation Agency): I would like to make it clear that the hopper cars are the property of the government, and not of the Canadian Transportation Agency. Our office's role is to create economic controls and to administer the law. The maintenance issues come under a contract that was signed between the Canadian government, which Transport Canada is part of, and the railways. The Canadian Transportation Agency has nothing to do with those contractual terms.

That does not mean that the agency has no responsibilities regarding the quality of cars put at the disposal of the shippers. There are provisions in the Transport Act dealing with complaints regarding service, and a shipper who is dissatisfied can file a complaint with the agency, which will investigate the complaint, hear from all the parties and render a decision.

Mrs. Claude DeBellefeuille: Have you received any complaints recently? The previous witnesses seemed to be complaining about the quality of maintenance of hopper cars.

Mr. Alain Langlois: We have received some, but very few.

Mrs. Claude DeBellefeuille: Thank you.

[*English*]

The Chair: Thank you.

Mr. Anderson.

Mr. David Anderson: I would like to follow up on that question. I think it's fair enough to say that the government owns the cars, and the government also assigns agencies to be responsible for some of these issues.

Are you telling me that for 13 years the government has not assigned you the job of finding out what those maintenance costs are?

Mr. Frank Urban: With the total exception of the report you have that was tabled this morning.... That was the first time they approached us for the cost of the maintenance of the hopper cars.

Mr. David Anderson: So if they wouldn't have approached Transport Canada, do you have any idea which agencies they might have suggested go after this information, if it wasn't you folks?

Mr. Frank Urban: The request would have been put forward from Transport Canada, which has responsibility for the ownership of the hopper car fleet.

Mr. David Anderson: Okay, but my point is that in 10 years, or whatever, the government never took seriously the issue of what those maintenance costs were. You still don't have an exact figure on those, from reading your report. Is that right? That's basically, if you want to call it, hearsay evidence—

Mr. Frank Urban: No, it's not hearsay.

A considerable amount of effort was undertaken by agency staff in visiting with the railways at the main shops where the activity was undertaken. Part of the problem, which was discussed in the earlier proceedings, was that the railways do not collect detailed information with respect to the maintenance of the hopper cars, which made the assignment or study more difficult to undertake. The $1,800 determination was the best figure that could be determined under the circumstances.

Whether a better estimate can be undertaken remains to be seen, and it's something we will be looking at very closely in the next month or so.

Mr. David Anderson: Can you tell me what makes up the $600 in regulatory overhead?

The Chair: You need to be brief.

Mr. David Anderson: Mr. Harrison was talking about administration. Is that what they would assign to government regulatory overhead or is it their own internal overhead?

Mr. Frank Urban: It would be their internal overhead.

To call it “administration” is an oversimplification. The overhead encompasses much broader costs; these are normally indirect costs that are in support of the operation but not directly assignable to the operation. The president's salary would be a part of the overhead, but it would be a smaller component of that amount. It is fringe benefits such as health and welfare costs, Canada pension plans, company pension plans, accounting costs for the company, and inventory costs for the material. It would be the first-line supervision costs for the supervisors and foremen at the shops.

All of those are in support of the maintenance. The maintenance could not be undertaken without this supporting cast or supporting role provided by the railway.

● (1020)

The Chair: Thank you, Mr. Anderson.

Mr. Atamanenko, do you have a final point?

Mr. Alex Atamanenko: No, thank you, Mr. Chair.

The Chair: Mr. Boshcoff.

Mr. Ken Boshcoff: Over the past eight or nine years of the process, your role involved Transport Canada. When you get a proposal from an organization such as FRCC, of course, your interest is in protecting the interests of the Canadian government. Would you view the perspective as positive in terms of trying to encourage the sale to the rail coalition?

Mr. Frank Urban: Unfortunately, that's not an opinion that I am at liberty to share.

Mr. Ken Boshcoff: Okay. Now that you've examined this, you found that 75% of the fleet isn't suitable. Although it's been claimed that the fleet has been maintained, 75% of the cars are being repaired on an ad hoc basis in the field, by farmers or themselves, just to get the grain moving. As a system, how can we ensure that doesn't happen or continue to occur?

Mr. Frank Urban: Again, unfortunately, I would direct that comment to Transport Canada. I would suggest, if I may, that it would be part of the negotiations going into the new lease agreement that is currently being negotiated with the railways.

Mr. Ken Boshcoff: When you do an economic analysis of all these things, would you say that the presidential salary and the shop foreman's pension plan are valid overhead costs to add to the cost of this operation?

Mr. Frank Urban: Simply, yes, the founding principles of costings are long-run variable costs; they're economic costs. That is to suggest after a period of time, if those costs were not incurred, they would be avoided. That's not to say the president would no longer exist. But if the company decreased in size or increased in size, his responsibilities would theoretically increase or decrease, which would then have a trickle-down effect on the overall organization.

Mr. Ken Boshcoff: Thank you very much for allowing the question.

The Chair: Mr. Bezan, a very short one

Mr. James Bezan: Mr. Urban, on the money that was given to the railroads, you mentioned that if more money was received than it actually cost, there was a penalty assigned and they would have to make a donation to the Western Grain Research Foundation.

Mr. Frank Urban: Not quite, I don't believe. What we determine is the maximum amount of revenues they're entitled to earn if those revenues exceed that maximum amount. That maximum amount is a function of the number of times moved, length of haul, and it is also adjusted for inflation starting from the year 2000-01.

They're at liberty to charge the farmers whatever rate they want as long as collectively the sum total of those rates does not exceed the maximum revenue cap. Should they exceed—and therein the presumption is that they have overcharged the farmers—the maximum revenue cap, then any amount that is above the revenue cap is clawed back from the railway, plus a penalty. And there's a sliding scale in the regulations to determine the exact amount, which is then payable to the Western Grains Research Foundation.

Mr. James Bezan: Have there been times in the last few years that there have been penalties assessed?

Mr. Frank Urban: Yes. In the last couple of years there has been a recoupment of, I would say, a couple of hundred thousand dollars. I'm not sure of the exact amount.

Mr. Alain Langlois: I'm not sure of the exact amount, but two crop years ago CP was over their revenue cap so they had to pay an amount to the Western Grains Research Foundation. Last year, CN was over the cap so they had to pay an amount; CP was underneath. So on two occasions the railways actually had to pay an amount to the Western Grains Research Foundation.

The Chair: Thank you, gentlemen, for your input here today.

We will suspend this portion of the meeting and call our next witnesses up.

Thank you.

● (1020)

(Pause)

● (1025)

The Chair: Ladies and gentlemen, let's get back to work.

We're short some time, and we have to apologize, gentlemen, for the length of time we've run over in the first portion of our meeting, but we will try to make it up here now.

We have with us today Tyler Bjornson, with the Canola Council of Canada, and Mr. Justin To, with the Canadian Federation of Agriculture. Thank you, gentlemen.

Who would prefer to go first with their presentations?

Mr. To.

Mr. Justin To (Analyst, Farm Policy, Canadian Federation of Agriculture): Thank you for inviting us to speak to you today.

I'd first like to express apologies from Bob Friesen and Marvin Shauf. They were unable to make it today, on short notice. I will be making the presentation in their stead.

We've circulated some documents—I hope they've gotten to you—that include the CFA policy brief on our position on biofuels and renewable fuels and on our desire to see a visionary strategy, a Canadian renewable fuels strategy, to build an industry within Canada.

I'm sure you're all aware of CFA's mission, which is for the continued development of a viable and vibrant agricultural industry in Canada. In biofuels and renewable fuels there is an incredible opportunity for Canada and for agriculture producers. Our objective today is to promote an integrated policy approach, to build a biofuels industry, to build strong primary producer capacity and involvement, and to build a vision of Canada as a world leader in renewable energy and environmental sustainability.

Biofuels are very much an opportunity, an incredible opportunity. Biofuels have great potential for creating a strong, new, innovative, value-added industry in Canada; for creating industries, jobs, and economic contributions in rural communities; for increasing regional tax bases; and for reducing Canada's greenhouse gases while improving air quality, reducing health care costs, and, most importantly for the CFA, contributing significantly to improving the grains and oilseeds producer incomes from the marketplace.

The key objective is improving farm incomes from the marketplace. As we all know, farm incomes are in a long-term decline. We're in a pretty bad situation right now. Net incomes are at critical levels. Global food and feed production continues to grow faster than demand. We need new non-food demands to suck up some of that production and create a new demand force, driving up prices and improving incomes from the marketplace.

Biofuels represent an opportunity to diversify beyond simple commodity production, to help create and meet that energy shortage that's around the world, to move into value-added opportunities for producers, and really to help build industries within rural Canada. We now have in Canada a handful of small programs, some provincial and some federal. We have some really good public research, some federal capital investment programs and some provincial ones, such as the ethanol expansion program, and some fuel tax incentives. But that's somewhat sporadic across provinces.

We would like to see a coordinated approach, much like that in the U.S. The U.S. created their Energy Policy Act of 2005. They have very many vast programs that support the entire value chain of production for biofuels, all the way from the bottom, from feedstocks, all way to the top, to retail. They have federal purchase requirements for their own domestic fleets. They have fuel tax incentives, and their excise taxes. They have a billion-dollar biofuel research program that's coordinated across the country. They even have property tax credits for establishing biofuel stations. They have regional bio-economy development grants. They even have grants and tax incentives for byproducts.

They have been very thorough in their production, and they've had a lot of success. There are many plants across the U.S. for biodiesel as well as bioethanol.

Within our presentation we have included a diagram of a U.S.-style value chain approach. Looking at it from the bottom to the top, you can see feedstocks, processing, distribution, retail, and consumer. The U.S. looked at that chain. They wanted to flow that product through as well as possible, so they created the renewable fuel standard on top of 5%; it depends on the state. That created the demand draw, to draw ethanol or biodiesel through the system.

If we put that in here in Canada, that would be only one part of a plan. It's very possible we could implement that here in Canada, and we would just import biodiesel and ethanol, but that's certainly not what we want. We want to build an industry in Canada. We want to help primary producers. We need a complete plan.

These are just some of the components the U.S. has built into theirs. They've had direct marketing. They have the fuel tax incentive. They have quality standards. They help build partnerships with distributors and processors, producers, and retail. They have capital investments, loan guarantees, and specifically for agricultural co-ops and producer groups, small business is building those capacities in rural communities.

● (1030)

They have a lot of research, and not only do they have research, but they build demonstration plants to prove it's a viable business to attract that capital investment and venture capital.

They have direct supports for domestic feedstocks, and of course they have support for cooperative development and business skill development, to always bring producers higher up in the value chain, to get them into that ownership, so they're not just providers of raw commodities.

There are many facets to U.S. success, and that's part of them—this whole value chain approach, technology treadmill, always trying to improve, innovate and improve that technology, and of course they have support through government regulation and supply chain linkages.

In Canada we have a long way to go. This is what the CFA would like to see. We don't have specific programs. We would like to work with all parties, all governments, with the minister, on building this plan in partnership with many of the other farm organizations, processing and retail and so on, to build this strategy from top to bottom, bottom to top.

This is an incredible opportunity. The window is closing in about 12 to 18 months. The U.S. is making its capital decisions now, and if we don't do that soon, we'll be out of the game. We will have many plants all along the Canadian-U.S. border and we will be providers of raw commodities for them to process, and we will repurchase their value-added product. We don't want to have that happen. We would like to keep that value within Canada, have producers as ownership components of that, so they can see some of those gains.

Thank you.

The Chair: Mr. Bjornson.

Mr. Tyler Bjornson (Vice-President, Canola Council of Canada): Thank you very much, Mr. Chairman, and thank you to the committee for giving us the opportunity to present to you today for an introductory discussion on a biofuel strategy. As I'm sure all of you know, this is an issue that is clearly close to the hearts and minds of many in the agricultural community. I'd say it's pretty difficult these days to go to an agricultural discussion and not hear words such as “renewable fuels”, “biofuels”, “biodiesel”, “ethanol”, one of those terms, in the discussion about how we can build on agriculture in the future.

What I'd like to do is take a step back and talk about the global context for biodiesel and what sort of impact that's going to have on canola. The reason why I'm talking about canola is it will be the major feedstock of choice for biodiesel in Canada. There are other feedstocks that can be used for this, such as rendered product from tallow and lard, and other sources, such as soybean oil or yellow grease from restaurants, those sorts of things, but the supply of those is limited in comparison to the supply of canola. So I think there will be a variety of sources that will be used for this feedstock at the end of the day.

As most of you know, the canola industry has just come off a very large production year. Unfortunately, that coincides with very low prices for canola. There are a variety of factors that have an impact on the net returns for the industry as a whole and notably the growers. What our organization and our industry try to do is have an effect on those factors that we have some control over. We often talk to elected officials about the importance of international trade to increase demand for canola products, but biodiesel, similarly, offers an opportunity to boost demand for our product.

Globally, over the last two years, we've seen some major capital commitments across the globe. The world's governments are responding to a variety of public policy objectives, whether they be environmental protection, energy security, or rural development, and this is going to have an impact on the overall vegetable oil complex, whether it's soybeans as a result of what the U.S. and South America do, or whether it's palm oil as a result of what's going on in Asia, and, quite frankly, what's happening to canola because of the EU in particular.

So this is going to have a positive impact on prices for oilseeds. We're already starting to see some of that in prices today, and you can see some of the excitement in places like the Chicago Board of Trade, where they're looking at indexes for biofuels, just to give you an example of the kind of excitement that's around there on prices.

So as the production comes on stream over the next 18 to 24 months, we'll see a rise in prices, and, quite frankly, the demand from biodiesel for oilseeds is something that is going to occur, or is occurring, overnight and is the likes of something we would never be able to see in the food market we have right now.

Now I'd like to turn to the global demand for canola in biodiesel. Most of the time, oilseed markets are driven by meal, so you're seeing a situation where soybean is the preferred oilseed to crush because it's 78% meal and the remainder comes in as oil. But in a biodiesel market, it turns that market into an oil-driven market, and it just so happens that canola, our little black seed, is 42% oil. So it's very competitively situated for an oil-driven market.

The other consideration is that there will be strong demand for canola as a feedstock to biodiesel in colder climates because it is the lowest in saturated fat of all available commercial oils. The same thing that doesn't clog your heart doesn't clog your engine. So there is going to be strong demand for canola worldwide.

Now I'd like to turn briefly to the context for canola in Canada in biodiesel. Obviously Canada fits the bill as a cold climate, so we're going to have strong demand for canola as a feedstock in biodiesel in Canada. What the renewable fuel standard of 5% means for biodiesel—if we translated that in the current diesel fuel pool, it would be about 1.3 billion litres of biodiesel in Canada. We think that given the supply of all the available feedstocks, canola would be at a minimum 60% to 70% of the feedstock used for this particular fuel.

● (1035)

Without a domestic production, obviously we're going to have to import that fuel. So the renewable fuel standard alone, while it's a good start, only addresses the demand side, and that demand can be met by imported product.

The final element, of which I would just like to make brief mention, is that canola will also gain some food market share as a result of biodiesel. You're seeing already in the United States a lot of soybean oil going into biodiesel. We think Canadian canola can have a share in backfilling some of that high-value food market as well.

So there are a number of angles as to why biodiesel is good for Canadian canola.

What do we need to actually build this out in Canada? Like Mr. To, I'd like to take two seconds to talk about the situation in the U.S.

They have substantial production incentives in place right now. They've invested in the industry, and canola, even Canadian canola, is feeling the impact right now. We've heard three major announcements made on the border just to the south of our Canadian provinces: one in North Dakota, one in Minnesota, and one in Washington state. They are all canola-based feedstock biodiesel plants, and the majority of their feedstock is coming from Canadian product.

Obviously, if the plant is located in the United States, Canadians aren't taking advantage of that value-added production, and in particular, Canadian growers aren't taking advantage of that value-added production.

We believe that in order to build out biodiesel production in Canada we require four policy responses. The first is the renewable fuel standard. We have to have the demand draw, as we already indicated.

For biodiesel, we'd like to see a floor in order to ensure that there is demand for biodiesel specifically. We're thinking that 2% by 2010 for biodiesel would be required, out of the overall 5% for renewable fuels. That leaves the flexibility for the petroleum industry and the blenders, but at the same time ensures that biodiesel is built out in Canada.

The other part is to address the supply, the actual domestic production. What we need roughly—and this is just in general terms—is parity with the U.S. government investment in biodiesel production. If we don't match or come close to what's on offer south of the border, we will continue to see, 20 to 50 miles from the border, large-scale capital investments made in value-added production that isn't situated in Canada. That's a massive missed opportunity for our industry to build on in the future.

The third criterion is quality standards or criteria for biodiesel. We have to have end-user acceptance; it's critical. We have to ensure that our product is reliable and that it can be easily brought into the Canadian fuel stream. It has to be performance-based and science-based to inspire confidence among end-users.

And finally, and the one I'm sure you're all interested in, we have to encourage grower participation in the value-added processing. It's an incredible opportunity for producers to get up the value chain, and we have to make sure we have the right measures in place to successfully build out the industry.

That's where I'm going to leave it for the moment. I look forward to the questions. Thank you very much for listening.

● (1040)

The Chair: Thank you, gentlemen.

For the first round of questioning, Mr. Boshcoff will have five minutes.

Mr. Ken Boshcoff: Thank you very much.

This is very exciting stuff, and your enthusiasm is contagious. In my riding of Thunder Bay—Rainy River, and I'm sure everyone has the same situation, there are lots of small innovators and entrepreneurs and people who want to support the production side of it through implementation.

It seems from the initial rounds of comments that although there have been programs set up, a lot of the opportunity, incentives, and programs have been snapped up by bigger oil and larger companies.

Do you have any feeling on this? Is that your observation?

Mr. Tyler Bjornson: What our industry is trying to do is encourage partnerships along the value chain, because at the end of the day those industries actually form a critical function for Canadian agriculture. At the same time, we want to work at ways to improve farmer income at farm gate and elsewhere, if at all possible.

So we have to consider, when we're developing a national strategy, where the expertise is going to come from, where the business plan is going to come from, where the distribution is, and the marketing, and the ability to develop strategic plans with downstream partners such as big oil. Those are all things we have to consider before we lay out a plan for biofuels.

We think, as the Canadian canola industry, that the key is to build strong partnerships.

Mr. Ken Boshcoff: I have a couple of jurisdictional questions. Energy in many sectors is of course a provincial responsibility. A national program such as ours could either be supportive of or, depending on the government, competitive with—or maybe at cross-purposes with—some provincial jurisdictions. I'll ask that question first; you'll remember it.

Then you mentioned property tax credits in the United States. They are essentially a municipal domain. Can I have your comments on those orders of government?

● (1045)

Mr. Tyler Bjornson: On the question of jurisdiction, we agree that an interesting patchwork of potential measures could be put in place based on current jurisdiction. I think there are ways the federal government and provincial governments can work together to build a national strategy.

The key here is to build a national approach to avoid the complexity and confusion that could reign if we have individual responses across the board.

Mr. Ken Boshcoff: What about the municipal property taxes that American municipalities have the opportunity to grant?

Mr. Justin To: That was an example. I'm not too sure how Canada might want to address it. It was a particular response, giving tax exemptions to built biofuel fuelling stations and that kind of thing. Those are all incentives to facilitate the flow of productivity. There was a roadblock there. There weren't enough fuelling stations, so they gave an incentive to build them. If that happens here, certainly a partnership needs to be developed all through the chain, whether it is municipal, provincial, and federal governments or large companies, small companies, and that kind of thing.

To address your first comment on the small companies, that is an issue. The U.S. Energy Policy Act of 2005 has a specific line in one of the sections stating that one of the goals is to ensure small feedstock producers and small rural businesses are full participants in the development of the biofuel industry. It's explicit within their policy, language, and legislation. They have specific programs for extra fuel tax incentives, as well as federal grants and loan guarantees for small organizations, small farm groups, and small rural communities to invest and build with.

They've created with this energy act all the different programs and put together an investment in environment that is really solid. Venture capitalists or rural communities that want to invest feel confidence that there are going to be the proper incentives and the ability for them to be successful.

Right now it's a patchwork; no one really knows what's going on. They feel afraid to invest those dollars. Banks and venture capitalists aren't quite sure where and how and if it will be successful. We need to create that investment atmosphere.

Mr. Ken Boshcoff: In terms of the distribution side, it makes it rather difficult for someone who sets up a station and then has one of the big seven, or whatever, major oil companies set up next door.

Mr. Justin To: That would be a requirement, just as Mr. Bjornson said—building strategic partnerships and alliances with the oil distributors and the blenders and these kinds of things.

The Chair: You were right on time. Good job.

Mr. Bellavance.

[*Translation*]

Mr. André Bellavance: Thank you for your testimony. At a time when things are rather dark for agriculture, it's nice to hear some good news.

Mr. Bjornson, I don't want to get into a debate, but with regard to provincial jurisdictions, the national standards put in place by the Canadian government are often behind conflicts. So we need to be extremely careful here.

However, even if Canada is a very minor player when it comes to the production of biofuels, a commitment is growing. One of the objectives of Quebec's energy policy, for example, is for gas to contain 5 p. 100 ethanol by 2012. Ontario is even more ambitious, it wants to achieve this level by 2007. My own municipality of Victoriaville has just created the Société de développement durable d'Arthabska, and the Municipality of Victoriaville intends to promote the use of renewable energy in its facilities and equipment. I am talking naturally about proven technologies such as geothermics but also biofuels. The idea is gaining popularity, but Canada is a very minor player compared to Brazil and the United States when it comes to ethanol, and compared to Europe when it comes to biofuels.

My question concerns food production and the substantial subsidies available in the United States, particularly for corn, and in Europe.

Can we compete with these countries, if we want to further develop the biofuel industry, when we are at a disadvantage with regard to the subsidies granted for food production? Are we prepared to deal with this challenge?

[*English*]

Mr. Justin To: Yes, we have considered that, and that's part of the reason why we've put targeted support for primary producers into our diagram.

Let's face it, we have to understand what we're competing with. Farmers and processors can be very competitive here in Canada, but we also need competitive policy. If we have biofuels production here in Canada while the U.S. continues to put very directed trade-distorting support toward corn, grains, and that kind of stuff, our domestic producers creating that raw product are going to be at a competitive disadvantage. We might as well just import it from the U.S., and that won't be any good either.

Canada has the ability to target amber support. Of course, we want to avoid countervail risk. But the great thing about the biofuel industry is that we have a lot of capacity to use domestic production to create domestic biofuels for domestic consumption, without having to distort trade.

Some supports could be...and I'm not advocating for any particular type, but if we are serious about developing a domestic industry and supporting domestic producers for it, we have the ability to target some of that support through a new generation co-op, or other strategic partnership structure, to directly benefit primary producers in their ownership of processing, as well as in production, which could make us competitive. It's not just about how much money we spend; it's about how smart we spend it. There's certainly an ability for us to do that. It might require us to not always be the boy scout in terms of rules, but to try to see how we can make the rules work for us.

● (1050)

Mr. Tyler Bjornson: If I could just add to that, I would encourage the committee to have a full and in-depth discussion about how trade barriers are hurting Canadian agriculture internationally. Regardless of what happens on biodiesel, we will absolutely have to deal with subsidies and trade barriers internationally.

On government investment in biofuels, the key is to incent the capital to locate in Canada for the value-added production. If we don't have a plan in place to do that, capital is going to move elsewhere, and we'll continue to have to send product abroad for value-added processing. That economic activity, those jobs, and that investment won't happen in Canada. So that's what we're focusing on today.

Thank you.

[*Translation*]

Mr. André Bellavance: Can we become competitive? We have talked at length about canola because this is part of your field, Mr. Bjornson, however, in Quebec, we have focused on corn, canola, forestry product residues and agricultural product residues. Can we meet the domestic market demand? As for exports, which you mention in your document, does Canada have the capacity to produce enough biofuel?

[*English*]

Mr. Justin To: There have been studies by NRCan to show that we do have the ability to export, maybe not on the biodiesel side, but certainly if we move into cellulosic ethanol. We have a lot of wood residues, wheat and corn stover, and several other residue products that could be very successful.

We have some of the world's leading technology in cellulose ethanol production. If it can be harnessed, maybe we can work toward achieving licensing agreements to disseminate that and commercialize that technology. We're very good at coming up with a technology, but we're quite poor at commercializing it. The U.S. has created the strategy and environment for investment, and that's why some of our investments in research are going down south to build their first commercial plant.

I believe we have the capacity to develop an export market as well as a domestic one, but we have to get on the ball now.

The Chair: Thank you.

Mr. Miller is next for five minutes, please.

Mr. Larry Miller (Bruce—Grey—Owen Sound, CPC): Thank you, and thanks, gentlemen, for coming. This is something that I think has a great future in Canada, particularly in agriculture.

You mentioned investment by government for infrastructure, basically to put the plants here. Exactly what would that take in dollars? Do you have an opinion on the share or percentage that government should be putting in there? We have to encourage the private sector as well.

I would just like to hear what you think.

Mr. Tyler Bjornson: Thank you very much for the question.

It's difficult at this time to say exactly how much it could potentially cost the Canadian government to invest in this industry. We have some benchmarks out there, and the major one is the $1 per gallon blender's tax credit that is on offer by the U.S. federal government for biodiesel. That translates into roughly 30¢ a litre here in Canada. If you consider the 5% mandate on the biodiesel front of 1.3 billion litres, I think you can come up with some figures on about how much it's going to cost.

Obviously there's going to be a build-out, so you're not going to immediately have 1.3 billion litres being produced in Canada. The target will be to make sure we're at that by 2015. On how much it's going to cost in the meantime, if Canada waits too long we might not have to worry about it, because nobody will build here.

● (1055)

Mr. Justin To: Just to add one point, I'm not certain we are advocating that the federal government build those plants with their dollars as well, but certainly provide the incentives for the private sector and farmers to invest in those plants. We can have loan guarantees.

There was a slaughter capacity program during the BSE crisis for equity matching to help create that incentive for primary producers to invest in those plants, provide support for cooperatives, and so on and so forth. You can have a co-op investment plan like they do in Quebec to really help with that as well—support for “new gen” co-ops—as well as other private and rural communities that would like to invest. They should provide the incentives rather than the federal government buying and creating the plant on its own.

Mr. Larry Miller: I know we're behind other countries—the U. S., and Brazil, the one that announced recently that they're basically self-sufficient in energy. Now, of course, that's fossil fuels as well, but I understand that a large percentage of that is biofuels.

On, say, the same ratio as Brazil, how many years are we behind Brazil, or behind the U.S., in the development of this? Do you have any kind of estimate?

Mr. Tyler Bjornson: If you take a look right now at where construction is for the industry in both the EU and the U.S., I think the EU is several years ahead of the U.S., and the U.S. is probably at least two years ahead of us. Brazil has been in the game for a very long time, so I can't really comment on that.

The interesting thing with the EU—just as an aside—is that when we looked at the French commodity exchange, the MATIF, since 2004 when biodiesel came on stream, we've seen, in comparison to the Winnipeg commodity exchange, a $60-a-tonne premium for canola as a result of the impact of biodiesel. So in the short time they've been doing this, we're already seeing quite a large price impact at the farm gate level because of biofuels.

Mr. Larry Miller: Okay. I want to get into that, but just going back to Brazil for a second, do you know what percentage of biofuels they're using out of their whole energy usage? Do you have any idea?

Mr. Justin To: I'm not sure, but I know 80% of their vehicles are flex-fuel vehicles, so they can use up to 85%. But I'm not sure of the exact percentage.

Mr. Larry Miller: Thank you.

Lastly, we know that the benefit to agriculture has been potentially huge here. What are we looking at on a dollar basis, in today's dollars? What percentage of acres or hectares, whichever figure you want to use—I still go by non-metric—are we looking at as far as a benefit to agriculture there is concerned that could potentially supply the biofuel industry for Canada's needs, without exports?

Mr. Tyler Bjornson: I'll speak to biodiesel and Mr. To will touch on ethanol.

On biodiesel, as I indicated before, a 5% mandate is roughly 1.3 billion litres of biodiesel. When you take a look at how much canola would be required to meet that, it's roughly 2.5 million tonnes. This past year we had a 2.5-million-tonne carry-over of grain sitting in the bins and terminals. So even today we have the capacity to meet a large-scale biodiesel demand.

If we project out to 2015, we know our industry is going to increase acres for canola, it's going to improve the varieties that are available as far as yield and oil content are concerned, and agronomics are going to improve the ability to rotate the crops more efficiently and effectively in comparison to disease and a number of other factors. We think biodiesel will mean roughly one-fifth of our market demand in 2015 just from canola. So we can meet the demand.

The Chair: Thank you, Mr. Miller.

Mr. Atamanenko, for the final five minutes.

● (1100)

Mr. Alex Atamanenko: Thank you very much for appearing.

We had discussed this before. I think the climate is ripe, and as somebody mentioned, it is an exciting time. It's my understanding that the minister is behind this, that he's promoting this. Here's a chance for us to not only get this industry moving forward, but to assist in preserving our rural values and our communities. The potential is huge.

You have a lot of specifics. Specifically, how do you see the farmers, the producers, getting involved? As we know, they're the ones who are being hit the hardest in this whole chain of production. It's obviously important for them to see a gain here, so that will help them, apart from just selling the canola , in this case, or other crops.

Also, if you had the power to do whatever you could, what would be the first, second, or third steps you would take to really get this off the ground? We often have a tendency of talking a lot and discussing, and it's good on paper. But specifically, starting today, what should be done by the government, in cooperation with you, to really get something off the ground? That's what I would like to see.

Mr. Justin To: In terms of the top four needs, they're very similar to what Mr. Bjornson is saying here: renewable fuel standards to create that demand draw; parity with the U.S. in terms of tax incentives for processing and blending on the excise tax for fuel to further incentivize and create an environment of profitability and ability for that; and the creation of a stable environment for capital investment, which also provides the incentives for primary producers to invest, whether that be through loan guarantees, equity match programs, support for Iogen cooperatives, and that kind of stuff. The producer doesn't have to own all of it—although we would like that—but at least a portion of it, so they're part of that value-added and so they're part of growing beyond just pure raw commodity. The last need would be continued research, demonstration projects, and commercialization of our research achievements.

We have some world-class technologies, but we're not very good at commercializing them. Build a demonstration plant with Iogen so that we can demonstrate that this is a viable business, and people will invest. They will see that, and then the capital venture will be there. People will go where the money is, not only on the processing side, but on the raw commodity side, with energy-specific varieties and so on and so forth that help producers diversify beyond feed into nutraceuticals and other bio-economy products. This provides another avenue to drive up their commodity prices, move into these niche markets, and also have ownership in the contract.

Mr. Tyler Bjornson: I would just reiterate that I did talk about the four points that we thought government needed to be involved in. I can circulate to the committee some documents from the canola industry on reviews about these. They provide a little more detail on some of the issues as well for your reference.

The Chair: Thank you.

Mr. Atamanenko, you still have a minute and a half.

Mr. Alex Atamanenko: I think it's there. I think we have our work cut out for us. Now let's just get down to work.

The Chair: Mr. Bjornson, will you circulate those documents you had?

Mr. To, do you have a final word?

Mr. Justin To: I have one more comment.

In this process from top to bottom, from feedstock all the way to retail, inevitably in any strategy we come up with there will be problems, and things are not going to be perfect. I think the policy also has to be nimble. If we see a roadblock here, or there are not enough fuelling stations, or there is a roadblock between partnerships at the blending level and that kind of stuff, then we deal with it as it comes with the understanding of the big picture, asking ourselves how we address each point and make sure that product flows through smoothly. I think if we do that, we can be very successful.

The Chair: Thank you, Mr. To.

Mr. Anderson, you have one point?

Mr. David Anderson: You've been asked a couple of times about the kind of commitment you are looking for from the government. You've given kind of a roundabout answer. I'm just wondering whether either of you has done any work on the kind of commitment your organization believes the government is going to have to make in order for this to be successful or to be in parity with the United States?

Mr. Tyler Bjornson: At this point in time I don't have a specific figure that I can share with you. Our industry is doing some analysis to determine what specifically might be considered by Canadian governments in order to put us on par with the United States. I think there are a number of different measures that we're looking at, because at the end of the day it has to be a Canadian approach that will necessarily be different from that taken in the United States. That's why I don't have a figure for you. But I think I basically said that the $1 per gallon incentive in the U.S. is the big one out there. If we take a look at how many billion litres we're going to need from the biodiesel side, that will be the rough figure that will be required.

● (1105)

The Chair: Mr. Steckle, do you have one last point?

Mr. Paul Steckle: Just very quickly, I'd say we've had a lot of discussion on the whole issue of government support for the manufacturing or the upside of the industry. As for the production side of canola and corn—and we have a good example of that in Ontario—most of the corn in the ethanol industry in Ontario is coming from south of the border.

I'm sure the primary producers are watching what we're saying this morning. I'm sure, going to go back to the federation, that would be a message they would want you to leave here this morning. We need to give protection and give some guarantees that farmers can make money producing this stuff. We can produce all the canola and all the corn in the world and give it to these plants based on a very low-valued product today, but there has to be that primary production, because down the road, unless we have that component, we're going to be buying our stuff from the States.

Mr. Tyler Bjornson: I would just say that the biodiesel industry is a bit different from the ethanol industry, because Canada is the world's largest exporter and trader of canola products worldwide. We are 75% of the world's trade in canola and we export 75% of our production, so the situation is a bit different. Because Canada is a net importer of corn, there is a different dynamic there, and I think it would be prudent to differentiate in that case.

Thank you.

The Chair: Mr. To.

Mr. Justin To: One point on this is that in any investment you always want to have an assurance of stable supply. If you don't have that, you're not going to be very successful in your investment. So if we are to invest in ethanol plants, let's say in Ontario, we need to ensure that they have stable supplies in that region. And certainly we don't want to import all that stuff; we would like to have that domestic production used.

It's difficult to mandate this, as there would be some problems involving national treatment under NAFTA and WTO rules and that kind of stuff, but what we can do is make our production as competitive as the U.S.'s. That can be done through targeted support, I believe. We would have to take some amber hit, but we have some amber cap space and some amber room, and it doesn't have to be trade-distorting, because we're not going to be exporting that production at first or for a long time anyway.

And if we continue to do research in processing and energy-specific values, I believe we can be very competitive and can use that domestic production by making our producers the best in the world and the most competitive. We don't have to import that product.

The Chair: Thank you, gentlemen, for being with us here today and being flexible, as we had to move through extra witnesses who appeared. Thank you so much for that.

This meeting will be adjourned at this point. Thank you.

Oh, Madame.

[*Translation*]

Mrs. Claude DeBellefeuille: Mr. Chair, I was somewhat disappointed upon my arrival this morning to find that there were no briefing notes on biodiesel. I am a new MP and a new member of this committee. I hope that this will be a one-time occurrence, and that at the next meeting, I will have the documentation I need in order to better take part, as a parliamentarian, in the committee's work.

[*English*]

The Chair: Absolutely. Thank you so much for your understanding.

The meeting is adjourned.

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