House of Commons
CANADA

Standing Committee on Agriculture and Agri-Food

AGRI • NUMBER 011 • 1st SESSION • 39th PARLIAMENT

EVIDENCE

Thursday, June 22, 2006

Chair

Mr. Gerry Ritz

Standing Committee on Agriculture and Agri-Food

Thursday, June 22, 2006

● (0905)

[*English*]

The Chair (Mr. Gerry Ritz (Battlefords—Lloydminster, CPC)): Good morning, ladies and gentlemen. We'll call this meeting to order and get rolling.

Today we're going to continue our study on the hopper car fleet and railway performance as an overview of that.

With us today, from the Department of Transport, we have Kristine Burr, assistant deputy minister, policy group; Helena Borges, director general, special projects, policy group; and John Dobson, senior policy coordinator, grain monitoring, surface transportation policy. Welcome.

From Canadian National Railways, I understand Mr. Mongeau will be just a tad late. Claude Mongeau is executive vice-president and chief financial officer, and Paul Miller is vice-president, transportation services. From Canadian Pacific Railway, we have Judy Harrower, assistant vice-president, agri-business, and Jim Buggs, general manager, car management. Welcome, folks.

We'll start with roughly a ten-minute presentation, as we generally do. We'll start with the department, if you care to, then we'll move on to questions.

Ms. Kristine Burr (Assistant Deputy Minister, Policy Group, Department of Transport): Thank you very much, and good morning.

[*Translation*]

Mr. Chairman, I want to thank committee members for this opportunity to address you concerning the hopper car fleet, a topic of particular importance to the Western Canadian grain industry.

First, I'll provide you with some historical context, in order to explain the role that hopper cars play in the transportation system. Then, I'll attempt to answer questions that have been raised by the parties concerned since the government's announcement on May 4, 2006.

[*English*]

Mr. Chair, I would like to give you a very brief overview, because I think it helps to shape what has happened over the last few years. The government acquired the grain hopper cars in the 1970s and 1980s when the Crow rates were in effect. The Crow rates were maximum rates for grain movements that dated back to 1897. The government implemented the hopper car acquisition program because the Crow rates had become such that the railways could not recover their costs. In other words, there was no incentive for the railways to invest in infrastructure or equipment for grain transportation.

This issue was addressed with the passage of the Western Grain Transportation Act in 1984, which established compensatory, cost-based freight rates. The introduction of compensatory freight rates eliminated the need for government involvement in the acquisition of grain cars. By 1996 the government moved further toward a more deregulated system by repealing the Western Grain Transportation Act and incorporating the remaining regulations governing grain transportation in what became the Canada Transportation Act. In the 1996 budget the government announced its intention to dispose of the 12,400 cars that it owned.

However, the transaction was delayed for a number of reasons, including a crisis in grain transportation in the late nineties that led to the extensive reviews of the grain handling and transportation system conducted by, first, the late Chief Justice Estey and subsequently by Mr. Arthur Kroeger, a former deputy minister of transport. As a result of these reviews, in 2000 the Parliament of Canada replaced the regulated maximum rates with a grain revenue cap through the passage of the grain reforms contained in the Canada Transportation Act.

Since 2000, Mr. Chair, the railways have had a cap on the revenue that they are allowed to earn from the transportation of western Canadian grain for export. Within that cap they have the flexibility to offer better rates for larger unit trains. This approach was intended to promote improvements in grain transportation by encouraging larger trains moving to port position and in turn improving the speed with which grain moved to market. However, it should be noted that the introduction of the revenue caps included an 18% reduction in the revenues that the railways would have otherwise earned under the former WGTA.

And as you all know, on May 4 of this year the government announced that to maximize benefits for farmers and taxpayers, it would retain ownership of the hopper cars, rather than transfer the cars to the Farmer Rail Car Coalition, or FRCC.

Within that context, I would like to address three key issues that have been brought to the attention of this committee: namely, that the railways have overcharged for maintenance, that the replacement of the fleet has not been addressed, and that there are concerns regarding the future management of the cars.

As you are aware, imbedded in the revenue cap is an amount for maintenance of the hopper car fleet. The amount is based on the costs associated with maintenance of the hopper cars contained in the last quadrennial costing review, performed under the WGTA back in 1992. Since 1992 the railways have made substantial productivity gains in most areas of their operations, including maintenance.

The work once largely performed in railway maintenance shops by large work crews is today performed by a one- or two-person crew in a mobile workshop. Consequently, a gap has developed between what was imbedded in the revenue cap and the actual cost of performing the maintenance work. Some have referred to this gap as evidence that the railways have been "overcharging" shippers for regulated grain movements. Mr. Chair, the revenue caps are monitored by the Canadian Transportation Agency to assure compliance by the railways. The agency audits the railways' revenues from regulated grain movements to determine that they are within the eligible limits. The railways' actual revenues have been within these eligible caps, except that in each of the last two years one of the railways exceeded the revenue cap by a very small amount.

In accordance with the regulations, the railways repaid the excess amounts plus a penalty to the Western Grains Research Foundation. This was all laid out during the 2000 reforms and this is an established procedure.

On May 4 of this year the government introduced Bill C-11 in the House of Commons. It proposes amendments to the Canada Transportation Act, so that the agency can more closely align the costs and the revenue caps with the actual costs of maintaining the hopper cars in revenue service. Until the bill is passed, however, it will not be possible for the revenue cap to be adjusted to better reflect the actual costs of maintenance.

● (0910)

Turning to the replacement of the hopper car fleet, some of the hopper cars are indeed reaching the end of their economic and useful lives. However, the cars were bought over a period of about 25 years, and the majority of cars still have many years of useful life in grain service. A small portion of the fleet will reach the end of its useful life over the next few years.

Mr. Chair, it's important to note that the railways have a statutory obligation to provide an adequate supply of cars under the level-of-service provisions of the Canada Transportation Act. As I noted earlier, the government purchased the hopper cars at a time when the railways' revenues were not compensatory, and this limited their ability to invest in the cars. As we are all well aware, today the railways are on a firmer financial footing and can fulfill this statutory obligation. The railways have already begun replacing some of their grain fleet with larger and more modern hopper cars. Since the railways are responsible for replacing the cars, they are in the best position to determine when and how the federal fleet should be replaced, based on future economic conditions.

It should also be noted that the government originally purchased around 13,100 cars. The fleet now comprises about 12,100 cars, and the cars that have been taken out of service have been replaced by the railways, not by the government. Further, the federal cars represent roughly half of the railways' grain cars. As such, shippers already rely on the railways for a significant portion of the overall grain fleet. The railways are also already making use of high-capacity cars, and it is expected that this trend will continue. With larger capacity cars, fewer cars will be needed in the future than has been the case in the past.

Over the coming months, we at Transport Canada will be negotiating new operating agreements with the railways. At the same time, Transport Canada will also negotiate a refurbishment program with them. The refurbishment work on the hopper cars will include, among other things, appropriate attention to the gates and hatches that may need repair, as well as to other items that had been negotiated with the FRCC.

Going forward, we will also be implementing monitoring systems to ensure that the refurbishment work is carried out, and that maintenance is performed to the appropriate standards, to keep the federal hopper cars in good and safe operating condition. With these measures, we are confident that grain producers will continue to benefit for many years to come from the government's decision to retain the federal fleet of hopper cars.

That concludes my remarks.

Thank you, Mr. Chairman.

The Chair: Thank you, Ms. Burr.

We'll move to CP Rail for the second presentation.

Ms. Judy Harrower (Assistant Vice-President, Agri Business, Canadian Pacific Railway): Thank you, Mr. Chair.

Good morning, members. On behalf of Canadian Pacific Railway I would like to thank the committee for the invitation to appear before you today to discuss the government hopper car fleet.

My name is Judy Harrower and I'm assistant vice-president of agri-business. I'm joined today by Jim Buggs, general manager of car management.

To summarize CPR's position up front, we believe the government has made a good decision in retaining ownership of the hopper car fleet. It restores some certainty to the effective and efficient operation of the grain handling and transportation system. We look forward to finalizing details with Transport Canada on the new operating agreement.

Before delving into our perspective in more detail, I'd like to first tell you a little bit about our company, as it's important context for how grain fits in. Then I'll describe how the current grain handling and transportation system works at CP.

Canadian Pacific Railway plays a major role in the movement of goods across all commodity sectors. Our franchise is national and North American. Our head office is in Calgary, Alberta. We employ approximately 16,000 people across North America, and move approximately 2.6 million carloads of goods every year.

It is an extremely important time for our railway. A solid strategy of revitalizing and expanding our infrastructure to accommodate the growth in demand for transportation of the goods we move is under way. This strategy includes substantial investment and improving the use of our assets to maximize capacity. To sum it up, we are investing in our business—rail infrastructure, locomotives, crews, and railcars—which I will speak to in a few moments.

On the infrastructure side of things, we completed the first step in a major expansion of our network. The work was completed last year, cost approximately $160 million, and involved 25 individual projects. This included extending and building sidings, laying of double sections of track, and a number of other projects.

CP is now able to handle an incremental 12% more demand, starting at Moose Jaw in Saskatchewan, through to the port of Vancouver, which is our fastest-growing corridor. This investment demonstrates our commitment to be a major player in supporting Canada's position as an exporting nation in grain and other commodities, as well as a key player in the supply chain to bring low-cost imports into Canada.

I'll speak to the year-over-year improvement in Canadian grain volume shortly, but it is critical to note that part of this improvement is directly attributable to the capacity improvements we put in place.

Several important developments gave us the confidence that the time was right to make this kind of investment. One of the most important factors was to ensure that there was a stable regulatory and policy environment. The stability factor comes into play when we talk about ownership of key assets that move in this corridor, like the covered hoppers we are discussing today. The second key factor is to have the financial ability to invest. Customers must understand their role in supporting this kind of investment to facilitate their own growth.

Now I'd like to turn to grain. Efficient, reliable, low-cost grain transportation is key if our producers are to be competitive in world markets. There are many players, from grain marketers—including the Canadian Wheat Board—to elevator operators, producers and processors that use grains and oilseeds, export terminals, consumers, and railroads.

Having personally led a number of different commodity groups at CPR, I can attest to the fact that this business is one of the most complex of all commodities we handle. Grain markets are also very diverse. We move western Canadian grain from hundreds of origins to several ports, as well as numerous domestic destinations.

MaxTrax, which is our order fulfillment system for Canadian grain, continues to allow grain customers to order multi-car blocks in advance. This has improved the fluidity of moving grain in all of our corridors, and has led to a reduction in our cycle times over the last few years.

The overall system presents its challenges, but it is working well. It is delivering grain reliably and effectively. Because of deregulation there have been some significant improvements in system performance, especially in recent years. The trend continues and improves the overall service offering to the customers.

I mentioned earlier that I would speak briefly to the volume improvements we've seen in the Canadian grain side of the business. Our volumes are up approximately 25% for the first quarter of this year versus last year. There are four key drivers of this business segment success, in our view. One is better overall coordination with all of the stakeholders in the industry. The second is improvements in car-cycle times. The third is aggressive weekly car placements at our customers' sidings, and the fourth is the capacity we invested in.

I would like to give you some specific performance numbers for reference. The cycle time in our Vancouver corridor on grain shipments improved to 17 days in the first quarter this year versus 20 days in the same period last year. This represents a 15% improvement. The cycle time in our winter rail corridor improved by 7%.

You might ask why we care about cycle time. It's because it creates more overall carrying capacity. A one-day improvement in cycle time is equivalent to approximately 400 to 500 incremental cars of grain moving in a year; for two days it's 800 to 1,000, etc.

● (0915)

We do recognize that agricultural producers in western Canada have experienced major challenges in recent years. The main problems have been drought, excess global capacity, some market-distorting policies like direct subsidization, fuel price increases, and escalation of other farm input costs. But these are not problems created by rail transportation. If you look at Statistics Canada's latest data on farm input costs, it shows that the most significant increases in input costs over the period from 1998 to 2005 were machinery, fertilizer, and fuel. These components alone are up 25%, 35%, and 65% respectively. In comparison, freight rates for movement of regulated grain have increased less than 10% over this period, an increase that is less than the rate of inflation for that same period.

Now I'd like to move to discussing hopper cars. CPR welcomed the government's announcement on May 4 that it would retain ownership of a hopper car fleet. This decision removes the uncertainty around the ownership of the cars and enables the implementation of initiatives focused on improvements in the overall grain-handling and transportation system.

While it's premature to engage in the details of a new operating agreement, we will approach the negotiation from the perspective of pushing the grain-handling and transportation system forward, not anchoring us in the past. An example of what we mean by this would be the overall use of the cars. A revised economic and broader permitted-use model for the federal cars would create incentives for us to potentially allocate a higher proportion of our state-of-the-art new high-capacity covered hoppers in regulated grain movements. These details need to be worked out but would provide for improvements in the grain-handling system that don't exist today.

Our primary concerns regarding leasing of the cars to the Farmer Rail Car Coalition—which concerns were also shared by other important grain industry stakeholders—were twofold. One was the insertion of a new organization into an already very complex grain-handling and transportation system; and the second was the real potential for some reduced system effectiveness and efficiency, for a number of reasons: potential for increased line-haul costs and switching costs, more complex maintenance activities, a potential perpetuation of a non-homogeneous fleet, and overall reduced railway flexibility.

At CP, we have approximately 25,000 covered hoppers in our fleet. This includes about 6,300 federal government cars, 1,000 provincial cars, and approximately 18,000 cars that we lease and own. Our objectives are to look at our fleet in its entirety and utilize the various types of hoppers in the most efficient way possible, and make improvements and additions as the marketplace and economics provide for it.

I'm very pleased to be able to state here today that we are in the process of taking delivery of 500 new high-capacity cars built by National Steel Car in Hamilton, at a cost of approximately $40 million. These cars have 16% more cubic capacity, 9% more content weight capacity, and are 9% shorter, which means 10 more cars can be added to a train set. The cars have a much more robust bottom gate, designed for today's high-speed, powerful gate-opening equipment. The gates are much larger, for faster unloading, and are much more resistant to product leakage. These will be added to our existing fleet of 8,000 high-cubic-capacity covered hoppers.

The government's decision to retain ownership of the federal government hopper fleet and negotiate a new operating agreement should provide the certainty to plan fleet improvements, including the acquisition of additional high-capacity cars. Pending the outcome of our negotiation with Transport Canada, we hope to be able to use more of these cars in the Canadian grain-handling and transportation system. We still have many details to work out with Transport Canada regarding the new operating agreement. Nevertheless, I have the confidence today to say the new agreement will provide multiple benefits to the grain system in Canada—to name a few, reliable demand-based fleet size from year to year and during peaks; an increased proportion of high-capacity cars in the fleet; a program to improve the quality of the federal government hopper cars; and most importantly, the ability to effectively move large amounts of grain to destination markets.

In closing, I would like to thank you for this opportunity and respectfully reiterate our view that we support the government's decision to retain the ownership of the fleet, while negotiating a new operating agreement with Transport Canada.

Thank you.

● (0920)

The Chair: Thank you, Ms. Harrower.

We've now been joined by Claude Mongeau, vice-president and chief financial officer with CN.

Gentlemen, you can begin your presentation now.

Mr. Claude Mongeau (Executive Vice-President and Chief Financial Officer, Canadian National Railway Company): Thank you, Mr. Chairman.

I'm very pleased to be here with my colleague Paul Miller, from operations, to give you a little bit of our perspective, but also to answer, most importantly, your questions about this important issue.

A lot has been said over the last few years on the hopper car fleet and the maintenance cost issues, and actually the two issues are very much linked.

To give you a bit of context and history as to how we are where are today, a lot of the debate and discussions have been centred on the proposal by the Farmer Rail Car Coalition to take over the ownership of the cars on a go-forward basis. We understand where the Farmer Rail Car Coalition is coming from. There is a need to address, from a policy standpoint, the need to replace that fleet over the long term. Those cars are coming to the end of their useful life, and if we want to have a world-scale grain logistics system on a go-forward basis, we will need to replace those cars in the next several years. So we understand that this is a very significant and very important issue.

The Farmer Rail Car Coalition construct or approach to this problem is also very understandable. In a sense, what they're trying to do is to come forward with a proposal that would replace the cars over time without adding costs to the farmer. If I were a farmer or a grain stakeholder, I would want to have the same basic outcome at the end of the process.

There are, however, two problems with the approach that's been proposed. One is the efficiency of the system and the other one is the maintenance cost offset, or the so-called excess maintenance cost embedded in the revenue cap.

I'll come back to the efficiency problem in a little bit more detail at the end, but the important point is the following: we believe that adding another player to an already complex system would not promote efficiency in the grain-gathering system. What we need is a system that promotes efficiency so that ultimately we have the lowest possible cost and the best service for the grain system. To add another player to switch out cars to do maintenance outside of the rail network would not be productive and would require more cars over time, so we would not really be helping the situation. We are pleased with the government's decision to retain those cars in light of this efficiency reason.

The other issue is the maintenance cost offset. To put it bluntly, the idea from the FRCC was because we needed to pay a lease payment going forward to the FRCC as a railroad, and if we did not want to increase the cost to farmers, we needed an offset. The offset has been debated around the issue of excess maintenance costs. The idea was if you increase the lease but offset it by the excess maintenance cost, you would have a situation where net the cars could be transferred without added costs to the farmers.

The problem with this is that the maintenance cost is a bit of a technical and flawed construct. We believe at CN that the government 15 years ago moved away from a cost-based system. In actual fact, we are not paid to do switching, inspection, or car maintenance as activities. What we are paid for is to move the cars to destinations in the most efficient fashion with a rate that is fair to farmers and fair to the industry participants, railroads included.

The actual fact is the rate we get paid is under a framework of a revenue cap. That revenue cap has been decided by the government, adjusted recently downward, and overall is a very fair rate for farmers. Farmers in Canada pay the lowest grain rates in the world by far. They pay about 35% less on a tonne-mile basis than what farmers in the U.S., just south of the border, are paying to move their products to destinations. There are no questions that the government, in setting the revenue cap, has done something that is very fair to the farmers.

It's also reasonably fair for the railroads. While we do make slightly less money moving grain, we do make enough money to reinvest in the plant, reinvest in assets, and continue to offer good service for farmers on a long-term basis. So we do not believe that there is a maintenance cost issue.

I'd be happy to answer the questions that you have on this particular aspect, but we do believe that the issue the FRCC is putting forward of the long-term replacement of this fleet is one that has to be looked at very seriously.

● (0925)

As I said, those cars are coming to the end of their useful lives. Many of them are obsolete in terms of market demand. They are too small. It's not really economical to replace those cars, and it's not going to give us the best system we can have. We need to decide how we're going to replace those cars. The government has to take a policy stand.

Many years ago the government decided we should move toward a more deregulated framework for grain within the proper safeguards of a revenue cap, one that allows the railroads to foster efficiency to go for market pricing, one designed to get the highest level of efficiency. At the end of the day, the best promise for a good system is an efficient system. We don't need a win-lose proposal. Unfortunately, if we are trying to make a case that railroads have to be paid less because of a technical debate on maintenance, it's not fair for the railroads. It would be good for the farmers, but it's a win-lose situation.

More recently, by asking the government to step in and replace those cars, we created another losing party, the taxpayer of Canada. To replace those cars over the next five to ten years would cost taxpayers in the order of $1.5 billion, if the government has to pay for those cars. It has been decided that is not the best solution. There is a better plan. We can have the best system in the world, we can achieve efficiencies, and through efficiencies we can pay for a good part of the investment required to move toward a jumbo car fleet that will be the best car fleet in the world, in the best grain system in the world, at rates that are competitive, if not far better than what exists elsewhere.

The way to go about this, Mr. Chairman, is to have a win-win-win approach. The solution is right there in front of us. If we focus on efficiency, we can gain cycle times in the use of the hopper car fleet in western Canada, and the productivity derived from faster transit time and faster cycle time will allow us to invest in a jumbo car fleet that will allow us to have better capacity to meet the needs of farmers.

If we focus on productivity and efficiency, we will have more throughput capacity for farmers and better efficiencies, so we'll have lower costs over time. If they have revenue stability in terms of the revenue cap, productivity will allow the railroads to play their part and invest in those cars at no cost to farmers. That is a far better approach, one that is win-win-win. From our perspective, that's what I would encourage the committee to focus on.

Thank you, Mr. Chairman.

● (0930)

The Chair: Thank you, gentlemen.

We'll move to our first round of questioning. That will be seven minutes long.

Mr. Steckle, lead off please.

Mr. Paul Steckle (Huron—Bruce, Lib.): Yes.

Good morning, ladies and gentlemen.

We have had you people before us on many occasions, or at least representatives from your various organizations, both from the department and from both railway companies.

I hardly know where to begin, because we've been down this set of tracks many times before.

Your latest comment was that the revenue cap was a fair deal for the farmers. Was it a fair deal for the railroads?

Mr. Claude Mongeau: If the question is addressed to me, it is a reasonably fair deal for the railroads. We make a little less money carrying grain than we do carrying other commodities. But overall, the revenue cap allows us to earn an appropriate return in the current environment. However, for the railroads to be able to invest on their own for the replacement of the fleet, we would need significant productivity gains to be able to do so without rate increases to the farmers.

Mr. Paul Steckle: Overcharging has been recognized. When we looked at the numbers, maintenance costs were substantially less than the actual cost. So there was a margin there. Given the government's view that the number needs to be lowered, how are you people going to be able to thrive in that environment?

Mr. Claude Mongeau: I actually do not agree with the notion that the railroads are receiving too much money for maintenance. I think the debate here has been constructed to achieve the goal that I described earlier of offsetting the lease payments. The reality is that we are trying to reconstruct a cost that existed in 1992. The government has moved away from that. Maintenance is about 5% of what we do in the overall activities to move grain to destinations.

To try to reconstruct the cost of 15 years ago and to compare that with a one-year spot check on the maintenance costs in years that have different volumes and different characteristics in terms of the movement of grain basically allows people to throw out numbers that can be highly misleading. I do not believe there is an excess cost, and if there is, it's a very small amount and is not relevant to the overall debate, because the government has moved away from that. They have said we are going to give railroads an overall revenue cap that is fair and 35% lower than is paid by the farmers in the U.S., and that's what we've decided.

● (0935)

Mr. Paul Steckle: Going forward to such time as cars need replacement, and you're talking about going to more efficient and larger units and much more quickly being able to load the loads, those cars are going to be bought by the railroad and you're going to own them. If I understand this paradigm, eventually we'll be moving into an era when the railroads once again will own all the cars, if we go down the road far enough.

I won't be around at that time—maybe you won't either—but is that where we're going? The government is getting out of the railcar business and eventually the railroads will own the cars, so will we not head ourselves into a situation where we'll get into this whole monopoly thing again, if we want to call it that? You probably wouldn't want to call it that, but when it's in the hands of two railroad companies, obviously it becomes pretty monopolistic. I'm wondering whether you see that.

And on another question, I think you mentioned the faster turnaround. What is the reason for that? I realize unloading ability at port is a big concern, sitting at port waiting for ships to be brought in, demurrage charges occurring and that kind of thing, but what is the reason for the quicker turnaround? I understand the efficiencies that can be gained by that.

Ms. Judy Harrower: There are a number of factors. One of them has to do with the investments that we made in our infrastructure. That's probably one of the most significant. We've extended a lot of our sidings. We've put in a lot of double track. We've improved signalling, and that allows you to actually move your goods more fluidly throughout your network.

The second, for sure, is that we focus very hard on operating a much better scheduled railway and work collectively with the stakeholders, being the customers, the producers themselves, the grain shipping companies, as well as the terminals, to ensure that fluid movement exists in a complete turnaround.

Mr. Paul Steckle: And the other question, about the eventuality of the rail companies owning all the cars.

Mr. Claude Mongeau: We have embraced that vision. We think that would be the best possible solution. It requires collaboration, as opposed to confrontation. But if we do focus on collaboration and focus on a system throughput that achieves the highest possible level of efficiency, we get two sources of major productivity improvement.

The first source is the faster transit time. The second source is the benefit of a higher cube car. You need fewer of them to move the same amount of grain. Combined together, if there is enough productivity, we believe that with revenue stability on the revenue cap front there would be enough money there for the railroads to take on the responsibility over time to invest in the cars. What that would do, Mr. Steckle, is basically bring the situation for grain movement to what it is in every other commodity in Canada.

Mr. Paul Steckle: What percentage of grain is shipped via container? Obviously, there are smaller units because of the speciality crops. How much of that do you transport , what percentage of the total cargo?

Mr. Jim Buggs (General Manager, Car Management, Canadian Pacific Railway): Less than 5%.

Mr. Paul Steckle: Less than 5%, okay.

Mr. Claude Mongeau: That is a potential growing trend. Surely, if we're focused on innovation and efficiency, we should see over time more of the grain moved in containers and more of the grain moved in high cube cars and more of the grain moved in unit trains... you know, long operation. All of that is designed to get to a situation where we have the highest possible throughput, so that farmers can get their grain to market in the best possible windows and the least possible asset so that the cost is down. At the end of the day, the only sustainable way of keeping costs down is through efficiency, innovation, and collaboration.

Mr. Jim Buggs: I think there's an important point here, too, that you bring up about containers. There's a lot of focus on cost, but the other side of any business equation is revenue.

For example, the containers, while they will never compete with hopper cars in terms of cost efficiency, allow people with speciality crops to market their products in markets and get added value that way. Their net return.... You know, first they're selling them, and second, they're getting an even better return on them. So I think that's what we're trying to do. We're trying to offer a variety of products to the marketplace and are letting them choose how they want to do it.

The Chair: On that point, there's also no revenue cap in place on container shipment; it's only on bulk.

Ms. Judy Harrower: Yes, there is.

The Chair: Oh, there is, but it depends on the commodity.

Ms. Judy Harrower: That's correct.

The Chair: Following up on one other point that Mr. Steckle made, how much of the efficiency—you talk about cycle times efficiency—is gained because the railways predominantly now run mainline and terminal loads only, as opposed to scattering out across the country, coming back in, reallocating the cars, and having big drop-offs, and so on? I mean, we've seen a huge change in the prairies in that regard.

● (0940)

Ms. Judy Harrower: I honestly don't know the answer to that question. I will tell you that we still serve a number of branch-line locations. We still have a very complex network throughout Alberta, Saskatchewan, and Manitoba, but I cannot specifically answer the question as to the percentage, one way versus the other.

The Chair: I'll ask the other railway. I know it's a little different in the northern areas that I represent.

Mr. Claude Mongeau: I would say that what we need, as I mentioned earlier, is collaboration, but also accountability in the system—accountability for railroads to perform and accountability for loaders and unloaders to perform—and a focus on what takes place being done in the most efficient manner.

If we get the cycle times down, we will have to reduce significantly the time it takes at the hand-off points: at the origin, when the car is being loaded, and at the destination, when the car is being unloaded.

If we move towards a pull-based system, as opposed to pushing, the way we have been doing it for too many years, we can get to a point where cycle times, instead of being the 18 or 19 days they are today, could conceivably come down to as low as 13 or 12 days. Because they would be much faster cycles, we would need to replace many fewer cars .

The Chair: Thank you.

Madame DeBellefeuille, you have seven minutes, please.

[*Translation*]

Mrs. Claude DeBellefeuille (Beauharnois—Salaberry, BQ): Thank you very much for your presentation. Ms. Burr, perhaps you can answer my questions.

This is the second time we've heard from witnesses on the entire hopper car issue. What intrigues me is that, every time we talk about hopper cars, we speak in approximate terms.

You say a small number of cars are at the end of their useful life. How many cars are we talking about?

You also said that we're starting to replace cars. How many of the 2,500 cars in the fleet have been replaced? What's been planned in terms of rotation? You can no doubt give us the figures on that point.

You also said you were negotiating a refurbishment program. How many cars have been identified for refurbishment of gates and so on?

You negotiate purchases. What's the shortfall? How many hopper cars would it take to meet producers' needs?

Can you explain to me why we can't evaluate the per car maintenance cost? That question was raised at the last meeting and is a major concern for me.

Perhaps you could answer those few questions.

Ms. Kristine Burr: I'll start by answering your last question. The Canadian Transportation Agency determines car maintenance costs. It's the Agency that requires maintenance changes.

[*English*]

I'd like to clarify if I may, Madame, what I said earlier. I mentioned that there are approximately 12,100 cars right now in the federal hopper car fleet. Originally there were about 13,000 cars, and over the course of the last few years, as cars have proved to be unsafe or in really poor condition, they've been withdrawn from the fleet.

We have safety inspectors in Transport Canada who are very vigilant about what is safe to operate on the railways, and they work with the railways themselves on those issues.

We are not, at the moment, looking at replacing the cars, but we will be talking to the railways about a new operating agreement for the management of the existing 12,100 cars, and also about issues related to how those cars will be maintained in the future. That will include setting up a monitoring system to make sure that as those 12,100 cars continue to be operated by the railways, the railways are keeping them to the standard that is established throughout North America by the Association of American Railroads.

[*Translation*]

Mrs. Claude DeBellefeuille: Can't you tell us how many are at the end of their lives and how many of the 12,100 will have to be refurbished?

[*English*]

Ms. Kristine Burr: We review it regularly, but I'm going to ask Madam Borges to respond more specifically.

[*Translation*]

Ms. Helena Borges (Director General, Special Projects, Policy Group, Department of Transport): Of the 12,100 cars, 2,000 are made of aluminum. They're already in the last phase of their lives. We're going to remove them from wheat transportation service.

● (0945)

Mrs. Claude DeBellefeuille: Are you talking about the 2,000 cars manufactured in aluminum?

Ms. Helena Borges: Yes.

Roughly 2,000 of the steel cars were built before 1974. So they're old. We're assessing them and may remove them from service over the next five years.

Mrs. Claude DeBellefeuille: Those 2,000 cars won't be refurbished.

Ms. Helena Borges: No. The ones that will be refurbished are the other ones, which were built after 1974 and are in better condition. Like the railway companies, we think it's possible to repair them a little in order to keep them in service for wheat transportation.

Mrs. Claude DeBellefeuille: So, over the next five years, 4,000 hopper cars will be withdrawn from circulation.

Ms. Helena Borges: Yes.

[*English*]

Mr. Jim Buggs: On this question, when you talk about the end of a hopper car's life, there are two parts to that question: the first is from a straight mechanical point of view; the other is the economic life of the car, which Mr. Mongeau was referring to.

In mechanical terms, these cars can go on for a long time. The AAR has rules. For example, cars built before 1974 have a 40-year life, after which they must be retired. The oldest cars were built in 1972 to 1974, and they would have a theoretical mechanical life of another five to seven years. The cars built after 1974 have a 50-year life, as mandated by the AAR, on a mechanical basis. The majority of them have another 15 to 17 years, other than the CN aluminum ones and some of the 2,000 cars that were built pre-1974. It's nice information to know relative to how long you can theoretically run these cars.

The big issue we're talking about is competitiveness. We're talking about choices on how we want to proceed as an industry. We're talking about the total industry, the farmers and the railways, working together towards selling products in international markets. Those are the trade-offs.

What we always get into is this. While it's clear that the new high-capacity cars are more efficient, they are also quite expensive. The cars provided by the government are older and obviously less efficient, but they're provided to the system at no charge right now. The trade-off we want to work through with Transport Canada is that those cars have a value.

As in all businesses, you cascade older equipment into less productive services. There's a high volume in grain, and it's a business that is very good for the railways. Our niche is moving high volumes from a limited number of origins to a limited number of trainload movements, opposed to single cars that you have to gather up and switch through yards, etc.

If we want to be the most efficient, we have to match the two, while capturing the value of the cars. We're going to talk to Transport Canada about broadening the permitted use of those cars so that we can capture value, not only for us but for the system, and work in that way.

The other thing you were talking about was on refurbishment. There are various things, but the biggest issue, as was identified through the QGI report, is on the gates of certain types of cars, as well as the capstans that are used to open them up.

The problem we have is that on half of our cars, first of all, the gates were designed and put on these cars long before the current methods of opening up these gates. In the old days, they used big steel bars. They now use high-powered pneumatic guns, and the gates are not designed for that. Very clearly, when you have a piece of machinery used in an application it's not designed for, continuously year after year, you're going to have some problems.

We're looking forward to negotiating with them now that we have some certainty. Replacing gates is also a costly endeavour. We need some certainty, and we need to negotiate an understanding with Transport Canada. Once we've done that, we're going to do so.

The Chair: Thank you, Madam.

Mr. Anderson, seven minutes, please.

Mr. David Anderson (Cypress Hills—Grasslands, CPC): Thank you, Mr. Chair.

I have a number of questions.

Mr. Mongeau, you used phrases such as “continue to offer good service”. You talked about “win, win, win”, “accountability”, and “a need to focus on efficiency”. All last winter I heard regularly from my constituents in the northern half of my riding that they were getting virtually no service and no cooperation from your railway when they were asking for car allocation. They were very frustrated.

I'm wondering if you could explain to me why in the past year you've been unable to offer an adequate level of service for the constituents in the northern half of my riding.

● (0950)

Mr. Paul Miller (Vice-President, Transportation Services, Canadian National Railway Company): Mr. Anderson, we certainly had some struggles in the first quarter of this year. We were not achieving the cycle times and the productivity that we needed to meet the full level of demand that was out there and offered to us. That's been behind us now, I believe, since about mid-March or so of this year. We've been very current on our orders and orders to demand since that time.

Mr. David Anderson: This year's crop looks like it could be quite a bit bigger than last year's. We have crop in the bin. There have been some problems getting the crop off in the past.

I'll ask CP the same question: What are you doing to ensure that this year's crop is going to be able to be moved, should it be sold?

Mr. Paul Miller: You've heard CP talk about investments. We also made a number of investments last year on this in our western corridor capacity. This year we're extending 27 sidings between Winnipeg and Vancouver and two more between Jasper and Prince Rupert, which is another important grain corridor for us. We're completing installation of centralized traffic control between Jasper and Prince George, again on that same corridor.

You may have read recently about locomotive acquisitions. We feel we do have more than sufficient cars available for the movement. We've hired, in round figures, 200 train crew in western Canada. We are looking at doing a much better job—and there's lots of room for improvement here—in terms of scheduled operations, particularly from some of the larger-terminal country elevators that deliver to us a high percentage of the grain that we move; containerization—

Mr. David Anderson: You've made enough improvements from October of last year to March of this year that you feel you'll be able to handle your share of the crop through this next year?

Mr. Paul Miller: Yes, sir.

Ms. Judy Harrower: From our perspective, and it's very similar to what I said in my opening comments, we have made substantial investment in the corridor. We've made very similar investments on locomotives, and we've hired a number of crews. Frankly, we have not used the capacity that we built, so we're looking forward to the demand that exists out there. We have some crews laid off right now, because we are lighter on demand than we would have otherwise hoped to be.

So from our perspective, we are geared up and ready to go.

Mr. David Anderson: Both of you talked about coming to agreement on a new operating agreement with Transport Canada. There have been huge concerns across the industry about levels of service provided, the levels of service guarantee, and that kind of thing. That's going to be part of a discussion, I imagine, over the next few months, but I'm wondering if you want to make any comments on that at this time.

Shippers have a huge concern about the level of service and what they're getting from you folks. I'm wondering if you have any comments on that.

Ms. Judy Harrower: Mr. Anderson, from our perspective we take every single service issue very seriously and address it directly with our customers. We've put in place the capacity, whether it be crews, locomotives, or infrastructure, to meet the service demands of the customers out there, and we have substantially improved our on-time service offering to all of our customers.

We take it very seriously, frankly.

Mr. David Anderson: I hope so.

Mr. Jim Buggs: It's only June, but we're watching it very closely and sizing the fleet. As of right now, we're seeing very good movement for this time of year. It's much higher than it would be normally. We're running a fleet right now of about 12,600 hoppers in Canadian grain. I was just down in Hamilton at National Steel Car earlier this week, where we have 500 brand-new high-capacity cars coming off the line. Number 271 was being built when I was there this week, and they'll all be here for the fall.

We look forward to it. It's business, and we want to do a good job. It's important to us.

Mr. David Anderson: There's been some talk—and FRCC and others have addressed this—about upgrading the federal hopper car fleet, bringing them up one weight level or whatever. Did you upgrade your own cars from the lower weight? Was it 268 to 286, or 263 to 286? Were those the numbers?

● (0955)

Mr. Jim Buggs: Right. That will be part of the discussion with Transport Canada. It's a key issue. The current cars are only 4,550 cubic feet in capacity, so relative to the cubic density of Canadian grain, you are going to cube out before you weigh out, before you can get to 286 with the current cars. This is what we want to talk about, and this is what I was alluding to before—

Mr. David Anderson: I have just a point of clarification on that. Saskatchewan Grain Car Corporation has upgraded their cars. When I talked to the people involved in that upgrade, there was no concern about the fact that they were going to go over volume before they went over weight. Are you saying there is an issue with that?

Ms. Judy Harrower: It depends on the commodity.

Mr. David Anderson: Well, yes, of course, but generally they didn't have any concern with most of the products that are being carried on there. Are you saying that they fill up with grain before they go over 286? Isn't grain—

Mr. Jim Buggs: It's 286, right? What they are looking at is longer-term use of their cars. Their cars still have another 15 to 17 years of life.

Mr. David Anderson: Did you upgrade your cars?

Mr. Jim Buggs: We have upgraded quite a number of our cars because we use our cars in other applications that have a higher cubic density—for example, potash,.

Mr. David Anderson: Did CN upgrade theirs as well?

Mr. Paul Miller: Yes, we've upgraded a number of lower cubic capacity type cars, basically for potash-type service.

Mr. Claude Mongeau: This being said, Mr. Anderson, it also covers the point Ms. DeBellefeuille made, which was that at the end of the day we are going to have some very important decisions to make. Some of the cars that we have in the government fleet today are low-cubic-capacity cars, which are not the best designed cars for the long term. Whether that is because they max out on cubic before they weigh out or whether it's because they are 30 years old, the reality is, at CN, for instance, that of the entire government fleet only about 3,000 have a life that we could extend long into the future.

Mr. David Anderson: The number I've heard is 6,000 altogether, or around that number. Is that what you're saying?

Mr. Claude Mongeau: Probably. I don't know about the CP exactly, but that would be a fair assessment overall.

The Vice-Chair (Mr. Paul Steckle): Mr. Anderson, you have exhausted your time.

We will move to Mr. Atamanenko, for seven minutes.

Mr. Alex Atamanenko (British Columbia Southern Interior, NDP): Thank you very much for being here.

I will start with the issue we've been hammering on for the last while, and before I move on to specifics, I'll just take it from my notes here: In 2004 the FRCC presented documents to the standing committee showing that maintenance costs charged by Bombardier or Illinois Southern Rail could be about $1,200 to $1,500. A recent leaked confidential memo that we've all seen from the CTA also indicates that maintenance costs could be about $1,900 a year, and yet the revenue cap was $4,329.

You talked about this, Monsieur Mongeau. Have the farmers in fact been paying too much over the last while for maintenance costs?

I ask everybody to address this question, please.

Mr. Claude Mongeau: I can answer that.

Around or slightly in excess of $2,000 per car is not a bad number over a longer period, without refurbishment. That is running repairs.

Maintenance cost, as an economic activity, depends a lot on the usage of the cars, the volume, and the distance that's being travelled.

The $4,300-per-car number that has been used by FRCC is based on an estimate of what the car cost would have been in 1992. Mr. Atamanenko, 1992 was a 35-million-tonne crop year. That is the highest that we can find on record. If we adjusted the revenue cap in that year to make it equal, we would have had, instead of the $700-million revenue cap for railroads in 2004, a $1.1-billion revenue cap calculated by the government.

The reality is that you have adjust the maintenance cost to the actual volume and the distance being travelled. The CTA, when they did that estimate and debated it publicly, came down to $3,600 as an estimate that would be volume-adjusted. We don't actually agree with this number either, but the reality is we're not talking about $1,600 versus $4,300; we're talking about something much smaller than that, perhaps a lot less than half of that—but we're in a highly technical debate trying to reconstruct costs that 15 years ago would have been 5% of the overall cost structure of a railroad.

The reality is we've moved away from that. Today, we are getting a revenue. That revenue is 35% less than what U.S. railroads receive for the same basic activity just a hundred miles south of the border. The revenue is fair to the farmers, and it's just fair to the railroad.

It is highly misleading to single out the maintenance cost, which is 6% or 7% of the overall cost, and to construct 15-year mathematics to try to get to a number, and it is not very relevant to the long-term issue of what we do to make sure there is enough revenue for the railroads to invest in the cars for the long term and avoid taxpayers' having to spend $1.5 billion to replace the cars.

● (1000)

Mr. Alex Atamanenko: Thank you.

Ms. Kristine Burr: I'll mention something I had mentioned in my earlier comments. It is that each year the agency reviewed the whole situation, including the costs, and did an audit on what the railways had done under the revenue cap for each of them. There is a provision in there to roll back when there's any excess above the established revenue cap, so working under the model in place in the legislation right now, we're confident there was a way of catching any excess.

As you're aware, if Bill C-11 goes through, we will have more flexibility to deal with any perceived excess that might be in place right now.

Ms. Judy Harrower: From our perspective, there's not a whole lot more we can add that would deepen this conversation. We also have issues with the methodology and some of the comparisons made in the preliminary staff report. We are confident there will be a lot of discussion around the numbers as they get updated and as we get into all the issues and opportunities in front of us as they pertain to refurbishment, new cars, etc.

Mr. Alex Atamanenko: I'm going to just ask another question. This is maybe a very naive question.

We're talking about costs. What is the cost to the farmer in all of this? What does the farmer pay right now to transport his or her grain? We're talking about so much per hopper car per year. Okay, I'm a farmer. I have to transport my grain. What do I pay?

Mr. Claude Mongeau: It depends a whole lot on how the grain is moved. If it's moved in highly efficient service—longer trains, very efficient unloading—the rate per tonne-mile will be less than if it's moved in a single-car, producer-car environment. Overall, the government has decided that the railroads have the right to put the price in line with what it takes to drive the most efficiency in the system, but overall we shall make sure that the aggregate revenues that the railroads derive do not exceed the revenue cap.

The sum of every move, at the end of the day, is a function of specific pricing for specific moves. The total on the revenue cap is, as I said, very competitive on a world-scale basis, and far inferior to what farmers are paying just south of the border.

Mr. Alex Atamanenko: So what's the difference for a tonne of wheat, for example, transported to Prince Rupert or Vancouver? What's the farmer paying here, as opposed to the price in North Dakota?

Mr. Claude Mongeau: It's about a 35% difference, which on a $30-per-tonne basis would be close to $10 a tonne more in the U.S. than it is in Canada on average.

Mr. Alex Atamanenko: So it's roughly $30 a tonne. Is that what...?

Mr. Jim Buggs: That depends on where you're coming from. If you're talking about Saskatchewan to Vancouver, maybe it will range from $25 to $30, depending on whether you are moving trainloads in big multi-car blocks or in smaller lots.

Mr. Alex Atamanenko: We're saying that under the new legislation this may come down by a couple of dollars a tonne—is that right?

Ms. Kristine Burr: It's $2 a tonne.

Mr. Alex Atamanenko: Okay.

There are 12,100 cars that are now going to come over to the government. Obviously there are a lot of other cars. Who decides how many are allotted to CN and CP? Do you divide up the territory, or is there competition in the same territory? How does that work? From where I'm living, as point X to point Y, do I have a choice? I don't understand how that happens.

Ms. Kristine Burr: At the moment, it's based on an historical allocation, and each railway has a portion of the Canadian government fleet. In CN's fleet, as we mentioned earlier, there are some aging aluminum cars, which everybody recognizes are outmoded. The balance of the fleet is with both CN and CP.

We don't actually have the fleet right now. It's literally in with the railcar fleet of both railways, plus any other cars that belong to shippers. There are quite a few that belong to shippers or are leased from leasing companies.

● (1005)

Mr. Paul Steckle: Your time has expired, Mr. Atamanenko.

We will now move to Mr. Easter on our second round, for five minutes.

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

When you look at the railway profit picture, folks, you're not exactly hurting, compared to the farm profit picture. If you look back over the last 12 years, freight rates for farmers have increased massively.

First, Mr. Mongeau, you must have said at least seven or eight times that rail rates in Canada are 35% lower than those south of the border. I would suggest to you that this is somewhat misleading. They may be lower in the rail rates, but as compared to the United States, you are operating main lines now, and branch lines are virtually gone. The farmers have to get the grain to the main line; they have those additional costs. Their costs have gone through the roof, while you people have managed, by going to mainly main lines with the branch lines closing down. The farmers' costs have gone up in terms of the additional trucking costs and additional elevation costs, and then they run the grain on your line.

This is my first question to the railways. Under the formula, what return on capital are you assured? It used to be 21%. What is the return on capital that the railways are assured now?

Mr. Claude Mongeau: That is for the government to answer. When they set out the revenue cap, they set it out at the level they believed was fair to all parties. I do not believe there is a specific return in the legislation.

As I said earlier, moving grain is slightly less profitable for us than moving other commodities. But at the current level, it is a business that allows for the reinvestment in assets and activities.

Hon. Wayne Easter: How we would love to have that kind of return on capital in the farm community; we don't.

You've said that we should promote efficiency, the lowest possible cost, and the best services. I don't disagree with that point. The problem is that those savings have never been transferred back to the farm community. I mean, you do have a return on capital that is assured to you on your investments. And I can understand why you want to buy hopper cars; if I had that return on capital in my operation, everything I bought with that return in capital would make me money.

Let me put it this way: history has shown that the railways, with increased efficiencies in the system, have never really returned the greatest share of those efficiencies back to the farm community. You haven't; you've returned some, but I am not confident that...and it concerns me.

That brings me to the point about the FRCC, Mr. Chair, which we're here to talk about. I understand that Transport Canada has brought one report to the committee. When can we expect the other two? I understand discussions are taking place with the railways.

We know, as Alex had said, that over the past number of years the railways were charging $4,329 per year for maintenance when the cost was $1,686.

Now, to the railways, can we expect those...I won't use the word “gouged”, but certainly those “excess” maintenance costs, which were applied to the farmers under the cap, to be passed by the railways back to the producers? You've made millions. You've made millions overcharging on maintenance under the cap, and got away with it. Now we're entering a new phase. We want to forget about that old phase where you gouged—I will use that word—the farmers on transport and maintenance costs. Transport Canada let you get away with it.

Can we expect some of those excess maintenance costs to be returned from the railways?

● (1010)

Ms. Judy Harrower: From our perspective, Mr. Chair, it is premature for us to even comment on the outcome of the analysis that will be done by Transport Canada and us. We don't agree with the methodology in the past, as I think both of us mentioned, and some of the comparisons that were made.

The analysis that has been done so far is outdated and incomplete. It needs to be updated before any commentary can be made.

Mr. Claude Mongeau: Mr. Easter, the $1,600 is a snapshot of one year, 2004, when the railroads moved 24 million tonnes. The $4,300 is a construction of what would have been the cost 15 years ago in a year that had 35 million tonnes. The difference between those two is what equates to $2 a tonne. If you believe those numbers, you would be agreeing to the construct that 65% of the costs were not there. The difference between $1,600 and $4,300 is a 65% reduction.

The reality is that you cannot look at maintenance costs in a one-year snapshot. That's not the right way to do it. Second, if you do it, you have to do it on a volume-adjusted basis. The government, in its own report at the CTA, has taken the $4,300 down to $3,600. And we don't actually agree with that number either, but the last official number is $3,600, not $4,300. The $1,600 was never adjusted for volume; these are taken, in a misleading fashion, from bits and pieces of reports. If you agree with the construct, you would find a difference that is very much smaller than what has been discussed.

But the whole thing is largely irrelevant; we're trying to reconstruct something that took place 15 years ago. The government has decided to move away from item-by-item costing to one where we have a revenue cap that governs the revenue generation for railroads. They did that twice. They did it once, when they instituted it; they took it down by 18% in the early 2000s to provide efficiency for the farmers. What we have today is far lower than what's being paid everywhere else in the world.

So to single out one item is highly misleading.

Hon. Wayne Easter: But is the revenue cap too high? That's the key.

The Vice-Chair (Mr. Paul Steckle): Your time has expired, Mr. Easter. If there's another round, we'll get back to you then.

Mr. Bellavance, for five minutes.

[*Translation*]

Mr. André Bellavance (Richmond—Arthabaska, BQ): The old agriculture committees also considered the hopper car issue. But every time we come back to this subject and talk about maintenance costs, we step into a mine field. It's very hard to get specific information on the subject. Moreover, the committee asked the director general to look into this matter.

First of all, I'd like to speak to the representatives of the National Railway Company. We don't agree on the figures and there are all kinds of explanations. Mr. Mongeau, you said that it might be a temporary problem. In 1992, we did an enormous amount of transportation. However, you seem to limit the $4,329 to 1992. I thought the figures that had been given were more of an average.

Are you making a commitment to assist the Auditor General shed some light on this issue and to provide her with all the relevant documents so that, at some point, we can move on to something else?

Mr. Claude Mongeau: We don't have any problem providing the information. The more people look into this matter with expertise and objectivity, the better it will be. We think the actual situation is very different from what has been stated using the figures I mentioned to you and giving the appearance of $2 a tonne. So we agree that this issue should be examined carefully, with a great deal of rigour and expertise.

However, we're also saying that there should be a debate to determine whether the five percent of costs that there was under another regulatory system more than 15 years ago was a little too high or too low. That's a bit of an artificial issue. It had been debated in order to offset the increased payment for the cars so that the transfer would be made to the Farmer Rail Car Coalition without any additional costs to farmers.

We propose to achieve the same result, not only to have wagons without it costing farmers any more, but also to have better cars with greater capacity, more efficient cars, and to carry on this operation relying on productivity gains through cooperation between the players involved in the system, rather than resorting to confrontation and technical debate on figures they try to redo based on 15-year-old data.

● (1015)

Mr. André Bellavance: When the former government decided to sell the hopper cars, I imagine the railway companies were interested in acquiring them. Is that of interest to you?

Mr. Claude Mongeau: We made the government an offer to buy them, if it was prepared to sell them. The vast majority of the cars used to transport products by rail belong to the railways. There's logic in that. It's the most effective method. To the extent they own the assets, they take care of them, operate them as quickly as possible, and make every effort to ensure that the system is as efficient as possible. That would be the best way to do it, at a lower cost to Canadian taxpayers and in a context where, on the whole, farmers would still have a global transportation cost advantage.

Mr. André Bellavance: A number of factors were cited at the time in support of the former government's view, and yours as well from what you've just told me, that it was advantageous to sell the hopper cars to the private sector. Guaranteeing that the cars were available to transport western grain was one of those reasons. Providing better value for taxpayers and minimizing the consequences for western producers were two others.

Now that the current government has decided to keep the hopper cars, do you think that jeopardizes...

Mr. Anderson said earlier that it had been difficult, if not impossible, for producers in the northern part of his province to transport their grain.

Does the government's decision change anything for you? Do you think the service can nevertheless be provided?

Mr. Claude Mongeau: I think the government's decision is the right one. As regards the cars that are currently owned by the government and can be kept in service over the long term, it's not a bad thing for the government to keep them. That will reduce costs to farmers.

However, there is a problem. All the cars will have to be replaced in the next five to seven years. What's going to be done for the future? We believe the best solution is to keep the cars that currently belong to the government where they are, to agree on the terms of a new lease and for the government to give all participants directives so that efforts are focused on productivity and improving system efficiency so that we have not only the best system in the world, but also a system that would be productive enough to enable us, the railways, with the revenues we currently have, to buy the cars without increasing costs to farmers.

Mr. André Bellavance: The Department of Transport is currently negotiating with the railways. Is Mr. Mongeau's suggestion being considered and can it be considered?

Ms. Kristine Burr: That's one of the questions we'll consider in the negotiations. We've just started talking about the future of the hopper cars. We have to think of the future. We're confident that most of the hopper cars will be available for a number of years.

As my colleague mentioned, some of them are nearing the end of their useful lives, but a lot of others will continue to be operational for perhaps 15 years. We have a little time to determine the most practical approach, in view of all the transportation issues currently being raised.

[*English*]

The Vice-Chair (Mr. Paul Steckle): Mr. Bellavance, your time has expired.

Mr. Gourde is next, please, for five minutes.

[*Translation*]

Mr. Jacques Gourde (Lotbinière—Chutes-de-la-Chaudière, CPC): Canadian agriculture will no doubt evolve and change. Producers will seek crops that are more profitable for them in future. They don't have a choice: they have to evolve. In five, 10 or 15 years, there will be specific grains for pharmaceutical or other purposes. We'll have to transport specific grains in lesser quantities. We currently transport a significant volume of grains, no doubt wheat. There will be products that will have to retain certain properties. It must be ensured that they are not mixed with other grains, in order to preserve their characteristics.

Will the railway system be able to adjust quickly enough to permit high-quality transportation at an affordable cost? These grains must currently be transported by truck in order to protect those preserved characteristics. I'm convinced that grain volumes will increase, but that producers will still be concerned about transportation. To remain globally competitive, we'll have to transport those value-added products in a secure manner.

● (1020)

Mr. Claude Mongeau: There can be no doubt that it's possible to evolve. We move a lot of products, some of which have higher value-added, and others are in larger quantities, as you said, in efficient unit train cycles.

Will the railways be able to follow the agricultural sector's evolution toward new types of production? Will that mean that more grain will have to be transported in containers? Will that mean that other innovative methods will have to be used to meet demand? We don't know all the answers to these questions, but there can be no doubt that we'll be able to rely on the agricultural sector in all Canadian provinces as a whole in the same way we move containers of very high value-added products from Asia or Europe.

[*English*]

Mr. Jim Buggs: The grain business is very important to us also; it's not just important to the farmers. It's roughly 20% of our business, so it's in our best interest to make sure our customers are competitive. If they're not competitive they're not going to ship any grain.

We work with this continuously, whether it's in covered hoppers, containers, or special linings on the covered hoppers for food-grade applications. As my colleague said, so far this year our grain movements are 20% higher than they were last year. We're working hard at moving all the product that's offered to us—at a competitive price. That's what we do day in and day out.

The Vice-Chair (Mr. Paul Steckle): You have one and a half minutes.

[*Translation*]

Mr. Jacques Gourde: Do you anticipate that the biofuel strategy might result in a drop in total grain transportation volume? Larger grain volumes could be processed in Canada. Perhaps an equally large volume of grain will have to be transported, but within the country.

[*English*]

Ms. Judy Harrower: That's a marketplace that we are continuing to get our hands around, quite frankly. I don't think we know the final outcome of how the flows will change as a result of biofuels, but there's no question that the development of biofuels will change the landscape to some degree.

[*Translation*]

Mr. Claude Mongeau: I think that what's happening, corn production to make ethanol, for example, or other types of production that are solutions to environmental problems, is a positive development for the agriculture industry. The railways are prepared to help them, whether it be moving grain or finished products such as ethanol, for example, which can't be transported by pipeline and will have to be transported in tank cars, very often by train.

[*English*]

The Vice-Chair (Mr. Paul Steckle): Okay. You have exhausted your time.

Mr. Easter, for five minutes.

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

Mr. Buggs, in response to Jacques, you kind of made it sound like you're operating at a competitive price and doing everything that you can to move grain. You kind of made it sound like the railways are doing farmers a favour. The fact of the matter is that on every tonne of grain you move, you make a profit. That's fine, that's fair, nobody's arguing about that. But from the farmers' perspective, in Canada versus any other country in the world, we average 900 miles from tidewater position. Farmers have no other options; there is no competition to the railways. You can't truck grain 900 miles and be competitive.

What's crucial to the farm community is that because there isn't competition and you're both operating under the revenue cap, you have to have an efficient operation. And I will admit that you've come some distance in that area, with better turnarounds and so on, from where you used to be. But there isn't any real competition to the railways from the farm community's perspective. So what's extremely important to the farm community and certainly to us on the agriculture committee is that any cost savings that are made do in fact go back to the farm community.

You guys are doing quite fine; they're not. Their costs have gone up in a lot of areas and they continue to creep up on transportation. That's why the FRCC was so concerned about wanting to take over the 12,600 cars, because they felt they could save the farm community $30 million. The reduction in revenue cap, if the $2 per tonne is saved, will make a difference. But that's a big if. It's “if“ you folks are going to transfer any other efficiencies back to the farm community. That's why we're concerned.

I have to ask Transport Canada about the return on capital. Do you have the figures, John, on what the railways are assured under the cap on return on capital?

I'll come back to my original question. Will we see those other two reports that will give us some data? I recognize it's old data, but the fact of the matter is I personally feel you have exploited the farm community on maintenance costs over the last number of years. I can't forgive the railways for that, and I can't forgive Transport Canada for letting them get away with it.

● (1025)

Mr. John Dobson (Senior Policy Coordinator, Grain Monitoring, Surface Transportation Policy, Department of Transport): I would like to clarify the return on capital that you're talking about.

Under the Western Grain Transportation Act, there were cost-based maximum freight rates. One of the cost elements was a return on constant cost, not a return on capital but a return on constant cost, which was set at 20% in the act when the effective rate was probably closer to 25% or 30%, because the railways got productivity gains between costing reviews.

The cost of capital is one of the cost items in the normal formula that they look at as part of the annual inflation indexing. I believe the current rate for cost of capital is in the order of 9%; it's not 20%. There are two different concepts, cost of capital versus return on constant costs.

Hon. Wayne Easter: John, is there anything you can send us as background information on that?

Mr. John Dobson: Yes.

Hon. Wayne Easter: If you have some of that, we'd certainly—

Mr. John Dobson: I think it's important, though, to make the distinction between the two.

Hon. Wayne Easter: I agree. I certainly vividly recall the 20%. I think in any other business, if they could get a return of 20% in capital, my God, it'd be great—and assured so by the government.

So if it's different, then that's fine; I accept that. But I certainly would like to see the background so that we're dealing with what is on the table right now.

Relative to the other two reports, I think they would give the committee the background we need to make some decisions on the new proposal by the government. Are we going to get those two reports, or are we just going to get pieces of them? The railways are here; I know you're negotiating with the railways.

Ms. Kristine Burr: I'm going to ask Madam Borges to answer that, Mr. Easter.

Ms. Helena Borges: First of all, I think we need to clarify what was the purpose of that report. I know you were told by the Farmer Rail Car Coalition that the report was a validation of their business case. This was not the case of that report. That report was meant.... We asked the agency, at the request of both the FRCC and the railways, to determine a preliminary methodology in terms of if ever we got the law changed to make an adjustment to the revenue cap, what would be that methodology? When we asked the agency to do that, they consulted with the railways, they consulted with the FRCC, and they consulted with all the members of the grain community with whom they consult in the determination of the revenue caps as well as determination of the index. All parties were asked to sign a confidentiality agreement with the agency. All parties did so.

Given this, we have to make sure that all parties that signed the confidentiality agreement, and the agency, which is the one that got the confidentiality agreement signed, are prepared to release that information. We are in discussions with the agency. We are looking at whether there is commercial damage that will be caused, because that is the concern to the railways of releasing the report.

Ultimately, the agency will have to make the decision; it is their report. But those discussions are ongoing. I wanted you to have the context of why this information hasn't been provided yet, and what the purpose of it was.

● (1030)

Hon. Wayne Easter: Okay. This question is tongue in cheek, but I'm certain the railways wouldn't want to be under the Access to Information Act the way that the government has proposed that the Wheat Board be under the Access to Information Act, right? Just yesterday we passed legislation in the House that the Canadian Wheat Board, which is not a government agency and receives no funding from the Government of Canada, is going to have to abide under the Access to Information Act, which puts the Canadian Wheat Board at a disadvantage. I'll just lay that out on the table.

The Vice-Chair (Mr. Paul Steckle): Mr. Easter, I need to do this, to be fair.

Mr. Anderson, are you next? It's certainly your side of the table.

Mr. David Anderson: Thank you.

Mr. Buggs, I'd like to come back to a comment you made earlier. You said that you're negotiating to broaden the permitted use of the cars. I'd like to talk a bit more about that. In the past those hopper cars have been dedicated to western Canadian grain. How do you see this unfolding? Is the intention to expand their use beyond western Canadian grain? Obviously it is. What are you going to provide in return, or what are the discussions about providing guarantees to producers in return—especially in light of my question earlier, about the fact that there was an extreme frustration about even being able to get car allocation last fall? I'm wondering if you'd address that issue.

Mr. Jim Buggs: Sure. This is a key point you raise.

From our point of view, we think the system would be better by using the best cars and the best application, the cars that are best suited to the application. So how does that happen? Those are the details we're going to have to try to negotiate and reach an agreement on with Transport Canada.

Part of that, though—and I fully understand we'd be prepared to give this commitment—is if we were going to use the government cars in other than regulated grain movement, we would have to give some guarantees on equivalent capacity, going back into the regulated movement. From our point of view, we think that makes perfect sense. And when we would put back a higher-capacity car with higher quality, better suited for this application, we think that it's a win-win situation.

Mr. David Anderson: Shifting their use, then, would probably make a stronger argument for upgrading them, would it?

Mr. Jim Buggs: That's the other thing. I was going to talk to you later because we didn't have time to get into it, but if I have a few minutes.... What the Saskatchewan Grain Car Corporation has done is to broaden the use of the car and to make the asset that they have a little more valuable. But clearly that's what they're looking at, and we're in negotiations with them as to broader applications for the use of that car. We've already struck agreements with the Wheat Board, which gives us broader application on their cars.

This is really just moving to a more productive, efficient understanding, documented in writing with rates and terms and conditions as to how this happens.

Mr. David Anderson: Farmers don't want to lose that capacity. I assume that you're willing, then, to guarantee that similar level—

Mr. Jim Buggs: That's right. An equivalent capacity guarantee would be a key provision, a key guarantee, and you would have Transport Canada there to monitor and record that and make sure that we adhere to the responsibilities and accountabilities that we undertook.

Mr. David Anderson: Does CN see this the same way?

Mr. Paul Miller: Very similarly, Mr. Anderson. The one thing I'd add to what Mr. Buggs said, just to add to the flexibility point, is that it could be that a grain car would get upgraded to the 286K capacity. It might be used in grain for many parts of the year and used in a potash or fertilizer type of service, for example, in other parts of the year. So that's an example of the type of flexibility that could be achieved with a broader permitted use type of structure.

Mr. David Anderson: Can you give me an idea of the number of hopper cars we have in the system right now? You talked about having 12,000 federal cars and a couple of thousand provincial cars, and the Wheat Board has a few. You said you had 18,000 cars. Does that include your share of the federal fleet?

Mr. Jim Buggs: We're running a fleet of between 25,000 and 26,000 covered hoppers. This is not just moving grain. This is moving potash, fertilizer, sand...all the different types of cars.

You want the breakdown on how they're—

Mr. David Anderson: I'm just interested in the total. This is 25,000 cars in your company. What does CN have?

Mr. Paul Miller: For CN, the grand total is roughly 30,000 cars.

Mr. David Anderson: So you're looking at about 55,000 cars now. What do you predict the required capacity will be in 10 or 15 years from now because you're going to the bigger cars, with more capacity? What numbers do you expect to be looking at in those days?

● (1035)

Mr. Jim Buggs: That's a good question. We go through fleet-sizing exercises on a continuous basis. We do a multi-year plan. We work with our commercial people in terms of what the demand is. We work with the operations people on what the cycles are going to be, and then we come up with a plan.

What we're seeing right now is largely an improvement in cycle time. Demand, especially on grain, can be highly variable. We have a tendency to think of growth all the time in a lot industries, but in grain, the volumes we're seeing now may or may not be larger or smaller than in the future.

So it's really an exercise. I think this is a key thing. You have to have this process and this flexibility to be able to address demand as it comes, whether it's up or when it's down.

Mr. David Anderson: I understand that, but you're talking about capacity going up 15% or 20% on these cars. Does that mean your number of cars is going to be going down? Or do you expect that you'll be hauling that much more product in those types of cars such that you're going to have the same number of cars and that much more capacity on the lines? That makes a difference to producers and how grain is moved in western Canada.

Mr. Jim Buggs: If demand were constant, and if we were successful in negotiating an agreement whereby we can use higher-capacity cars, there would be fewer cars needed to move the tonnage.

Mr. Claude Mongeau: If I can answer that....

Mr. David Anderson: Hopefully with a little more detail.

The Vice-Chair (Mr. Paul Steckle): We'll have Mr. Mongeau answer the question, and that will exhaust your time.

You can include your guest.

Mr. Claude Mongeau: As system participants, our goal should be to have the best world grain logistics system. The goal here should be to have fewer cars, of a better quality, delivering higher throughput capacity for the farmers.

At CN, we envision changes that could allow us to improve cycle times by 33% or 35%, which would dramatically reduce the number of cars that have to be replaced over time, at the benefit of farmers and all the participants.

At the end of the day, though, what we need is the right number of cars to deliver the grain to market when the market asks for it—and that's throughput capacity.

The Vice-Chair (Mr. Paul Steckle): Mr. Atamanenko, if you wish to exercise your right to question, five minutes is yours. If not, we'll defer to Mr. Bagnell.

Mr. Alex Atamanenko: I'll ask a couple of questions.

You mentioned that CP is planning on purchasing 500 new cars at $40 million, 16% more capacity.

At CN, you've been talking about a new approach and replacement. Do you have anything specific in mind, such as a specific number of cars and when you plan on getting them?

Mr. Paul Miller: Really, sir, it depends on the outcome of some of the discussions that we're having right now. As has been mentioned, our fleet plan would be based on retirement of some of the existing cars, the aluminum cars in particular; refurbishment of some of the younger steel cars; and acquisition of some new modern cars.

To answer your question more specifically, we don't have that concretely laid out and moneys approved and so on at this point, because these discussions are ongoing at this time.

Mr. Alex Atamanenko: Of the 12,100 cars, how many are allocated to each company? Is it roughly the same?

Ms. Helena Borges: It's roughly the same; it's almost fifty-fifty. I think CP may have a few more than CN, but it's roughly fifty-fifty.

Mr. Alex Atamanenko: So the 500 cars you're talking about are over and above—not part of this fleet. It's part of your overall fleet.

Mr. Jim Buggs: We have 6,300 federal government cars.

Ms. Helena Borges: If you're interested, I'll describe the government fleet.

It's not just federal. When we say government, that includes Alberta, Saskatchewan, and the Wheat Board cars. There are 12,100 federal cars; Saskatchewan and Alberta each have roughly 950; the Wheat Board has 3,800.

Then the railways have their own fleet. They own or lease the cars. That fleet complements the government cars.

Mr. Jim Buggs: Our cars—this is just a purchase over and above what we have right now.

Mr. Alex Atamanenko: What's your timeline on that?

Mr. Jim Buggs: They're coming off the line right now. I was down there this week; I saw the 271st to the 280th cars were on the line.

Mr. Alex Atamanenko: Thank you. Those are all the questions I have.

● (1040)

The Chair: Thank you, Mr. Atamanenko.

Next is Mr. Bagnell, for five minutes, please.

Hon. Larry Bagnell (Yukon, Lib.): In a part of your speech you mention four pretty technical reasons that having another player in the field would not be better. Could you please read that part?

Before you do, I have a question. It seemed that Transport Canada and CP said there were a lot of useful cars left, whereas CN suggested they're all pretty well worn out and have to be replaced in the next five to seven years. Was there a discrepancy there?

Ms. Kristine Burr: We're in a negotiation right now, and there may be differing views as to the lifetimes of some of these cars.

Ms. Helena Borges: I will add that CN has 2,000 aluminum cars that are very small capacity and are basically at the end of their useful life. CP doesn't have any aluminum cars; all the cars that were provided to CP are all steel.

In addition to those 2,000 aluminum cars, there are the cars purchased in 1972. They are also of smaller capacity and much older, and they're near the end of their useful life.

Mr. Claude Mongeau: That's correct. CN has more than 1,500 aluminum cars that are 4,100 cubic feet and structurally deficient.

Hon. Larry Bagnell: There wasn't much on the reasons FRCC couldn't be involved. The one reason you both gave, I think, was it would be more complicated with another player. I'm not sure; if you're just replacing one player with another one, you still have the same number of players.

Could you read those four reasons you had?

Ms. Judy Harrower: Yes. The first one was increased line haul and switching costs, which would potentially lead to alternate maintenance facilities other than those where we maintain our cars.

The second is more complex maintenance activities and a perpetuation of a non-homogeneous fleet which, as you heard Jim Buggs say—

Hon. Larry Bagnell: Can you explain some of those, because it doesn't seem...you're just having a different owner, so why are all these changes different?

Ms. Judy Harrower: There was a lot of question, from my understanding, as to exactly how and where the cars would be maintained and exactly who would be responsible for the maintenance. There was also the likelihood that having another party would complicate the maintenance activities. That is as opposed to the railway, which already maintains a fleet of 25,000, as you've heard—well, the total is 25,000, but the railway maintains a fleet of approximately 18,000 railcars within our own auspices, as well as other railcars. The situation is more complex when you bring in another party or owner, who now would potentially advocate to maintain their own fleet of cars at facilities other than those existing today.

The overall railway flexibility was the last point that I mentioned. From a railway flexibility perspective, it gets back to doing what we're in business to do, which is basically to provide railcars for the movement of business and to maintain those railcars at the level and standards we feel are appropriate.

The flexibility side of it is literally.... Quite frankly, the points are relatively intermixed, but when you're potentially having to switch cars out or do something differently from the way you would do it with the rest of your entire fleet of cars, you have the potential to run into some reduced system effectiveness and efficiency.

Mr. Claude Mongeau: I could add to that, Mr. Chair.

It's a very simple answer. Today CN has 100,000 cars. We have running repair facilities and maintenance facilities across all of western Canada, and it's part of our system to replace the car at the best price possible and in the most efficient manner.

If you introduce another player, the cars have to be moved to fewer running repair facilities, which will be somewhere at a different place. The hand-off and the distances will mean that more of the cars will be waiting to be maintained, as opposed to moving grain for farmers.

Hon. Larry Bagnell: With another player, there could, as you said, be more efficiency, because there is less of a monopoly. If they could include those extra transfer costs and still have a lower cost, the benefit would certainly be to the people who are shipping things.

Mr. Claude Mongeau: It's very tough to imagine a scenario where a railroad with 100,000 cars in its fleet and very extensive facilities would have a higher cost of maintenance than a specialized small repair shop.

Mr. Jim Buggs: Especially when they are much more limited than what we have in our various networks.

The Chair: Just on Larry's point, in its last presentation before the committee, the FRCC actually said they were going to have to raise freight rates to farmers by $2 to $3 per tonne. Do you agree with that number?

● (1045)

Ms. Judy Harrower: Was that to do maintenance?

The Chair: No, that was just on overall cost factors. They had to raise the freight rate to farmers by $2 to $3 per tonne immediately in order to make their package viable.

Mr. Claude Mongeau: They were hoping to offset that with $2 per tonne from the maintenance costs. In essence, their approach would be to increase the cost to farmers by having the railroad pay for the leases, and then they would offset it with the argument that the railroads are being paid $2 per tonne too much for maintenance. The net of the two was the hope of breaking even.

The Chair: I have one other quick point before I turn it over to Mr. Bezan.

How many cars are actually repaired at trackside in order to make them serviceable to get to the repair depot? Somebody talked about having a mobile crew so you could actually go right out and do whatever. I've seen them at work. What percentage of cars are disabled to the extent that you have to do a trackside quick fix in order to get it to the repair facility?

Mr. Paul Miller: I wouldn't have a number to put on that, sir, but it's the nature of the defect. If it's a safety or running repair type of defect, changing a wheel or a set of wheels, brakes, couplers or things of this nature, a lot of that work can be done on-train, in a yard. If the car is on-line, then that work has to be done on-line to repair the car.

The Chair: Right. That is so it is not a hazard to tow into the repair depot.

Mr. Paul Miller: That is exactly right.

The Chair: Thank you.

Mr. Bezan, for five minutes, please.

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

I want to thank you all for making your presentations this morning. I'm sorry I had to step out for a bit.

I was interested in hearing you say that there needs to be more accountability in the rail handling system and that we need more capacity, and I was glad to hear that more investment is happening.

We hear from our farmers—and I'm a farmer myself—that there is definitely a lack of accountability, a lack of commitment, and a lack of capacity in the grain system. Last year, a lot of the inland terminals were stuffed full and they couldn't get cars to get the grain. At times, the ports were sitting empty, with ships wanting to come in but no grain being delivered.

There is a concern that the service isn't there. We are looking at a bumper crop, as Mr. Anderson has already alluded to, and we have to be able to handle it this fall. Times are tough on the farm and guys are looking to the railways for service.

I wonder if the reason that the service has fallen back a bit, at least in the opinion of grain shippers, is because of the revenue cap. Does the revenue cap restrict how much you want to ship because you're scared to hit that level too quickly?

Ms. Judy Harrower: The revenue cap of course is adjusted for volume. There would be no reason why we would not ship volume as a result of the revenue cap.

I would have to add, from our perspective, we've been more fluid this year than we've ever been in moving grain. Having made the investments in our infrastructure, the crews, the locomotives and the cars, we intend to retain that fluidity that we've achieved so far this year to move the volumes of grain that hopefully will come to pass with the new crop.

Mr. James Bezan: Because of what happened last year, farmers feel they're at the bottom of the pecking order, that when railways are handling their various clients, they put the higher-value goods on top—moving the container loads and things of that nature—and then they move down to bulk goods after that. Even within the bulk structure, moving forestry products, coal and whatever, grain somehow falls to the bottom of that list. Is that the case, or is that just the perception?

Mr. Paul Miller: If I may, sir, that's definitely not the case. If for no other reason than self-survival, we can't let one logistics chain back up at the expense or benefit of another logistics chain. We have to keep the fluidity or we have a continuing bow wave of problems in our network. If we let grain sit while we move intermodal traffic, for example, then the terminals would have no work to do; a week later they would have too much work to do and we'd be weeks and weeks recovering from that effect. We're very careful to move all the products that are offered on as timely a basis as we possibly can.

Mr. Jim Buggs: You're talking sort of general statements, so without specifics it's a little bit tough to address.

One key issue I'd like to talk about, though, is the demand on a consistent basis. For example, at the ports, relative to the terminals that we serve, 2,000 unloads a week is pretty much the maximum CP can get in terms of unloading cars. So if there's a demand for 3,000, well, there's just not enough terminal capacity in Vancouver, for example, to put it through.

It's the same thing with cars. We have a lot of cars. Right now we have 12,600 cars and we're prepared to put more in Canadian grain. But we have to work with what the projections are, and then we have to utilize those cars efficiently relative to the capacity that we have.

Just speaking for CP, we definitely do not in any way discriminate against grain. Grain is our biggest business, so we pay a lot of attention to grain and we move it to the best of our capabilities.

● (1050)

Mr. James Bezan: Okay.

There have been some joint meetings. I think Transport Canada has set up meetings in the past where you've had all the shippers at the table, you've had the railways. There was concern that at a recent meeting, CN never showed up. What was the reason for that?

Mr. Claude Mongeau: I'm not sure I'm aware of which meeting, sir.

Mr. James Bezan: Let's see....

You guys might know better. This information was just related to me by one of the grain handlers, that there was a meeting recently and everybody was invited to the table, and for whatever reason, CN skipped the meeting.

Mr. Claude Mongeau: We welcome meeting all of our customers face to face or in any forum to address issues. We show up at meetings when we know what the meeting agenda is and what we have to discuss.

Mr. James Bezan: I believe I'm out of time.

The Chair: You are out of time. Thank you, Mr. Bezan.

Mr. Steckle, do you have a final point?

Mr. Paul Steckle: Yes, just one point. It's something that really does concern me, as one who has lived a considerable amount of life and has had a lot of life experiences, particularly in agriculture.

We're given constantly to understand that there's a program that is going to return to us some sort of net benefit. Here we have another situation where farmers are in anticipation now, where the guy who sells 5,000 tonnes of barley or wheat or whatever thinks he is going to realize another $10,000. Well, I'm not a prophet, but I can pretty much assure them that they probably will never realize that $10,000 benefit.

I guess as a farmer I would have to wonder how I could be assured that two railway companies sitting down with Transport Canada would negotiate the best deal for me. I realize you're business people and you need to make a profit—I understand that principle. I understand Transport Canada is trying to get a good deal. But without a representative of the farm community or those particular shippers or the people who are the beneficiaries of your system—as you have so eloquently said this morning—how can they be assured that the best deal's going to be struck in the long term, given that, as I see it this morning, 25 years from now very few cars will be owned by the government, if any? It then becomes a system that is controlled and owned by two rail companies, perhaps, or maybe one by then—I don't know; I can't predict that far.

What kind of assurance can you give this group this morning, and the listening audience and those out there who will be reading the blues tomorrow, that the best interest of farmers is always first and foremost for both you and the Department of Transport?

Mr. Claude Mongeau: If I could answer, you're putting your finger again, sir, on the right issue. And I think you have a lot more life going forward than what you're saying.

I would say the farmers today and you, as government officials, have two choices. We can focus on reducing $2 a tonne, with a rather technical debate on the maintenance costs of 1992, or we can focus on the solution to avoid an increase of $4 to $5 a tonne when those cars are replaced going forward. If we make it win-lose, the farmers will get a short-term $2 a tonne, the railroads will lose $50 million, and the taxpayers will be caught with $1.5 billion of investments going forward, because the less investment return we have in the railroad, the less incentive we have to invest in cars going forward. So that's the win-lose-lose scenario.

The win-win-win scenario is one where we all look to gain productivity. With productivity like one driver, better cycle times, and higher cubic capacity cars we can get enough productivity to replace the cars at no cost to farmers if there is revenue stability.

It's a choice: do we want to do it win-win-win, or do we want to do it win-lose? The stakes are $2 a tonne, which will be ground down as we get the real numbers on the table, or $4 to $5 a tonne for the actual ownership cost of those cars going forward. It's an easy choice if we have a long-term view.

● (1055)

Mr. Paul Steckle: Does anyone else want to respond to that?

I'm not going to give a rebuttal because I want your word to be the last one. We'll judge you on that.

Ms. Judy Harrower: As I mentioned earlier—I concur with what Mr. Mongeau has said—we need to look forward and make sure we provide for the future of the grain-handling transportation system in Canada and not be anchored in the past. We need to make sure we make the right choices today for the success of this country.

Ms. Kristine Burr: Clearly we're talking to both railways, and we're very mindful of the complexity of the situation. There are issues around car supply. We are also regularly hearing service concerns on the part of shippers right across the country, including grain shippers.

We're going to have to think very carefully, as we make recommendations to the Minister of Transport, about what the best possible outcome is for the transportation system. I think this is the driving rationale for Transport Canada, and we're very mindful of the concerns we've heard expressed today.

I'd like to thank you for the thoughts you've shared with us.

The Chair: Thank you.

Mr. Bezan, you have one final point.

Mr. James Bezan: Ms. Harrower, you talked about the efficiencies in the system, and said we are improving at CP in particular, and hopefully at CN as well. There's no doubt that our future is going to be based upon the efficiencies we can have here to better serve our farmers and everybody in the entire shipping industry.

You said we're one of the best in the world. Where would we rank in efficiencies and the ability to move product out to port, in relation to the U.S., Australia, Brazil, and Argentina?

Ms. Judy Harrower: I'm not sure I understand the point around "best in the world".

Mr. James Bezan: You made the comment earlier in your presentation, if I'm not mistaken, that we had one of the most efficient systems in the world.

Ms. Judy Harrower: I think from an overall grain-handling and transportation aspect, Mr. Mongeau commented earlier about having a very efficient transportation structure in place to provide a very economical package to the farming community to get their goods to the export market vis-à-vis other countries.

As it pertains to the overall rail side of things, there's no question that from a safety and service perspective North American railroads do provide some of the best performance of all railways in the world. I can speak for us, in particular. Our focus on safety and service—and the performance we've had in the last several years on this—puts us in the top ranking within North America as well. That's what I was referring to in my comments.

Mr. James Bezan: If we look at our system versus other countries, other competitors on the global stage, in being able to get product from the farm gate to port and delivered to the export customer, how do you think we stack up?

Ms. Judy Harrower: I don't have specific documentation on that, but from information I have read and commentary, we have an extremely economical system in place for our farming community, an extremely service-conscious system in place to provide an excellent service to the grain shippers of Canada.

Mr. Claude Mongeau: There is no question that on a world-scale basis we have the best grain-gathering system. If you compare us to the most direct competitor, which is the U.S. system, we move product faster at a 35% lower cost.

There is no better system in the world, and we can make it a lot better if we work together. We can improve if we move away from the complexity and confrontation, the aura of past regulatory measures, and the kinds of debates we have been having around construction and maintenance costs of 1992, and focus on what it takes to perform going forward and get even better.

Ms. Kristine Burr: One of the areas identified at the time of the Estey and Kroeger reviews a few years ago was cycle times. Although we have seen improvements recently, as has been mentioned this morning, the cycle times of today are nowhere near the targeted improvements that were identified when Mr. Estey and Mr. Kroeger looked at how the grain transportation system could be improved. So I think there are real opportunities for more productivity gains, and this should be a focal point as we move forward.

● (1100)

The Chair: Thank you so much, ladies and gentlemen, for your presentations today. The dialogue has been very helpful, and I'm sure we'll continue down this route next fall.

This is our final meeting of the spring. I'd like to thank everyone for their great attendance here at the few meetings we've had.

We have a little housekeeping to do, and Mr. Anderson has one last point to make.

Mr. David Anderson: I just wanted to let the committee know that I apologized to Maple Leaf for the fiasco on Tuesday, the fact that we did not get to the Rothsay plant, and I guess I just want to express my disappointment with this. We had commitments, and we thought we had matching numbers between government and opposition members. When we got to the bus, we had five of us, and two people showed up, one official opposition member, and that was it.

People were on the list as being committed. There was only one person who had said he would not be there, and he did not get a replacement. But when we tried to leave, the whip made the decision that we weren't going. So I hope that doesn't affect our ability to travel in the future. If we're going to make commitments, please let us know ahead of time if you're not going to be there so we can make the adjustments. It was frustrating for everybody.

The Chair: The taxpayers were out $800. We did have to pay for the bus, because we started and stumbled....

Mr. Easter.

Hon. Wayne Easter: I sent word with Paul that I couldn't go. When Bill C-2 came in and one of my motions was on, I felt that I had to stay here—I didn't think it was going to come up that day—and that's why we couldn't do it.

It shouldn't affect our ability to travel in the future. I think we're down to the wire in terms of trying to conclude some legislation. Some things come up that you have to stay for, and that was one of those days.

The Chair: Thank you, Mr. Easter.

Mr. David Anderson: I would suggest that you try to get a replacement or something so we don't just walk up to the bus and find that nobody showed up.

Hon. Wayne Easter: I did try, but it was impossible to do it that day.

The Chair: Okay, great.

Next fall, of course, our time and place of meeting may change. We're not sure what will happen. The clerk will stay on top of that over the summer.

For issues and so on, we'll probably have an organizational meeting. We do have a steering committee. If you would prefer a meeting of the whole, that's fine, as well. I guess we'll discuss that when we're first called back sometime in mid-September, as I understand it.

Have a great summer, everybody. We look forward to getting back with you again in the fall.

This meeting is adjourned.

Published under the authority of the Speaker of the House of Commons

Publié en conformité de l'autorité du Président de la Chambre des communes

Also available on the Parliament of Canada Web Site at the following address:
Aussi disponible sur le site Web du Parlement du Canada à l'adresse suivante :
http://www.parl.gc.ca