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CANADA

## Standing Committee on Public Accounts

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EVIDENCE

**Wednesday, October 7, 2009**

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**Chair**

**The Honourable Shawn Murphy**



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• (1530)

[English]

**The Chair (Hon. Shawn Murphy (Charlottetown, Lib.)):** Order, please.

I want to welcome everyone here today. *Bienvenue à tous.*

I have a few preliminary remarks, and I also want to deal with the minutes of the steering committee before we get into the main orders of the day.

Before we do anything, I want to extend, on behalf of all members of the committee, a very special welcome to three additional members of the Mali delegation. We had five here the other day and we were very pleased to see them. Back with us today are three additional members of that delegation: Mr. Moumouni Guindo, Mr. Ismaël Diawara, and Madam Aissata N'diaye. Welcome to the committee. We are certainly pleased that you are here with us today.

Next, before I introduce our witnesses, I want to deal with the minutes of yesterday's steering committee. They have been circulated. I don't think there's anything contentious. They basically outline chapters that we are going to deal with. There is one item I'd like to add and I'll add it after paragraph 1. I'll just read it:

That pursuant to Standing Order 108(3)(g), the Committee undertake a study of Revenue Canada "Interest on Advanced Deposits from Corporate Taxpayers, Canada Revenue Agency;

The steering committee may come back and not do it, but as you will recall, this involves a loophole. Large companies were taking advantage of a situation by paying deposits and getting interest rates that were larger than normal. Of course, they knew the taxes. There was some indication that it was cleaned up, but our most recent information is that it was not. So we'd like to add that to the steering committee as a possible chapter.

Mr. Kramp.

**Mr. Daryl Kramp (Prince Edward—Hastings, CPC):** On number 3, we have:

That, pursuant to Standing Order 108(3)(g), the Committee undertake a study of the implementation of its recommendations made in the 2nd Session of the 39th Parliament, and report to the House thereon;

I was under the impression that we were to ask the analysts to evaluate all the recommendations. Then, based on that analysis, they would report to the next steering committee. Did I misunderstand?

**The Chair:** My understanding was that we had a lengthy discussion in which we talked about advanced deposits from corporate taxpayers. Then we settled on the first choice of everyone at the meeting.

I'm sorry, Mr. Kramp, I went to the wrong chapter. Perhaps I'll get Alex to respond.

**Mr. Alex Smith (Committee Researcher):** Thank you, Mr. Chair.

This is based on an analysis that has already been done. So the discussion at the steering committee is whether or not a report of the committee would be presented to the House based on the analysis that had been done.

**Mr. Daryl Kramp:** I suggest that it come back to the committee before we make that judgment and it goes to the House.

**The Chair:** Any other discussion? All in favour of the minutes as circulated?

**Some hon. members:** Agreed.

**The Chair:** Now we're going to go to the orders of the day.

We're breaking this meeting down, colleagues, into two one-hour sessions. The first hour we're going to hear from the Great Lakes Pilotage Authority, and we have Sheila Fraser representing the Office of the Auditor General of Canada. She's accompanied by Nancy Cheng. From the crown corporation, the Great Lakes Pilotage Authority, we have the chief executive officer and of course the accounting officer, Robert Lemire. He is accompanied by the secretary treasurer, Réjean Ménard, and Douglas Smith, the chair of the board of directors.

Before I ask for opening comments from the Auditor General, I just want to point out to the members of the committee that special examinations have been ongoing in Canada for many years now on our crown corporations. They were always done every five years by the Auditor General, and the mandate is set out in the report. Up until about five years ago they were generally used as a tool for management. They were reported to the board of directors on a confidential basis. In about 2004 or 2005, the decision was made to place them on the corporation's website, and this is the first occasion where the public accounts committee has actually had hearings on a special examination. I view this as a positive development. There are at least 50 crown corporations. They employ approximately 100,000 people, they have \$185 billion in assets, and they are a very large part of the apparatus of the Government of Canada. So I do believe that warrants a dialogue with the public accounts committee.

So I'm very pleased to have representatives from the Great Lakes Pilotage Authority here today.

Having made those opening remarks, I'm going to turn the floor over to you, Madam Fraser, for your opening comments.

•(1535)

**Ms. Sheila Fraser (Auditor General of Canada, Office of the Auditor General of Canada):** Thank you, Mr. Chair. We are very pleased to be here today to discuss our chapter on special examinations of crown corporations, particularly the examination of the Great Lakes Pilotage Authority. As you mentioned, I'm accompanied by Nancy Cheng, assistant auditor general.

Crown corporations report to Parliament through the minister responsible. Under part 10 of the Financial Administration Act, we conduct periodic special examinations of crown corporations. A special examination provides an independent opinion to determine if the corporation has reasonable assurance that its systems and practices allow it to safeguard and control its assets, manage its financial, human, and physical resources economically and efficiently, and carry out its operations effectively.

We note as a significant deficiency any weakness in the systems and practices of the corporation that could prevent it from reaching its objectives. Our special examination reports are thus a source of important information that parliamentarians can use to hold crown corporations to account.

For the first time, our May 2008 report included a chapter that, among other things, summarized eight special examination reports and gave an account of the progress of our special examinations of 46 crown corporations. We continued the practice this year and presented the main findings of our reports on eight other crown corporations. We are very pleased that the committee is interested in these reports.

[Translation]

Of the eight special examination reports summarized this year, five did not find any significant deficiency. We noted one or more significant deficiencies in our reports on three crown corporations: the Federal Bridge Corporation Limited, the Great Lakes Pilotage Authority and Via Rail Inc. In each of these three cases, we brought our report to the attention of the responsible minister.

I will now highlight the findings of our special examination of the Great Lakes Pilotage Authority, one of the two entities of particular interest to your committee today. This federal crown corporation reports to Parliament through the Minister of Transport, Infrastructure and Communities.

We conducted our special examination from February 2007 to January 2008. We found a significant deficiency in the current system of exempting Canadian ships from compulsory pilotage. The Authority does not have an effective mechanism for determining whether Canadian masters and deck watch officers have the competencies and qualifications needed to pilot their ships safely without the help of Authority pilots in compulsory pilotage areas. The Authority issues exemptions on the basis of annual declarations by shipping companies, stating that their officers meet the requirements set out in the Great Lakes Pilotage Regulations.

Pilotage contributes to the public safety by minimizing the risk of accidents and environmental damage. More than 60% of ships navigating on the Great Lakes are Canadian vessels exempted from compulsory pilotage. The Authority therefore needs to have assurance that Canadian masters and deck watch officers are

competent. The current system of exemption dates from 1972. It was intended to be temporary but has remained in force despite many studies and recommendations calling for greater stringency.

[English]

In our special examination we have noted good practices, for example, the authority's regular discussions with various stakeholders from the shipping industry to ensure its service meets users' needs. We have also identified opportunities for improvement in other areas, notably the tariff-setting process.

I am pleased that the authority has accepted all of our recommendations.

Concerning the exemption system, the authority expected that amendments to the regulations would be published in 2008. I would note for the committee that we have not audited the measures taken by the authority since the end of our special examination in January 2008. The authority has informed us that it expects the Great Lakes pilotage regulations to be amended, and that once they are, a process for pilot certification will be fully operational within three years.

The committee may wish to request details from the authority on the measures taken since our special examination, including information on the interim measures put in place to ensure safe navigation.

Mr. Chair, this completes our opening statement. We would be pleased to respond to any questions that committee members may have.

Thank you.

•(1540)

**The Chair:** Thank you very much, Ms. Fraser.

Mr. Lemire.

**Mr. Robert Lemire (Chief Executive Officer, Great Lakes Pilotage Authority):** *Merci, monsieur le président.*

Good afternoon, Mr. Chair, committee members, as well as my friends from the Auditor General and Transport Canada.

My name is Robert Lemire. I am the CEO of the Great Lakes Pilotage Authority. I have been with the authority for the last 24 years, 11 years as CEO. Yes, that's a long time.

With me today are Mr. Doug Smith, our chairman of the board, and Mr. Réjean Ménard, our secretary-treasurer. We are here today to answer questions from the committee on the recent Auditor General of Canada report, chapter 7, "Special Examination of Crown Corporations".

In its 2008 report to the board, the auditor's main observation was that the authority's current system for exempting Canadian ships from pilotage needed to be strengthened.

The authority's response concurs that a more stringent exemption or certification system would strengthen the authority's ability to ensure the future safety and efficiency of the navigation system. The authority continues to work with Transport Canada and the major stakeholders to address this deficiency.

The authority is a very small crown corporation, with fewer than 100 employees, answering to the Minister of Transport through our board and chair, who are seven GIC appointments. The corporation is listed in schedule III, part I, of the Financial Administration Act and operates and conducts all of its activities out of one location in Cornwall, Ontario.

The authority is responsible for administering the pilotage system in the Great Lakes. The system stretches 2,200 kilometres from Montreal to Thunder Bay. It covers the five Great Lakes, including all of the commercial Canadian and American ports on Lakes Erie, Michigan, Ontario, Huron, and Superior. The authority works in cooperation with the U.S. Coast Guard to share facilities and services on the Great Lakes to avoid duplication of services.

The authority was set up in 1972 with the creation of the current Pilotage Act, at the same time as the Pacific, Laurentian, and Atlantic authorities were. Pilotage authorities are mandated to be financially self-sustainable and do not rely on any government subsidy or transfers.

Marine pilotage is a service provided to ships that navigate in waters where navigation officers have little or no knowledge. These waters include canals, rivers, and lakes that have difficult navigation characteristics such as currents, wind, and low water conditions that can yield dangerous navigation scenarios.

In the Canadian and American waters of the Great Lakes, all vessels over 1,500 tonnes—those are vessels of about 200 feet or longer—must be guided by an experienced licensed pilot, unless the vessel is navigated by officers who are familiar with the system. Foreign vessels always avail themselves of pilots, whereas Canadian ships take advantage of the current exemption system permitted them to sail the Great Lakes.

The authority has been working with the major stakeholders and Transport Canada to change the existing system so that it meets the requirements of the Pilotage Act and the economic realities of the operators while maintaining the highest safety standards required for protecting Canadian navigable waters.

The proposed regulatory amendments will see, after due verification of credentials, existing officers now on the exemption list issued pilotage certificates for the Great Lakes. This will allow them to continue the current practice of operating Canadian vessels in the Great Lakes without the requirements of authority pilots. It is proposed that all officers requiring a pilotage certificate after the transition period will be subject to the Great Lakes pilotage regulations requirement of an examination.

The authority is now in the drafting stage with Transport Canada for amending the Great Lakes pilotage regulations. The proposed changes will allow the authority more assurance that the Canadian deck watch officers and masters have the required knowledge to navigate our waters. Under the proposed new system, Canadian

officers who are members of the complement of a vessel will be required to hold a valid pilotage certificate issued by the authority.

Mr. Chairman, this completes my opening statement. Our chairman, Mr. Smith, would like to address the committee briefly.

Thank you.

● (1545)

**The Chair:** Mr. Smith.

**Mr. Douglas Smith (Chair, Board of Directors, Great Lakes Pilotage Authority):** Thank you, Mr. Chairman and members of the committee. Thank you for allowing us to be here today.

I just want to add a few comments. I won't take too long.

To put it in perspective, I was appointed to the board of the Great Lakes Pilotage Authority in March 2007, so I've been there for about two and a half years. That's a short time compared to how long this issue has been before the marine community.

When I joined the board, I immediately saw that this issue had to be a priority for me. To get resolution, I was greeted with a file of letters from a number of transport ministers admonishing my predecessor for not getting the issue resolved. My background is a marine background, and I had a relationship with a number of the players on this issue, including the members of the Canadian Shipowners Association. My perception of where the situation had gotten to was that there was a lack of trust, a significant lack of trust, between the industry, the pilotage authority, and the Canadian pilots, who are another group that is not here today. I felt that because of my relationship with these people I could bridge that trust issue and help resolve the issue.

So immediately, within about a month, when I had my feet on the ground and was briefed on the file a little more, Robert and I initiated a process to try to get the matters resolved, but we have been unsuccessful. But as Robert has pointed out, we are close to a resolution of the issue as we stand now.

**The Chair:** Thank you, Mr. Smith.

That concludes the opening remarks, and I'm going to go to the first round. What I propose to do, colleagues, is just to follow the normal course and go as far as we can. We have about 38 minutes on this, and then we'll hear from VIA Rail and do the same thing again. I think that's probably as fair as we can be.

Mr. Lee, seven minutes.

**Mr. Derek Lee (Scarborough—Rouge River, Lib.):** Thank you, Mr. Chairman.

I just want to clarify, again, the proposed implementation dates for the time when all masters or officers in charge of a ship will have an appropriate certification.

Number two, will these new procedures impose a material new cost on the ship owners?

**Mr. Robert Lemire:** A good question.

Mr. Chair, as far as the timing of the amendments and when they take place is concerned, we are proposing a three-year window where the current navigation officers will be able to avail themselves of a certificate without fee. Once we complete the three-year period on January 1, 2013, all new applicants will be able to come to the authority and write an examination, and if successful they will be issued a pilotage certificate.

As for the total cost, presently we have 400 individuals in the Great Lakes navigating with an exemption. They would be issued certificates without a cost to the industry. We are told today that about 30 to 40 new applicants will come through the system every year. Once that process is over, that is all the cost the industry will have to bear—to sit down for an examination.

**Mr. Derek Lee:** Most of us can understand how the system evolved, where it came from historically, because there was a time when there wouldn't be a crew on the Great Lakes that wouldn't trust their captain, but in these days there's a lot more occupational mobility—at least I think there is—and the cargoes perhaps have changed from being wheat and iron ore and coal, and things like that, to perhaps other dangerous cargoes.

Where a lot of people missed this in the past, I guess the Auditor General spotted it. There's no backup mechanism to assure quality of those ships' masters. I was a deckhand on a ship for a couple of summers and it never occurred to me that there might be a problem, that my master wouldn't know the waters. These are inland waters, there are no tides, there are a few currents, rivers. There are a few tough spots in bad weather, but it's not a difficult system to navigate. The pilots were then seen as having a great gig. They had a great game. They could board the ship and snooze right through. I'm not saying they all did, but if you weren't sure how they did it, you could always check on the Laurentian side and see how they were doing.

Do you have any comment about whether at the end of this process you think there'll be a reasonable accommodation in the interests of safety? Do you think the ships' insurers will approve of this? Are they happy with it? And the ships' owners, the shipping industry, are they going to be comfortable with this?

Thank you, Mr. Chairman.

• (1550)

**Mr. Robert Lemire:** We're certainly hoping they're comfortable with what is being proposed. Trying to change any practice that's been in place for over 100 years is probably difficult for whomever the system is being changed for.

As far as assurance that the existing ships going into our waters are being operated by properly qualified and experienced captains, we watch these ships come through every day and we know who the captains are. We don't have a concern about safety for now. Let's put that to rest right now: there is no safety issue for the Canadian public.

We're not following the letter of the Pilotage Act when it comes to the Canadian ships because of this exemption. With respect to how will it change in the future, the authority will have more power to examine specific cases where we do have concerns. Presently when we have concerns we do not have the benefit of the law on our side to ask any further questions. We will do it, but we do not have the

law on our side. With the future amendments we'll have the law on our side, and we will take the proper mechanisms to address any deficiencies, if they are there.

**Mr. Derek Lee:** Good answer.

Thank you, Mr. Chair.

**The Chair:** Thank you very much, Mr. Lee.

*Madame Faillie, sept minutes.*

[Translation]

**Ms. Meili Faillie (Vaudreuil-Soulanges, BQ):** Thank you, Mr. Chair.

I live in a riding on the shore of the St. Lawrence River. So I am aware of the difficulties that arise from time to time, be it ships passing through canals such as the Beauharnois Canal, or problems with the Saint-Louis Bridge, which has been hit twice by ships in the past decade.

I believe you have statistics on the incidents that occurred on the St. Lawrence River. Could you tell us whether these ships were under this exemption and whether the problem had to do with the fact that the individuals were not certified?

**Mr. Robert Lemire:** You are probably referring to the incident involving the Saint-Louis Bridge that happened two years ago. The bridge was struck by a Canadian vessel that was pilot-exempted. In that particular case, even if the ship had had three pilots, it would not have made a difference. When the motor gives out, neither the pilot nor the master can do anything about it. That is what happened. As for statistics, Transport Canada has just sent us some information, and I have it here. I will have it sent to Joann at the end of the day. I would not want to give you statistics that were not accurate.

**Ms. Meili Faillie:** Thank you. That would be greatly appreciated. It will help us assess the extent of the problem.

You mentioned regulations. From what I understand, this is not the first time that you are recommending amendments. The problem goes back a number of years. Could you tell us what is stopping these regulations from being reviewed and amendments from being implemented?

**Mr. Robert Lemire:** In the past 10 or 20 years, the biggest barrier to regulation change has been that the proposed amendments would result in higher operating costs for Canadian shipowners. We took part in consultations, but we could not support the recommendations in that they would lead to higher operating costs for Canadian shipowners. We have yet to find the silver-bullet solution. We are working on something now that may prove effective. We have never had any safety concerns. That was not an issue for Canadian ships. That is probably why attempts to fix the problem have taken so long.

• (1555)

**Ms. Meili Faillie:** Are you subject to the new policy that Treasury Board wants to implement with respect to determining the costs that you invoice?

**Mr. Robert Lemire:** No. I do not think that our crown corporation is included in that.

**Ms. Meili Faillie:** Okay. I have no other questions.

**The Chair:** Thank you very much, Ms. Faillie.

[English]

Mr. Christopherson, you have seven minutes.

**Mr. David Christopherson (Hamilton Centre, NDP):** Thank you very much, Chair. And thank you all for being here today.

I'm having some trouble understanding a piece of this, and I'm sure it's just because I don't understand. So you can help me.

In 1972 they came out with the system of exemptions, and it was meant to be temporary. The problem the Auditor General is having—and I'm using her words—is that “The Authority therefore needs to have assurance that Canadian masters and deck watch officers are competent.” There's a 2002 report that came out with the same concern, making the same recommendations.

I don't understand why this is taking so long, but if I'm hearing your answer correctly, your solution is going to be to grandfather the existing 60% of exemptions, giving them automatic licences, and then everybody else who comes afterwards will actually be properly tested and be what we all would consider to be compliant with and consistent with the law.

But if the concern right now is the 60% who are exempted and who don't have to, and there's no way of being reasonably assured that they have the talent, then automatically conferring upon them a new licence seems to me to take the old problem and put it into the new system. You can say that once they retire or die, that won't be a problem. But the issue is that 60% now, and to me, as somebody who represents one of the great harbours in the Great Lakes, this is a real concern.

Help me to understand how you're dealing with the questions around the 60% now who are exempted, when you're going to continue to exempt them in the new system.

**Mr. Robert Lemire:** There's a question there that is multi-part.

In 1972, when the Pilotage Act came into force, Parliament recognized that there were Canadian sailors going up and down the Great Lakes piloting their own vessels and decided that these people would get special treatment. They were already doing the job. So Parliament put in the Pilotage Act a transition period that would allow these people to come to the authority and receive a pilotage certificate. That never happened. There were always numerous reasons for its not happening.

**Mr. David Christopherson:** Like what?

**Mr. Robert Lemire:** In my 24 years...1972 is like 40 years ago.

They just didn't come; they didn't have to come. I think one of the problems in 1972, when this grandfathering provision was put in... The exemption does not allow the authority to remove an exemption; that was the biggest problem, and it was too difficult to change. There was always a hope that there would be cooperation with Transport Canada and the industry to resolve this, but it hasn't happened.

The Auditor General's concern is a valid one, as I said a while ago. We have ships that are exempt right now. It's not individuals who are exempt; it's ships.

**Mr. David Christopherson:** Yes.

**Mr. Robert Lemire:** In certain cases, if I think the ship is not safe enough, there is no provision in my regulations to stop it; we do it anyway. We know of the weakness.

• (1600)

**Mr. David Christopherson:** I'm sorry, I don't have a lot of time. Could you speak to my issue, please?

**Mr. Robert Lemire:** I'm speaking to your issue. Your issue is why we would want to give 60% of these people a pilotage certificate. We know that the people out there are experienced and properly qualified to do their jobs.

**Mr. David Christopherson:** How do you know that? Is it because the companies that own the ships tell you?

**Mr. Robert Lemire:** That is one of the reasons.

**Mr. David Christopherson:** How else? There's no test.

**Mr. Robert Lemire:** No.

Presently, the only responsibility for the company is to send us a letter indicating that their people are qualified.

**Mr. David Christopherson:** That's right, and that's a concern, if I understand, that the Auditor General has raised and that the people in 2002 raised, seven years ago. You're taking that same group of people and handing them a new licence in the new system. I'm still having trouble understanding how that addresses the public safety concerns.

**Mr. Robert Lemire:** The public safety concern is covered by this authority through due diligence in—

**Mr. David Christopherson:** What due diligence, sir? You get a letter from a shipping company with a list of names and titles.

**Mr. Robert Lemire:** I was just getting to that.

We see every ship that goes through the system. We know who the captains are. We see them on a periodic basis. They come and apply to be licensed pilots. So we know who they are. Their incident rates are non-existent, so there really isn't—

**Mr. David Christopherson:** So there's not a problem.

**Mr. Robert Lemire:** There's not a problem.

**Mr. David Christopherson:** Why is the AG raising it, and why did the 2002 report raise it? Are they wrong?

**Mr. Robert Lemire:** They're not wrong. A third party needs to validate that these people are properly trained. In this society and with environmental concerns, there needs to be a third party to validate.

**Mr. David Christopherson:** So that's agreed. I didn't get a very clear answer, but I think the fact that you couldn't give me a clear answer answers my question.

Even now, as I understand it from your words today, which I'm quoting, “The Authority is now in the drafting stage”, and then, “The proposed changes will allow” them....

Anyway, what I'm getting from this is that you still don't have an agreement. You still don't know exactly what you're going to do.

Let me ask, what are the pressures? Who is threatening you from just saying that this is the legislation? I'm not trying to be difficult, but what is stopping you from saying that this is in the best interest of our mandate, the public safety, and that if the politicians are on-side, that's what's going to happen? Who is it who has a veto and is not coming on-side?

**Mr. Robert Lemire:** Mr. Chair, what we have started, since the auditor has raised the concern—

**Mr. David Christopherson:** I thought the sheriff started it earlier, but go ahead.

**Mr. Robert Lemire:** We've started an audit process now of the captains in the domestic fleet. We've completed about 15%. We've looked at about 60 of these individuals. We've looked at their trips, their training, certification, and incident rates, and they are as good as or better than those of our pilots. My comfort is there. With that comfort, I can continue to try to deal with the problem while making sure the public is safe. That's my answer.

**The Chair:** Thank you, Mr. Christopherson.

Mr. Saxton, you have seven minutes.

**Mr. Andrew Saxton (North Vancouver, CPC):** Thank you, Mr. Chair.

I'd like to thank our witnesses for being here today.

I will share my time with Mr. Shipley, if that's all right.

First of all, I'd like to begin by pointing out that of eight special examination reports, five did not find any significant deficiency. I think this is an accomplishment that should be recognized. It's good news. I'd like to ask the Auditor General, if she would like, to comment on that aspect.

**Ms. Sheila Fraser:** We are pleased to see that the majority of the crown corporations we looked at last year did not have significant deficiencies. I would say that over the 20-some years that we've been doing special examinations there has been an improvement, and the number of significant deficiencies has decreased.

**Mr. Andrew Saxton:** Thank you.

My next question is for Mr. Lemire.

The report that your office sent us says that the GLPA is working with Transport Canada and the major stakeholders to address the deficiencies. I'm aware that in order to resolve the exemption issues the authority has held a couple of meetings with stakeholders. Could you please share with us the outcome of those meetings?

**Mr. Robert Lemire:** As recently as this afternoon I think I can report that the industry knows that the status quo is not acceptable, that there needs to be more transparency. I think what we're proposing as regulatory amendments will satisfy the auditor and the Canadian people.

They certainly don't like everything that's being proposed, and the authority doesn't like everything that we're ready to accept, but that might mean that we're getting somewhere.

**Mr. Andrew Saxton:** Can you tell me when you expect to see the regulatory amendments that will address the deficiencies?

•(1605)

**Mr. Robert Lemire:** Is that "expect" or "hope"?

**Mr. Andrew Saxton:** It's either/or.

**Mr. Robert Lemire:** We have a final draft that needs a couple of words changed. It's not a secret that if we don't have consensus with the stakeholders and the pilots and Transport Canada and the authority, we will have a difficult time going ahead with publishing something that isn't resolved. If we do that and there's no resolution, then the minister will have to have another review to try to deal with it.

We're hoping that by the end of the fall or beginning of winter, hopefully in 2009, we can publish the amendment. It's not a wordy amendment. There are probably 25 words that would change. So it will be by the end of this year, we're expecting and hoping.

**Mr. Andrew Saxton:** Thank you.

I'll pass the microphone to my colleague, Mr. Shipley.

**Mr. Bev Shipley (Lambton—Kent—Middlesex, CPC):** Thank you, Mr. Chair.

I thank the witnesses.

I want to thank Mr. Smith and Mr. Lemire for coming, for making their comments, and for what they've done. Obviously you've been able to move the file forward on behalf of the authority, working with the existing ministers to make it happen.

In terms of the cost of the shipping, from the standpoint of the owners, what does this do to their competitiveness? I'll let you answer that one first.

The second question I'll ask to the AG. The amendment being proposed by the authority is that this happen within three years. Is that an acceptable time limit for the implementation?

**Mr. Robert Lemire:** On the cost issue, again, we're expecting no additional cost to the industry if they avail themselves of a pilotage certificate. If they do not and decide to take the service of a qualified authority pilot, they probably add 3¢ to 4¢ per tonne of cargo. On salt, that's expensive; on jet fuel, it's not. Those are the cost structures, but again, as I said a while ago, we don't expect any additional costs to the industry.

If the costs were prohibitive, they are competing with rail, as ships are moving bulk. You don't move bulk on trucks. There's an attempt to put trucks on ships, but again, there's no cost competitiveness to the ships on this.

**The Chair:** We'll go to the Auditor General.

**Ms. Sheila Fraser:** Thank you, Chair. Obviously we would like to see this issue resolved as quickly as possible. If three years is the timeframe being proposed by the corporation, we would strongly urge them to continue with the kinds of audit activities they are carrying out to actually see how the corporations...on what basis they say the captains are qualified to do this. They've done, as Mr. Lemire mentioned, about 15%. We would certainly hope they would be able to complete the bulk of them in that time period.

**Mr. Bev Shipley:** I just want to go to your presentation, Mr. Lemire, to number 12. It's a bit of a follow-up. Basically it says, "It is proposed that all officers requiring a pilotage certificate after the transition period"—that's at that first round—"will be subject to the Great Lakes Pilotage Regulations requirement of an examination administered by the authority before the pilotage certificate is issued". Does that deal then with these sorts of non-existent issues around safety?

**Mr. Robert Lemire:** I'm not sure what you mean by the non-existing issues around safety. The comment is just that: after the transition period everyone will be exempt, and that will probably put to rest a whole pile of questions.

**Mr. Bev Shipley:** Okay. That's all I have.

**The Chair:** Thank you, Mr. Shipley.

Just before we go to the second round, I have a couple of issues. Mr. Lemire, you said that in the Quebec incident it appeared in that case that the ship may not have been seaworthy. I know it's not your corporation, but what agency assures Canadians that the ships plying the Great Lakes are seaworthy?

**Mr. Robert Lemire:** When a ship enters the St. Lawrence Seaway in Montreal in Saint-Lambert lock, the St. Lawrence Seaway authority itself will perform an examination and survey the vessel to make sure everything is working—anchors, motors, and whatnot. Following that, every time they go into a port there will be what is called a port state control report. If there are items not functioning well, there is continuous testing. I understand under ISO 901 or 902 there's an audit process for that. There's a close follow-up for malfunctioning vessels and whatnot.

• (1610)

**The Chair:** The second issue is that in the auditor's report there has been identification that for the period 2002 to 2007, your corporation incurred an operating deficit of \$6.5 million, I believe, which of course is not sustainable, as you know. Can you tell us how the corporation has been doing over the past 21 months and going onwards into the future?

**Mr. Robert Lemire:** Those were interesting comments in the report, which we certainly agreed with. They're factual, but there was some missing information. From 1993 to 2001, this authority was successful, fortunately, and generated surpluses over \$8 million. Because of those surpluses, we froze our tariffs. Once the traffic started to go down in 2002 or 2003, the authority had an agreement with its main users to use up this surplus, therefore incurring operating losses. In one of the two years where the traffic projections were way off, this authority ended up losing \$2 million and \$3 million without being able to address that. It was a scheduled loss, and we did quite well at it. How we would plan on working out the future is just that: controlling our costs, watching traffic, and amending our tariff accordingly.

**The Chair:** Do you get any appropriations from the Government of Canada?

**Mr. Robert Lemire:** None at all.

**The Chair:** Ms. Crombie, you have four minutes.

**Mrs. Bonnie Crombie (Mississauga—Streetsville, Lib.):** Mr. Chairman, you kind of stole my line of questioning, but it's okay.

I did want to go back to those losses that were reported in 2002 and 2007. We have a note that you plan to eliminate your deficit through the increased tariffs, and I wanted to know if you had reviewed the tariff structure going forward and what that might look like, and if you had looked at increasing volumes and how accurate projections might be, or decreasing costs.

**Mr. Robert Lemire:** In 2008, we certainly had great forecasts when we started the year. We relied on a \$20 million report issued by Transport Canada and the U.S. Coast Guard telling us that traffic was going to go up 2% a year.

A funny thing happened around October 2008: someone called it a recession. We've lost 30% of our traffic in the last six months.

So our ability to forecast and plan traffic is practically impossible. That said, we work with our users and adjust our expenses accordingly. We watch the recession; we watch the economy.

**Mrs. Bonnie Crombie:** Does that mean the tariff structure continues to increase to compensate for the difference?

**Mr. Robert Lemire:** Yes, it does, for the short-term period.

**Mrs. Bonnie Crombie:** Can you describe for us what that tariff structure looks like? Does it vary depending on the size or classification of vessel?

**Mr. Robert Lemire:** The way the tariff is structured on the Great Lakes is that smaller ships pay less than larger ships. We charge on a per-tonne basis.

In our specific region we have four different sizes of vessels. The smaller ship will pay a base rate. If a ship can carry four or five times more cargo, well, they are paying four or five times more the pilotage rate for the service.

**Mrs. Bonnie Crombie:** Is there anything that can be done marketing-wise to increase volumes?

**Mr. Douglas Smith:** Perhaps I could answer that; I thought we weren't going to answer your question on that.

We are at the bottom of the supply chain on this kind of issue. We're the tail at the end of the dog. There is nothing we can do—short of perhaps offering pilotage services for free, which might encourage more people to come into the system.

The business comes from the businesses on the Great Lakes who want products shipped. They go around the world looking for products to bring in, looking for markets for their products. We don't feel there is any role for us in trying to increase that business. We'd like it to increase, though.

**Mrs. Bonnie Crombie:** Okay.

I'll change tacks quickly, then, if I can squeeze in one more.

We have a note saying that the stakeholders don't support the draft regulations. I wonder who they are and why that is.

**Mr. Robert Lemire:** The stakeholders are the Canadian Ship-owners Association. They represent three or four owners that have 80 ships that trade on the lakes.

Your note says that they don't support it; I'm not sure about that. They certainly don't support what had been proposed in the past. We're now working with them. Hopefully we're going to have things that will be acceptable to the users.

**Mrs. Bonnie Crombie:** It certainly seems to have taken a long period of time to get the regulations through.

• (1615)

**Mr. Robert Lemire:** Yes.

**The Chair:** Mr. Weston, four minutes.

**Mr. John Weston (West Vancouver—Sunshine Coast—Sea to Sky Country, CPC):** Thank you.

The interesting thing that came to mind as we read this report was the role of these pilots and what kind of certification they really require.

Is this something that any of the pilots of the ships can obtain themselves, or does it have to be somebody who is actually located in the specific waterway who can acquire the certification that's under discussion?

**Mr. Robert Lemire:** To obtain a pilot licence, the individual has to be highly trained; they have to know just a stretch of a river, maybe 60 miles of it, inside and out, without charts and without the aid of electronic equipment. That licensed pilot becomes our employee, our expert. The navigation officers who work for the Canadian fleet certainly have knowledge of the region they are sailing, but not as detailed as our pilot.

When a Canadian ship is trading in the Great Lakes, it has its own crew. The captain knows his or her own ship, whereas an employee pilot will be boarding a foreign ship that is not constructed for the Great Lakes. It's constructed for the high seas, and it has a crew that has grade two or grade three English and no idea where they're going.

So there's different interaction with a marine pilot and an officer of a Canadian ship. These are two different sets of skills to have.

**Mr. John Weston:** Does that mean, then, Monsieur Lemire, that somebody who is on the ship to be piloted can acquire the licence required? Or must they be always two different people?

**Mr. Robert Lemire:** The people who are sailing on the Canadian ships are not called pilots; they're called deck watch officers. So whatever they obtain will be a pilotage certificate. The people we employ are pilots who are solely employed by us.

I guess your question is if the Canadian officer could obtain a licence. Yes, he could, but he would have to be employed by the Great Lakes Pilotage Authority solely.

**Mr. John Weston:** Solely?

**Mr. Robert Lemire:** Yes.

**Mr. John Weston:** So it does create two classes of people?

**Mr. Robert Lemire:** Yes.

**Mr. John Weston:** You can imagine situations where the deck watch person or your employee wouldn't be necessary to the safety and the health of the people on the vessel, but the requirement would still be there. So you would have, in some cases, at least, an unnecessary second class of person. Isn't that right?

**Mr. Robert Lemire:** I don't really understand the question.

**Mr. Douglas Smith:** If I could, I think I understood the question—I hope.

We wouldn't require pilots on the ship. The reason the ships in the current regime have had an exemption is that they have experienced personnel with that ship within the system. So that's been a recognition of those skills. They're not skilled to be a pilot because they're not skilled for multiple ships throughout the whole system, different kinds of ships. They're qualified for one particular ship.

In fact, the major source for us when we need pilots—when we have retirements, etc—is usually the Canadian fleet of captains and mates that serve on Canadian ships, and then we train them. The training period can be shorter or longer depending on how long they've served on a Canadian ship and the skill level they bring to it. We examine them ahead of time to see if we would even let them sit the exam, if they're qualified or not, and then we would have them as a candidates list.

So it's one of those things. They are qualified in many respects to be in charge of a ship in Canadian waters. That's why the exemption process was allowed, and we see them as skilled mariners that are resources for us to train as future pilots. But our pilots are trained to a higher level in some aspects of ship handling and navigation than ships' officers are.

**Mr. John Weston:** Thank you, Mr. Smith, and thank you, Mr. Lemire.

**The Chair:** Thank you, Mr. Smith.

Madame Faille, you have three or four minutes.

• (1620)

[*Translation*]

**Ms. Meili Faille:** I just want to complete the questions that my colleague, Ms. Crombie, asked regarding how difficult it is to pass regulations.

What compromises did you have to make to get your partners to accept these regulations?

**Mr. Robert Lemire:** The biggest compromise was recognizing their own training system that they have for their officers. It was not a huge compromise, though, because the system allows us to do verification and ensure that the individuals who complete the program are properly trained. Our compromise, if you want to call it that, was to start recognizing their training system.

**Ms. Meili Faille:** So you are going to recognize the training system of every shipowner. How many different companies were we talking about earlier?

**Mr. Robert Lemire:** There are four major shipowners that represent 99% of Canadian vessels. We are talking about four or five companies.

**Ms. Meili Faille:** I was wondering if it was just changes that had to do with investment. So we are talking about intermodality development for shipping. There is a major push to develop inland ports in the central United States, and the possibility of making Montreal an inland port is appealing to a number of shipowners.

As things stand, you are really feeling the effects of the economic downturn. Would significant investment in these areas help to replenish your coffers?

[English]

**Mr. Robert Lemire:** It's very hard to speak for the ports and what money they need for infrastructure and whatnot. Certainly, for the Great Lakes Pilotage Authority, none of those funds are required. But I think the ports have their own association that...

[Translation]

**Ms. Meili Faille:** Earlier, I noticed that the Auditor General raised an eyebrow when she heard me ask about how you determine your costs and invoice shipowners.

But first, could you give us some figures that show how much the largest shipowners pay for your services?

Earlier, you mentioned \$0.02 to \$0.03 per tonne of cargo. Here, we studied how costs were imposed by the departments and agencies, and Treasury Board assured us that there would be a new policy, that these costs would be published and that we would finally get some information on how the costs were invoiced.

You said earlier that you were not subject to that policy. Is that right?

**Ms. Sheila Fraser:** I will answer, Mr. Chair.

The current legislation applies only to new fees that are imposed. Since the crown corporation has always set the fees, it is not subject to this policy, but the act establishing the crown corporation requires it to operate on a self-financing and cost-recovery basis.

My reaction could have been due to the fact that the crown corporation may have used up its surplus and is now in deficit.

**Ms. Meili Faille:** Therefore, the fees are currently lower than what you need to break even.

**Mr. Robert Lemire:** The fees are high enough to cover operating costs, but too low to cover the accumulated deficit.

**Ms. Meili Faille:** Do you have an action plan in place to tackle this issue?

**Mr. Robert Lemire:** Yes, we do. Each year, in either October or November, we get together with industry officials and try to estimate costs for the coming year. As Ms. Fraser noted, for 2009, we are projecting a deficit of over \$1 million, with a 30% decrease in traffic. This is a problem that will need to be addressed. The board of directors will be discussing it this month and measures will be taken in due time.

**The Chair:** Thank you very much, Ms. Faille.

[English]

We have a couple of minutes left.

You're next on my list, Mr. Shipley. Or Mr. Young, is it?

**Mr. Terence Young:** Thank you, Chair.

Welcome, by the way.

What is your definition of an incident? Just briefly, please.

• (1625)

**Mr. Robert Lemire:** It's a term that my company and the shipping industry in the world have been using. Sometimes we use the word "accident" or "incident", but we always seem to revert to the word "incident".

**Mr. Terence Young:** Does that include environmental problems?

**Mr. Robert Lemire:** Absolutely everything.

**Mr. Terence Young:** Everything that can happen that goes wrong during piloting?

**Mr. Robert Lemire:** Anything from dropping an anchor when you're not supposed to, to hitting a bridge in Montreal.

**Mr. Terence Young:** Thank you.

Madame Fraser, did you find any evidence that the lack of an effective mechanism for determining who was qualified as a pilot led to any incidents or accidents?

**Ms. Sheila Fraser:** The corporation certainly made the point to us that there had not been evidence of serious incidents or accidents over the years, but I'm not sure that's good enough, quite frankly.

**Mr. Terence Young:** Thank you.

Mr. Lemire, my riding of Oakville is on Lake Ontario, between Toronto and Hamilton. I'm sure you're familiar with it. I'm just wondering, are there any issues regarding safety in that part of Lake Ontario? In particular, I'm thinking of environmental issues or problems with recreational craft.

**Mr. Robert Lemire:** Absolutely not. On all the foreign vessels you do have a qualified pilot, and on the Canadian ships you have qualified people who are licensed by Transport Canada. So there's absolutely nothing that I can think of.

**Mr. Terence Young:** What do you do if you catch a repeat offender, someone who's unqualified, who's a deck watch officer?

**Mr. Robert Lemire:** What we've done in the past when we have spotted ships without the proper qualified individual is we've informed the St. Lawrence Seaway authority. They control the system. And that ship has been tied up until a properly trained individual is put on the ship.

**Mr. Terence Young:** So they suffer financial loss?

**Mr. Robert Lemire:** Correct.

Every time they come back, for the next 100 years, we verify everything they do. So yes—and that's happened once in my 24 years.

**Mr. Terence Young:** Thank you.

Thank you, Chair.

**The Chair:** Thank you, Mr. Young.

That concludes our time, colleagues.

I'm going to ask—

**Mr. David Christopherson:** You're not including me?

**The Chair:** I'm just going down the list that we're following, David, and I'm not going to get to the end of the list because we only have a one-hour instead of a two-hour meeting. We'd normally have a second round if we went the two hours.

**Mr. David Christopherson:** I don't want to make a big deal of it, but we've always apportioned the time equally. We've had the first round, the second round, and now you've changed it.

**The Chair:** Well, no, that's not quite correct.

**Mr. David Christopherson:** If you'd given two and a half minutes to each, then that would have been equal. I'm just having trouble understanding why suddenly I'm being carved out.

**The Chair:** You have a minute. I'll allow you to go, but on the second round that's not the way we go.

Go ahead.

**Mr. David Christopherson:** I have one question. Thank you very much, Chair. I appreciate that.

My question is back on the licensing. Here's what I'm having some trouble understanding. It's been over 30 years that we've been trying, to one degree or another, to bring in these regulatory changes, and I can't get past the notion of public safety. Your mandate is public safety—it's in your mandate, and I can read it if you want, it's here—and the issuing of the licences.

Back when I was an MPP in Ontario, when we were dealing with driver's licence issues for a car, we weren't talking to the trucking companies about what they wanted or didn't want to see in the licensing procedure, or the car rental agencies, or the people who built the cars, or the taxi cabs. We were concerned about public safety.

What I'm hearing is this veto power that the shipowners or somebody seems to have that's preventing you, in my view, from doing what's in the public interest. You made proposals some time ago and you said they weren't acceptable. I don't understand. What do you mean by not acceptable? They're based on the safety of the citizens and the environment that these ships are in, and yet there seems to be this hidden hand somewhere that has the ability to just veto anything that's in the public interest. I'm having trouble understanding this skewed version of public safety first.

**Mr. Douglas Smith:** My experience with this—and prior to becoming chair of the board—was that when Robert said it was unacceptable, one party found that whatever was proposed was unacceptable. It might have been the shipowners, or it might have been the pilots, or it might have been the government minister. But in any case, whenever there was one person who found it unacceptable, there wasn't a will to go ahead in spite of that. So there have been a number of attempts to get this done, and they all failed because either Parliament was prorogued and a new election was called and it got lost in the shuffle and we started all over again, or someone would influence someone to say, "Oh, there needs to be more work done; they haven't done all their work yet." And we would go around the circle and do more work.

**Mr. David Christopherson:** Who would the influencing voice be?

**Mr. Douglas Smith:** Depending on what their objection to the proposal that was on the table was, it might be the Canadian pilots, it might be the Canadian shipowners. They've both been active influences—

• (1630)

**Mr. David Christopherson:** I'm sorry, but if that's supposed to make me feel better, it doesn't.

**Mr. Douglas Smith:** No, but they've been active influences in the political process.

**Mr. David Christopherson:** Thank you, Chair. I appreciate that.

**The Chair:** Thank you, Mr. Christopherson.

Thank you, Mr. Smith.

That concludes the rounds, colleagues. We're going to ask now for any closing remarks, first of all from the auditor and then you, Mr. Lemire.

**Ms. Sheila Fraser:** Thank you, Chair.

I'd simply like to point out that this is a serious issue. It's been going on for some 35 years. There have been a number of studies and reports that have raised this issue, not only us, so we think it's really important that this be resolved. This doesn't necessarily mean that people have to sit down and write exams, but the pilotage authority should have some assurance that when those corporations tell them that these people are competent, they know that they are actually competent.

**The Chair:** Mr. Lemire.

**Mr. Robert Lemire:** Thank you, Mr. Chair.

I agree with Madam Fraser. It is a priority for this authority and it has been for the last three or four years, certainly with the appointment of the new chairman, and we will do the best we can, as fast as we can.

**Mr. David Christopherson:** It will still be a priority 10 years from now.

**The Chair:** On behalf of all members of the committee, I want to thank you for your appearance here today. As I said, this is the first time this committee has had a special examination, and I found it very worthwhile.

We'll now suspend, and then we're going from sea to rail, and we'll have VIA Rail. We'll suspend for one minute for the witnesses to change.

• \_\_\_\_\_ (Pause) \_\_\_\_\_  
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**The Chair:** I call the meeting back to order.

The second part of this meeting, the last hour, is to deal with the special examination on crown corporations. In this case here it is VIA Rail Canada.

The committee is very pleased to have with us, for this hour, from the Office of the Auditor General, Sheila Fraser. She is accompanied by René Béliveau, principal. And from VIA Rail Canada Inc. we have Mr. Paul Côté, the president and chief executive officer. He is accompanied by Robert St-Jean, chief financial and administration officer, and Christena Keon Sirsly, chief strategy officer.

On behalf of the committee, I want to welcome you all.

As in the previous meeting, I will ask for opening comments, first of all from you, Ms. Fraser.

• (1635)

**Ms. Sheila Fraser:** Thank you, Mr. Chair.

[*Translation*]

Mr. Chair, I will now highlight the findings of our special examination of VIA Rail Canada Inc. I am accompanied by René Béliveau, Principal.

We conducted our examination from June 2007 to February 2008. We found a significant deficiency in the systems and practices of VIA Rail. VIA does not have reasonable assurance that it will be able to meet the strategic challenges it currently faces. These challenges could have an impact on the fulfillment of its corporate plan for the 2007-2011 period.

The Corporation does not own most of the railway tracks that it uses. For any extra usage, it must negotiate with the owners. The corporate plan is premised on successful completion of the current negotiations with the principal provider of access to the railway track network, within VIA Rail's prescribed funding envelope. A new service agreement is thus critical to the Corporation's ability to meet the objectives set out in its corporate plan. As of the drafting of our special examination report, the outcome of negotiations was uncertain and the Corporation had not established contingency plans to be put in place should negotiations fail.

[*English*]

The 2007-2011 corporate plan further assumes growth in ridership and revenue. This will pose a significant challenge for VIA, which has had difficulty meeting similar objectives in the past. For example, the 2002-2006 corporate plan projected revenues that were \$230 million higher than actual revenues. It also projected better on-time performance, but the actual performance remained below 80%.

In other areas, we found that the corporation had improved its practices, notably the human resources and marketing and customer focus. We also identified certain areas requiring improvement, particularly information technology, security, and environmental management.

VIA Rail has accepted all our recommendations and has indicated that it would move quickly to address our concerns. As we completed our examination in February 2008, I cannot comment on measures taken since then, so the committee may wish to inquire about the actions the corporation has taken to respond to our recommendations.

Mr. Chair, this concludes my statement, and we would be pleased to answer any questions the committee members may have.

Thank you.

**The Chair:** Thank you very much, Ms. Fraser.

We'll go to Monsieur Côté.

**Mr. Paul Côté (President and Chief Executive Officer, VIA Rail Canada Inc.):** Good afternoon, Mr. Chairman and members of the standing committee. Thank you for the opportunity to appear before you today.

I would like to express my appreciation for the remarks of the Auditor General and for the valuable work performed by her office. The relationship between the corporation and any external auditor often takes an adversarial tone, but this is certainly not the case for VIA Rail. The Office of the Auditor General brings a wealth of unique knowledge and expertise to the special examination process, and VIA welcomes the opportunity to benefit from that expertise. We found the approach taken throughout the 2008 special examination to be both insightful and constructive. The observations made in the report have been valuable. VIA fully supports and has already acted on each recommendation in that report.

[*Translation*]

We also appreciate the recognition given to VIA's progress since the previous special examination, particularly with respect to continued improvements in governance practices, and in the successful transformation of our Human Resources function into a more strategic resource for the corporation.

The Special Examination identified one significant deficiency which I will address momentarily. First, however, I would like to say I am gratified by the balance of the report's conclusion that the management of the corporation's financial, human and material resources is economic and efficient, and that VIA's activities are carried out effectively.

The significant deficiency is related to VIA's planning process, which failed to provide reassurance that the corporation can achieve its planned objectives within the framework of available government funding. Two main reasons are cited for this finding.

[*English*]

First, the report notes that VIA's planned performance targets depend on access to the rail infrastructure. When the report was written, as Ms. Fraser just said, the existing train service agreement with CN, which owns most of the infrastructure, was about to expire, and the report indicates some skepticism about negotiating a new agreement that would ensure the access we need. However, since then, we have, in fact, negotiated a new 10-year train service agreement with CN, which came into effect this past January. Overall, the agreement has been simplified and modernized to reflect changes in VIA's operations over the years, and it provides the kind of stability in track access that was missing when the Auditor General's report was written.

In addition, with the current capital investment program, VIA is working closely with CN to improve the capacity of the infrastructure for increased passenger rail traffic. Last July we jointly announced the VIA–CN Kingston subdivision project, an infrastructure investment valued at more than \$300 million. It will improve capacity and accessibility for our trains on the Kingston subdivision and will provide guarantees on track access for future additional frequency. Negotiations are continuing with CN, and we expect that they will be completed shortly.

• (1640)

[*Translation*]

A second major reason cited in the report highlights concerns about VIA's ability to achieve its objectives such as the financial targets set out in the 2002-2006 Corporate plan.

[*English*]

**Mr. Terence Young:** On a point of order, there's no translation.

**The Chair:** Perhaps you could go back to the previous two paragraphs, Monsieur Côté. You might want to slow it down a bit.

**Mr. Paul Côté:** It's to give you more time for questions.

I'll give it a shot.

[*Translation*]

There is no doubt that the inability to obtain greater access to tracks in order to add frequencies had an impact on VIA meeting these financial targets.

Market conditions also played a role, such as in 2003 and 2004 when the Canadian travel and tourism market fell into an unprecedented downturn.

Compared to the industry as a whole, VIA actually performed fairly well. And of course, financial targets were adjusted with the 2003-2007 corporate plan, and with each plan since then as a normal part of the planning process.

However, the experience over the past five years including the current economic crisis highlights a real concern about VIA's ability to respond to drops in market demand within its current operating mandate.

When demand drops, any business needs to cut costs to balance revenue shortfalls. A manufacturer, for example, will pull a product line, or postpone the launch of a new product. But for VIA, a huge portion of our costs are pre-determined, without reference to market demand. We operate mandated services, with little room for flexibility when it comes to the core costs of keeping trains running, whether people are getting on board or not.

This is just a fact of life for VIA, the way our operating mandate is currently defined. And it raises issues that go beyond the scope of the Auditor General's special examination report.

[*English*]

The report, quite rightly, recommended that VIA should identify and clarify risks that affect its ability to achieve strategic objectives, preparing contingencies that spell out how to respond to such risks and the potential impact on government funding. Our current corporate plan identifies and quantifies major risks related to

passenger revenue, fuel cost fluctuations, train service agreement changes, expense fluctuations, and the benefits of investments in equipment and infrastructure.

In addition, we regularly review our operations to identify ways in which we can reduce our dependency on government funding. In 2009, this has included realigning train capacity to demand, adjusting service delivery staffing levels, and reducing other discretionary expenses. We will also review and renegotiate purchasing contracts.

The summary of the main findings in the special examination report identifies three other areas for VIA to address concerning information technology, environmental management, and security.

A new position of chief information officer was created and filled in July of this year to oversee VIA's information technology strategic plan and to ensure that the strategic objectives are achieved efficiently. As recommended, we are incorporating an IT, information technology, risk management framework as part of our new information technology security program. All critical elements of this security initiative will be completed by the end of next year.

• (1645)

[*Translation*]

With respect to environmental management, we are continuing to implement our environmental management system as the report recommends. We are particularly focused on the identification, assessment and control of environmental risks through a risk evaluation methodology. Full implementation is targeted for the second quarter of 2010.

Finally, VIA has completed a full review of employee and contractor positions to identify appropriate security level clearance requirements. We agree that this is a critical step to protect passengers and employees, as well as capital assets. A new security ratings system will be in place next year.

In fact, we have acted quickly to implement all 14 recommendations contained in the special examination report. In each case, implementation is either already complete, or will be completed, in the near future.

[*English*]

I believe we are fully addressing all the concerns raised during the Auditor General's special examination and that VIA has benefited as a result.

The recommendations have helped us to develop better strategic planning and better operating frameworks throughout the organization. That is a significant achievement, and it underlines the real, constructive value of the work performed by the Office of the Auditor General.

My colleagues and I will be happy to discuss these results in more detail with you and answer any questions you may have.

*Merci.*

**The Chair:** Thank you very much, Mr. Côté.

Ms. Crombie, you have seven minutes.

**Mrs. Bonnie Crombie:** Thank you, Mr. Côté, for your presentation.

You are faced with some significant challenges, as the Auditor General has pointed out: accurately projecting revenues; ridership; on-time performances that are under global rates; and you have the added challenge of not owning your own rails.

The Auditor General did not obtain reasonable assurance that the corporation could achieve your objectives that were set out in the strategic plan to significantly improve the corporation's financial viability, which would be to increase your revenue by \$180 million, or 39%, and increase ridership 30%, which you outline. So are you on track currently to meet these goals to increase ridership and revenue? On track—no pun intended.

**Mr. Paul Côté:** No, I appreciate that. It's a good choice of words.

The report we're discussing covered the period 2003 to 2008. If you're talking about 2009, I have to tell you we are having difficulty meeting our revenue targets.

When we established our targets in the late fall of 2008 for approval by the board and submission to the government, of course nobody could have anticipated how serious the recession we're going through now would be. So we're missing our targets pretty much along the same line and parameters of the industry, so somewhere in the range of 12% to 15%.

**Mrs. Bonnie Crombie:** You talked about increasing capacity. Will increasing capacity increase ridership and then revenue?

**Mr. Paul Côté:** Yes, it will. However, increasing capacity comes with negotiations with Canadian National for increased and improved infrastructure. These negotiations that are progressing well with CN are the ones I referred to in my comments, and we're hopeful that very shortly we'll have the framework for these programs to start; we expect them to be completed within the next 24 to 30 months.

**Mrs. Bonnie Crombie:** Is there an aggressive marketing plan in place to address the ridership issue?

**Mr. Paul Côté:** We do have a marketing plan we review every year with the board. We have a customer plan, a marketing plan, and a sales plan. This marketing plan will have to be reviewed, not only in the case of additional frequencies, but as you know, the investment program also includes significant improvement to the fleet, so a modernization of the equipment in the western Canada corridor and in the east.

So when all these components are available in the timeframes they'll be completed in, we'll certainly create a more aggressive marketing plan.

**Mrs. Bonnie Crombie:** What was the impact of the strike last summer?

**Mr. Paul Côté:** In what sense? Financially?

• (1650)

**Mrs. Bonnie Crombie:** That, and did it have any long-term impact on ridership and goodwill and all that?

**Mr. Paul Côté:** It did. In the end, when we look at the offer we put out on the market afterwards, with deep discounts to entice people to come back to the train, we ended up in a positive financial position in that we created enough new induced traffic.

**Mrs. Bonnie Crombie:** But discounted traffic; you were giving away—

**Mr. Paul Côté:** Discounted traffic, but due to the large volume, we ended up in a positive financial situation.

But from a reputation point of view, going through a strike is never a pleasant thing to do.

**Mrs. Bonnie Crombie:** Okay. I have two more questions.

With respect to on-time performances, they've been low as well, lower than... I think there's a benchmark provided; you're at 80% of performance. How does that compare internationally to the U.S. or Europe? We've heard you can set your clock by German trains.

**Mr. Paul Côté:** Comparing those networks is very tricky, because, first, when you look at Europe and the networks that are mostly on everybody's radar screen, the high-speed train that works operates in isolation. There is no freight traffic; it's on its own, so you can achieve very high numbers, and they do achieve very high numbers. I know in Japan they hit 99% on time, but that's all they've got. They only have Shinkansen trains and that's it. It's the same thing in other networks.

In our case, we share infrastructure, and I must say that over the years it's been a challenge. Recently, through this new train service agreement, I think we've provided for a much better framework to manage it. The results to date in 2009 indicate a significant improvement. We're above 85%, and we're happier now than we were before this agreement.

**Mrs. Bonnie Crombie:** Just as a quick final question, because I think I'm almost out of time, the last budget announced there'd be a new train through Peterborough and Oshawa-Whitby, and I wondered if that was part of the strategic plan.

**Mr. Paul Côté:** I didn't catch your question, sorry.

**Mrs. Bonnie Crombie:** Is the new train route through Peterborough, Oshawa, and Whitby in the strategic plan?

**Mr. Paul Côté:** No, the Peterborough-Toronto train is not in VIA's mandate at all. We haven't been asked to deal with that issue at all. It's a GO Transit thing, I believe.

**Mrs. Bonnie Crombie:** Oh, it was a GO train.

Okay, thank you, Mr. Chair.

**The Chair:** *Madame Faillie, pour sept minutes.*

[Translation]

**Ms. Meili Faillie:** I will be splitting my time with my colleague Mr. Nadeau.

It's not that the issue isn't complex. VIA Rail officials know just how complicated it is to run through Vaudreuil-Soulanges. Almost all rail traffic runs through my riding. Therefore, I'm quite familiar with VIA's concerns. However, my colleague has a few questions for you, and I will comment more later.

**Mr. Richard Nadeau (Gatineau, BQ):** Ms. Fraser, you noted the efficiency of the security management system. This is one indication that things are going well.

On a somewhat different subject, last summer, an incident involving a passenger train occurred between Toronto and Ottawa. The passengers had to disembark from the train. I'm not sure if you are aware of that incident.

**Mr. Paul Côté:** I'm aware of it.

**Mr. Richard Nadeau:** There was a problem in that VIA Rail was not able to—at least according to the newspaper reports—to provide instructions to passengers in French along a supposedly bilingual corridor. From a security standpoint, this is a major problem.

How is it, first of all, that VIA does not have staff on board capable of providing instructions in French at all times, particularly in an emergency when the extent of the problem is unknown? And secondly, what have you done, or what do you intend to do, to remedy the problem?

**Mr. Paul Côté:** Let me set the record straight, Mr. Nadeau. All of the employees on board the train were bilingual. The initial announcements were made to passengers in both official languages.

There are two issues here. First of all, the initial announcement was made, passengers left the train and staff began working with the first responders and emergency crews that arrived on the scene. These included firemen, ambulance attendants and police officers from the surrounding communities. These persons, who did not speak French, helped passengers to evacuate the train and proceed to a collecting point. These persons were not VIA Rail employees.

The VIA Rail workers on board the train were bilingual. I have been with VIA since the corporation's inception in 1978. I have been working in the rail industry since 1972 and I was on hand when the decision was made in 1985 to hire only bilingual persons for positions that involve dealing directly with passengers. Staff on board this train were indeed bilingual.

So then, the initial incident has to do with the fact that passengers were indeed in contact with persons from organizations other than VIA Rail and unfortunately, were not able to receive service in French.

There was a second incident. Tomorrow, I am scheduled to testify before the Standing Committee on Official Languages to explain why the person speaking to the media on behalf of VIA Rail made a totally unacceptable comment. We apologized for the comment, and I plan to make another more formal apology to the committee tomorrow. The spokesperson said that the train was travelling in Ontario and that Ontario was an English province. That is unacceptable!

You can rest assured that we followed up on this incident. You can also rest assured that we are committed and that our performance and record in terms of compliance with the Official Languages Act is very good, according to the Office of the Commissioner of Official Languages.

•(1655)

**Mr. Richard Nadeau:** Thank you for that clarification. In any case, I will be seeing you tomorrow at the Standing Committee on Official Languages.

**Mr. Paul Côté:** Fine. I'll have the chance to explain matters.

**Mr. Richard Nadeau:** And I'll have the pleasure of hearing your explanation once more.

**Voices:** Oh, oh!

**Mr. Richard Nadeau:** I heard it first today! What a scoop!

I am a native of Hawkesbury and I represent the riding of Gatineau. I take the train on occasion, but not very often. There is one thing that surprises me and its ties in with one of the points raised, namely ridership.

I read in the document that one of the goals was to increase ridership by 30%. The corporation has managed to increase it by 5%. Yet, train travel is quite comfortable. Perhaps cost is a factor. I don't know.

In your opinion, what steps need to be taken so that train travel does in fact...Everyone talks about the greening of society and train travel could be a possible solution to achieving this objective...Does it boil down to the government's will to act, or is it a question of promoting this mode of transportation?

**Mr. Paul Côté:** It starts with the government's willingness to act, since it owns the company. The key to success lies with the approach that we are slowly implementing, namely increasing the frequency of train service in order to offer more relevant service to the public.

We compete with other modes of transportation, whether automobiles, planes or other modes. Our greatest competition comes from the automobile. Eighty per cent of all trips along the corridor are taken by automobile. Bus and train travel account for the difference. Added frequencies would allow us to offer more choice and a more relevant product. That is the first point.

The second area that we are working on is train speed. Trains must observe certain speed limits. We are working on laying tracks and on having enough side tracks and third tracks so that trains can maintain a higher average speed and travel at 160 kilometres an hour over longer stretches. That is the theory behind our investment program that will take us several years to implement fully. Everything should be in place by the end of 2012.

We conducted an experiment and increased train speed along certain segments of the Ottawa-Toronto corridor. We also increased train speed and frequencies on the Montreal-Ottawa route. The results were conclusive: it is possible to increase train speed, provided the other components of the strategy work properly.

[English]

**The Chair:** There are 40 seconds left.

[Translation]

**Ms. Meili Faille:** An intermodal station is currently being developed in the Vaudreuil-Soulanges region. Have you any concerns with respect to your objectives for the Quebec City-Windsor corridor?

**Mr. Paul Côté:** We will have concerns as long as the plans on the table are not yet finalized and approved by all parties. The plans can always change. Until such time has they have been finalized and approved by everyone, we will harbour some concerns.

We are pleased with what is currently taking place at the Dorval station. This is an acceptable solution, in our view.

**Ms. Meili Faille:** It would appear that in the municipality of des Cèdres, freight train traffic will increase.

**Mr. Paul Côté:** The plan calls for increased freight train traffic. In order for that to happen, changes are required to the infrastructure. We are trying to proceed in such a way as not to upset the communities that you represent.

**Ms. Meili Faille:** I see.

**The Chair:** Thank you, Ms. Faille and Mr. Côté.

[English]

Mr. Christopherson, for seven minutes.

• (1700)

**Mr. David Christopherson:** Thank you, Chair.

Thank you very much, all of you, for being here today.

The Auditor General's report mentioned the challenges in your corporate plan for 2007-2011, as a result of revenue problems and your on-time issue. And you, Mr. Côté, said that you're going to have difficulty meeting your targets.

What I'm interested in is, what part of the corporate plan will now be compromised as a result of these challenges?

**Mr. Paul Côté:** We have just come out of a meeting with our board of directors on Monday and Tuesday, where we discussed the corporate plan and the need to readjust the revenue forecast for the coming years in view of the current year we're going through. So we have to be realistic.

We experienced, sir, exactly the same thing in 2003-04 with SARS and forest fires in B.C. and hurricanes in the east, with the revenue base being significantly and negatively impacted by those events. So we had to readjust the following corporate plans with that different revenue base.

The difficulty we have, as I mentioned in my remarks, is that in order to balance our corporate plan and minimize the impact of additional funding, we're attempting to find ways to control

expenses, but with the mandate we have and the network we operate, there's a huge base of fixed costs that we need to work with.

So this is the challenge, and—

**Mr. David Christopherson:** I appreciate that and I hear what you're saying. I have no problem with that, but I'm still looking to know what kinds of things you were hoping to do that you now won't be able to do in real terms.

**Mr. Paul Côté:** I don't think we are compromising on an issue we wanted to deal with. We flagged the issue raised by the Auditor General that the additional frequencies drive a lot of the percentage increase we are forecasting.

So we are on our plans. We are doing our equipment modifications, we are doing our station investments, we are doing our infrastructure investments. Once the deal with CN is concluded, and if it is concluded, we are confident we can reach the objectives and the percentage increases—although from a different base, because the revenue base is not the same as when we initially put this program together, if you understand my point.

**Mr. David Christopherson:** I do. You say you're still going to be able to achieve the financial results.

**Mr. Paul Côté:** We will be able to achieve the financial objectives set in this new plan—

**Mr. David Christopherson:** In the new one.

**Mr. Paul Côté:** —which takes into account—

**Mr. David Christopherson:** What I'm looking for is the difference between the old one and the new one, in real terms, on the ground.

It sounds as though you're saying there's none, but I want to be clear.

**Mr. Paul Côté:** There will be an impact on—

**Mr. David Christopherson:** That's what I'm asking, sir. What kind of impact can we, the Canadian public, expect as a result of lowered revenue expectations?

It's likely that you're not going to be able to do everything you were hoping to do based on your original revenue projections. Therefore, my question is and has been, what's the difference between what you were hoping to do between 2007 and 2011 and your targets now, based on new revenue numbers?

**Mr. Robert St-Jean (Chief Financial and Administration Officer, VIA Rail Canada Inc.):** It's \$200 million over a five-year period.

**Mr. David Christopherson:** But what does that mean? It has to mean that something is not going to happen. You're not going to spend that money on something. So what is it that you're not going to spend the money on?

**Mr. Paul Côté:** A lot of what we missed is related to the fact that it takes more time. In other words, our equipment is getting older and we don't have the frequencies we would like. Over time, the revenue comes later and obviously creates the gap that we have right now.

Does that answer your question?

**Mr. David Christopherson:** It does and it doesn't. It does in terms of a process, but it still doesn't tell me if it's one train, one station, or one new plan you had that's now not going to happen. That's all I'm trying to determine. It's not a trick question, I just want to know, if you don't have as much money, what are you not going to be able to do that you'd hoped you were going to be able to do?

**Mr. Paul Côté:** In my remarks I alluded to the fact that the 2010-2014 plan now has a section that deals with the risks that you've raised and the strategies to deal with such shortfalls. We've identified that. We have mentioned to our board that if the situation doesn't improve over the coming months, we will have to seriously consider some service adjustments. By that I mean we'll have to review some frequencies, the operation of certain trains. That's how you deal with it.

**Mr. David Christopherson:** I don't want to put words in your mouth, but I'm trying to understand. Right now, is it dollar management? I'll ask the Auditor General to jump in any time to help make it clear in my mind, but are you saying that by managing your cashflows and stretching out some projects, you really won't affect any major projects?

You're going to have less money, so you're going to be able to do fewer things. All I want to do is determine what you're not going to be able to do that you'd hoped to be able to do. It sounds as though maybe you're managing things in one way, and there's a second phase, and if it gets worse, that's where you'll go.

**Mr. Paul Côté:** Our capital project is going to be executed as was initially planned. It's important that we do that so that our fleet is reliable.

**Mr. David Christopherson:** Even if you don't have the money?

**Mr. Paul Côté:** We have the money. The money has been allocated by the government. So the capital allocation—

**Mr. David Christopherson:** Okay. That would be the cash infusion.

**Mr. Paul Côté:** Yes, so the money is there.

The challenge is in view of the revenue challenge we're experiencing now, affecting the years 2010 and 2011. My answer to you was that we said to the board, if we cannot see a significant increase in revenue and the cost base remains the same, there's a challenge for funding. There will be an impact on funding from the government on an operating basis, and the solution to that is to look at your frequencies and your network. Shrink the network, shrink the frequency, so that you do not experience—

**Mr. David Christopherson:** So you're not cutting right now—

• (1705)

**Mr. Paul Côté:** We're not cutting right now.

**Mr. David Christopherson:** —but you're saying if it continues to get worse, you will be into that phase.

**Mr. Paul Côté:** Yes, we may have to do that.

**Mr. David Christopherson:** Okay. I think we got there.

You don't have mechanisms to ensure that rail infrastructure owned by third parties is maintained, meaning that you have no control over the status of the railways. A number of us have been raising concerns about safety standards and things that are

happening. How are you addressing the fact that you don't have a direct way to ensure that the lines are being maintained to the standard that you would expect?

**Mr. Paul Côté:** In our new agreements with the short lines, we incorporate a need for them to do regular track inspections and report to us in writing about those track inspections, based on federal standards.

**Mr. David Christopherson:** Do you have a step afterwards, if you're not satisfied?

**Mr. Paul Côté:** Of course, once we get the report, if the report indicates an incident or situation that could be problematic, we react right away.

**Mr. David Christopherson:** Thank you.

**The Chair:** Thank you, Mr. Christopherson.

Mr. Saxton and Mr. Kramp, I think you were going to share your time.

**Mr. Andrew Saxton:** That's right. Thank you, Mr. Chair. I will ask the first question, and then I'll pass the microphone to my colleague.

First, to Mr. Côté, with regard to the economic action plan where the Minister of Finance announced new funding of \$407 million for VIA Rail, how will this funding be utilized, and what impact will it have on VIA Rail's long-term objectives?

**Mr. Paul Côté:** It will have a significant impact because of the investment programs we're working on.

If I may segregate them this way, first of all and foremost are the locomotives. Our locomotives are 25 to 30 years old and are obviously not as reliable as they were when we purchased them. We're going through a significant modernization program that not only will improve reliability, but also will bring with it a significant improvement in our environmental footprint, with lower fuel consumptions and lower greenhouse gas emissions.

Second is passenger comfort. All of our equipment is going through a major refurbishment program, and that will help us to position our product in a much different way than we can right now.

Third are the stations. It is the same thing. The stations are in need of major repair. The government recognized that through this program. We appreciate it.

Fourth is the program we just discussed on infrastructure, so that we can get additional frequencies, faster trains, and faster trip times that will generate additional ridership and revenue.

It's a great program for us. It was absolutely necessary to do. We did thank the minister repeatedly for that.

**Mr. Andrew Saxton:** Thank you.

**The Chair:** Mr. Kramp.

**Mr. Daryl Kramp:** Thank you, Chair.

Good afternoon to all. Maybe I'll give just a couple of kudos before I give you a couple of things to think about.

I'm on your Quebec to Windsor corridor, of course, which is maybe 70% or more of your income status, and I was able to participate in an announcement in Belleville due to your \$300 million Kingston subdivision and part of that project, so that's a positive. But there's another positive.

I use the train occasionally and have for a number of years, and let me tell you that the satisfaction from the customer's point of view has dramatically increased over this last year. Your service is far better and your on-time is far better, so I say kudos to VIA. You've definitely made some headway. It's a competitive market out there, and quite frankly you had to do it or you were not going to be there.

**Mr. Paul Côté:** Thank you.

**Mr. Daryl Kramp:** You've made some really good moves and I thank you.

To deal with some of the problems identified by the Auditor General here, I see 13 weaknesses in particular, as well as the major strategic weakness.

I think it would be wise of VIA to seriously consider providing this committee with an action plan on how you plan on dealing with each and every one of these weaknesses, because I don't think they can be overlooked. During this particular time period, we'll address a few of them. A number of them, I believe, should definitely come back to this committee. We'd like that in writing at some point. I expect the committee would probably ask for that anyway, but I do believe that request is warranted and should come in due course.

The other point that is obvious to us during this meeting today is how important this 10-year train services agreement is. It reaches into every area, from your profitability to security to track safety. Can you provide some detail on that to this committee? We understand that there's certain competitive information that should not be made public from this perspective, but I think if you provided this committee with some of the guts of that agreement, it would probably address a number of the concerns we have there, so I would ask you to consider that as well.

There are just a few points that are coming to my mind. Air Canada hedged a lot of their fuel costs and got burned pretty bad. How did VIA do? Did they participate in the market in that perspective, and how is that affecting you?

• (1710)

**Mr. Paul Côté:** First of all, let me address your first two points.

Yes, we will do that. In fact, if you like, we can leave behind today a current update that we have on the recommendations and the action plan. We've brought copies.

We can leave that with you, Mr. Chair, and at your request we'll provide—

**The Chair:** We'd appreciate that.

**Mr. Paul Côté:** Okay. We'll do that.

Similarly, on the train service agreement with CN, other than those issues that are of a confidential nature, that are commercial, we can certainly give you an outline of the highlights, the major changes in this agreement from previous ones. As I said in my remarks, they are significant and they modernize the agreement.

With regard to hedging, we have been hedging fuel for quite a number of years. When the price of a barrel was way up there in the sky, we were geniuses and the board was so complimentary on our foresight and thought we did the right thing. Of course, when it goes the other way around, then it's a different situation.

**Mr. Daryl Kramp:** So you're carrying a liability with that in your normal operating costs.

**Mr. Paul Côté:** We did carry that.

**Mr. Daryl Kramp:** Okay, thank you.

A number of years ago CATSA went before the Auditor General, and there were a number of concerns with security. I have a serious concern with security, identified in a couple of areas here. One says the corporation does not have a risk and threat assessment for information technology. Another one indicates the corporation has no framework for identifying employee security levels. These are issues, quite frankly, that in today's world are much more important than they were 10, 15, or 20 years ago. We have vandalism, we have terrorism, and we have other issues like that.

Do you have a solid plan to deal with this from a security point of view, and could you present that to this committee?

**Mr. Paul Côté:** You will see in the report that I will leave behind that we did act on all those recommendations. We have in fact, on the information technology security issue, made some changes already and are working on more changes to protect intrusion and to protect all the information that needs to be protected, which we possess from our customers.

On the security side regarding employees, there are also some remarks in the progress report that I will provide to you, and you'll see that we have made some changes to our practices to improve security protection.

**Mr. Daryl Kramp:** Fine. Thank you very much.

Speaking strictly from a competitive point of view, from a user angle, if I am a student and wish to go from Belleville to Ottawa, it will cost me maybe 20 bucks by bus and 60 bucks by train, give or take a little bit. It is cost prohibitive for a large segment of the Canadian public to use the train on a consistent basis. Do you have any particular plan to somehow find a way to access this vast market out there that simply does not view the train as being financially feasible? Do you have any long-term process or discount for usage that you can anticipate? There is no simple solution, I understand that—

**Mr. Paul Côté:** I appreciate that.

**Mr. Daryl Kramp:** —but do you have even a sense of direction that you need to close that gap somehow?

• (1715)

**Mr. Paul Côté:** It's indeed a very difficult task. It's a fine line, you know, between keeping your product competitive with other modes of competition and the responsibility we have as a crown corporation to manage efficiently the resources we have at our disposal. We could fill trains selling tickets at \$5, but I don't think I would hold onto my job very long, to be honest with you.

We have a very sophisticated group in marketing who are monitoring market demand, monitoring market movements and competitive prices, and so forth, but who are also cognizant of the fact that there is a line somewhere to have to manage. You cannot underprice all of that simply for the purpose of volume. There are obligations regarding managing resources that are essential, in our opinion, so it's a difficult question.

**The Chair:** Thank you, Mr. Kramp.

Thank you, Mr. Côté.

We can go a few more rounds at three minutes.

Mr. Lee, three minutes.

**Mr. Derek Lee:** I was going to ask you to be a bit more specific. You've addressed part of it...what you were going to do with the \$690 million over time, but you've already addressed a lot of that here. Why don't I pursue that? Mr. Christopherson was sort of on the same subject.

If you are sidetracked—no pun intended—by the economic downturn and if it materially impairs your revenues, would you consider deferring some of the capital expenditures simply because they wouldn't match where you wanted your ridership to be?

**Mr. Paul Côté:** I think it would be a mistake to do that, to be honest with you, sir. I think we should look somewhere else.

The reason we insisted so much over time on getting this investment was because the assets were in dire need of being improved and significantly modernized. There is no question that although we may have good marketing, good products, good sales people and all, if we can't haul our trains and the locomotives fail all over the place, it's not going to work. If passengers get on cars that are used, that are old, that are dirty, with the carpets that are used and so forth, and if stations are not properly heated and so forth, it simply can't work. It's not sustainable.

My previous answer to your colleague was simply to say that what we've already flagged to the board as a revenue base has been significantly impacted by the recession. Our cost base is such that it requires now that we pay attention to it. We will raise this issue and ask if there is a way we can perhaps amend our mandate to better reflect the market conditions and better reflect our capabilities to meet the market demand. And in that regard I would strongly object—well, make a point of objection—to stopping the investment program. I don't think that would be the right thing to do.

**Mr. Derek Lee:** There was an announcement during the last year about a third rail being constructed in the Toronto-Montreal corridor.

Is that a CN investment or is it a CN investment with government support?

**Mr. Paul Côté:** It is an investment of VIA Rail into the CN infrastructure. It is based on the premise that with the third track—longer sidings, longer passing tracks—trains will circulate at higher speeds, and more trains will be available on the network.

**Mr. Derek Lee:** You said that was a VIA investment?

**Mr. Paul Côté:** This is part of the \$690 million program. That's \$300 million or so.

**Mr. Derek Lee:** I'm sorry, I did not understand that. So it's all a VIA investment.

**Mr. Paul Côté:** Yes, \$300 million of the capital program is directed to it.

**Mr. Derek Lee:** By investing that money, you get a piece of the action on those rail lines, so you don't have to beg, borrow, and steal for the rest of your corporate history.

**Mr. Paul Côté:** We're better positioned to bring in more trains, at higher speeds. But it doesn't give us ownership or control over the track.

**The Chair:** Thank you, Mr. Lee.

*Monsieur Nadeau, trois minutes.*

[Translation]

**Mr. Richard Nadeau:** We read in the report how there had been some improvement in that VIA and CN had negotiated an agreement regarding rail use. Are we talking about a long-term agreement, or one that must periodically be renegotiated?

• (1720)

**Mr. Paul Côté:** The agreement is for a period of 10 years. It provides for a number of changes, as there had been some problems with the previous agreement, which also was for 10 years. The question came up earlier and we will write to the committee to provide more details. One important thing to note is that the whole issue of the management of VIA trains, evaluating whether or not the trains on running on time and the respective responsibilities of both parties has been greatly simplified. As we stressed to CN, we are looking at things from the customer's perspective. If a train is running 22 minutes behind schedule, the customer does not care that CN is to blame for 12 of those minutes, and VIA for the other 10 minutes. Those were considerations that complicated the agreement. Everything has been greatly simplified and the results that we are seeing are really very positive. In terms of performance, our trains are running on schedule over 85 % of the time, which is very acceptable.

**Mr. Richard Nadeau:** Thank you.

I have nothing further, Mr. Chair.

**Ms. Meili Faille:** When were the last public consultations held with communities along the Quebec City-Windsor corridor to ascertain service needs in the corridor?

**Mr. Paul Côté:** I don't believe that we have systematically held public consultations on the issue. Ms. Sirsly may be able to tell you more, but we have not organized a forum where we invited members of the public to share with us their ideas about service improvements. There was, however, one exception. We made some major investments in infrastructure in southwestern Ontario. This was mainly for safety reasons because homes and private property were located very close to the infrastructure and this was causing some problems. We organized some consultations and met with people to have them approve a rail safety management plan.

**Ms. Meili Faille:** Les Coteaux station is located in my riding and the available service schedules do not meet the needs of the region. We've been talking about this for a number of years now. I'm a member of Parliament and I travel to Alexandria to catch the train to Ottawa because it's impossible to get a train in my riding. They are heading in the other direction.

**Mr. Paul Côté:** We do not hold formal public consultations as you know them, but we often receive telephone calls and meet with mayors. The mayor of Casselman comes to see us frequently. Our consultation process is more informal, but our customers who travel on our trains raise these same issues.

**Ms. Meili Faille:** We have signed petitions at the station in Alexandria.

**Mr. Paul Côté:** Indeed.

**The Chair:** Thank you very much, Ms. Faille.

[English]

Mr. Shipley, I have you on my list.

You're fine?

Mr. Weston.

[Translation]

**Mr. John Weston:** Thank you, Mr. Chair. Thank you as well to our witnesses for joining us today.

I just want to mention that like my colleague Mr. Kramp, my family and I travelled from Ottawa to Quebec City on board a VIA Rail train and had a wonderful trip.

[English]

In the big picture, getting away from my personal experience, Monsieur Côté, do you see this ever becoming a profitable enterprise, or is it something that will forever rely on government subsidy?

**Mr. Paul Côté:** That's a very wide question. I have to say to you that under the current system....

Let me rephrase that. I have been exposed to rail networks across the world. I have never come across any system that is profitable. Qingzang, and TGVs in France, in Italy, Spain, and so forth are not profitable. One needs to be very careful, because you know, how these things are reported is sometimes misleading. For instance, in France the SNCF is a corporation, and its product line, called TGV, is now strictly administered on the basis of cost and revenue of operation—no carrying of debt for the equipment, no carrying of debt or interest for building the infrastructure. In that regard, if you look at their books you'd probably find the product line TGV France

to be profitable. But it's not. It would be a miracle, really, if that happened.

Now, can the ratio of cost to recovery be improved? Absolutely. I've been around for 38 years. Christena has been with us since 1985. We've seen the cost-to-revenue ratio of this corporation go from 0.30, break even being 1.0, to now about close to 60%, and it could be higher than that if some measures were taken, which we are, in fact, discussing with our board and will bring forward to the minister.

So we can significantly improve our cost-recovery ratio, but I don't think to make it profitable is a reality.

•(1725)

**Mr. Terence Young:** Thank you.

Mr. Côté, when your revenues were \$230 million lower than you thought they would be, from 2002 to 2005, what measures did you take to reduce overtime and performance bonuses for senior managers, perhaps reducing the number of senior managers and their expense accounts?

**Mr. Paul Côté:** There weren't any specific measures implemented in the way you describe them. We didn't, for instance, specifically give targets to reduce expense accounts and so forth. What we did depended on the responsibility of the managers and the effectiveness of our control processes. They were examined and audited on an ongoing basis, and they've proven to be efficient. So we can control and reduce expenses on an ongoing basis. Rather than imposing specific criteria on the company, my approach has always been to appeal to the responsibility of our managers to see to it that they manage the resources efficiently and that they do spend what is required, and if it's not required, don't spend it.

I know you are addressing a specific question with the number that Madam Fraser has mentioned, but let me say that in 2005, 2006, 2007, and 2008 our financial performance was better than the budget that was allocated to us by government; we did not require the funding that was allocated to us.

I take this as a sign of our being responsible managers and using resources in a responsible manner.

**The Chair:** Thank you very much, Mr. Young.

Mr. Christopherson.

**Mr. David Christopherson:** Thank you, Mr. Chair.

The question I'd like to ask is when are you going to build the downtown Hamilton VIA station, but I can't link it to this report, so I'll leave that as a wish.

I do want to point out that there were three other issues that the Auditor General raised, and one of them was security. I wonder if the Auditor General would take a moment to outline what exactly you were referring to by security, and then Mr. Côté could respond as to how they've addressed those concerns.

**Ms. Sheila Fraser:** Thank you, Chair.

I think there were a number of issues such as security that were raised earlier. I think you're probably talking about security clearances or classification—

**Mr. David Christopherson:** It wasn't the risk management of issues; it was a separate category. All it said was "security". It really didn't expand.

**Ms. Sheila Fraser:** Yes, we didn't go into, obviously, a lot of detail in the report per se, but I think we all have to realize in the world that we live in that the train system is not exempt from possible attacks or having things happen to it. We recommended that the corporation put in a classification system—who has access to what information—as exists quite frequently in all government departments. So it would be who would see certain more sensitive information. The corporation agreed with that, and I think it's in the process of actually doing that.

It's more the issue of access to information and controlling it.

**Mr. David Christopherson:** Mr. Côté, I realize it's a public forum, so you can only say so much. I accept that—

**Mr. Paul Côté:** That's all right.

**Mr. David Christopherson:** —but what sorts of things are you anticipating? I mean, security experts are now looking at anywhere there are congregations of people—shopping malls, movie theatres, buses—where there isn't great security and that provides opportunity. Is that the sort of thing you're looking at, and are you able to talk about measures or procedures?

**Mr. Paul Côté:** Yes.

**Mr. David Christopherson:** Again, I totally respect that you can't get into detail, nor should you.

**Mr. Paul Côté:** That's a very, very good question, and I appreciate that I have the opportunity to inform this committee.

When the New York attacks occurred, it was a shock to everybody. There was an initial reaction that everybody wanted to implement all sorts of measures quickly.

My approach, and our approach in the company, has been to work with the front-line employees—that's where it happens—on programs of awareness and alertness. You observe what people do and how they behave. We developed this program in conjunction with the RCMP, and it was very, very effective.

You wouldn't believe the number of incidents that were avoided because our staff were alert and saw somebody do something or behave in a certain way. For instance, people coming to pay for tickets to go from Toronto to Vancouver, which is valued at \$1,200, with a pile of brand new \$20 bills. That sort of thing triggers you. It's an exaggeration, but sometimes that's how you do it.

With someone checking in a big bag, such as a hockey bag, you think it would be full and very heavy, and it's very light and fluffy. You open it, and in fact it's fluff stuff inside. It's that strategy of alertness.

Railway networks are such that people can get on at different places. They are very accessible, very difficult to protect, and I'm not

sure it's cost efficient to justify significant investments. Our people on the front line are the key for us.

• (1730)

**The Chair:** I understand Mr. Kramp has a question, and then we're going to ask for closing remarks.

**Mr. Daryl Kramp:** I have one quick question with regard to civil responsibilities.

There have been situations where trains have been delayed due to protests or whatever. Do you have a policy, and/or will you continue to ensure that civil law liability is an action that VIA will consider? In other words, if your trains are delayed—it could be bonfires on the track, which I'm very familiar with, and issues like that—obviously that costs VIA, and all train travel, so will you continue to seek civil recompense?

**Mr. Paul Côté:** First of all, fundamentally we're not the owners of the infrastructure; we are like a tenant. If any actions are to be taken, they will have to be done by the owner, so CN drives this particular process.

Our concern is more on how we deal with the customers. We make sure that our customers are not inconvenienced by these problems.

**The Chair:** Thank you, Mr. Kramp.

That concludes the rounds, colleagues. We're going to ask for closing comments.

Ms. Fraser, do you have any closing remarks?

**Ms. Sheila Fraser:** Thank you, Mr. Chair and the committee, for your interest in this report.

I'd like the committee to know that Mr. Côté's term as president is up at the end of this year, and he has indicated that he will be retiring. I would like to thank him very much for the excellent cooperation we have had.

It has been a pleasure working with you. Thank you.

**Voices:** Hear, hear!

**Mr. Paul Côté:** Thank you, Mr. Chair.

I have no further comment. I will remember this forever.

**The Chair:** Just before we close, again I want to thank all the witnesses for coming today. This country was built on trains, so this has been a very interesting hour, and I want to thank everyone for attending.

I want to remind members that our next meeting is on October 19. We're dealing with gender-based analysis, and a number of witnesses have been lined up. There will be a steering committee meeting on Tuesday of that week at noon.

Thank you very much. The meeting is adjourned.







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