House of Commons
CANADA

Standing Committee on Transport

TRAN • NUMBER 014 • 1st SESSION • 38th PARLIAMENT

EVIDENCE

Wednesday, February 2, 2005

Chair

The Honourable Roger Gallaway

Standing Committee on Transport

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● (1530)

[*English*]

The Chair (Hon. Roger Gallaway (Sarnia—Lambton, Lib.)): Since we now have a quorum, we can get under way with the fourteenth meeting of the transport committee.

Before we start with our witnesses, colleagues, we have some housekeeping items that I want to draw to your attention.

First, we have a notice of motion from Ms. Desjarlais, who is seeking that the committee ask the Prime Minister to remove Mr. Walsh from his recent appointment. It's a notice of motion, so along with the motion there is a background paper that Ms. Desjarlais has provided to us, and because it's on notice, it will be discussed at the next meeting.

You should also have in your package a routine motion, prepared by the clerk, requesting funding for the witnesses appearing before us next week on the issue of the hopper cars. Can someone move the motion? It's a routine motion. We pay the travel expenses of witnesses who come here.

It's moved by Mr. Scheer and seconded by Mr. Batters. Is there any discussion?

(Motion agreed to)

The Chair: Thank you very much.

The next item I want to raise is just normal business. You should have received by email a memo from our clerk on the matter of the documents related to the flight attendant ratio—that is, the 1:40 versus the 1:50. Everyone should have received that. The request is that you phone the clerk's office to let him know when you intend to go and look at these documents. They've all been translated as requested and we have a room that is secured. The point is that we don't want this to take forever.

I should point out that only members are allowed and no documents can be removed. Staff are not allowed in. So if you could call our clerk and advise him when you would like to be present, the room has been set aside and it is available to you.

I should also point out that this room is going to be used at 5:30 p. m. by another committee, so we will move on to our witnesses at this point and we will come back to other committee business after we have heard the witnesses. Is that okay?

We have with us today, from Canadian Pacific Railway, Janet Weiss, general manager, grain marketing and sales - bulk; and Marcella Szel, vice-president of marketing and sales - bulk. Welcome to you both.

We have from Canadian National, Ross Goldsworthy, vice-president of bulk commodities; and Paul Miller, vice-president of transportation services. Welcome to you both.

As you may know, we ask that you keep your opening statement as brief as possible, and it will be followed by a round of questions. We have until 4:30 with this group, after which we will hear from Transport Canada.

We will hear first from Canadian Pacific.

Ms. Marcella Szel (Vice-President, Marketing and Sales Bulk, Canadian Pacific Railway): Thank you, Mr. Chairman.

Thank you very much for inviting Canadian Pacific to appear here before your committee today to speak about the future of the federal government hopper car fleet.

As the chairman mentioned, my name is Marcella Szel. I'm the vice-president of bulk commodities, which include grain, and Janet Weiss is our general manager of grain, from Winnipeg.

I think you should all have in front of you a presentation that I'd like to review, and of course, afterwards we'd be pleased to take questions.

By way of introduction, I'd like to emphasize that the proposed disposal of the federal hopper cars is very important to Canadian Pacific Railway. We believe it has significant repercussions for Canada's grain handling and transportation system and, most importantly, for western Canadian farmers and their ability to compete, to competitively access global markets. Our view is that federally owned hopper cars are for the benefit of the entire grain industry. We've put forward a proposal that we think is the best way to protect the existing efficiencies, to create better car quality and capacity going forward.

By way of agenda, on slide one I'll begin with a brief overview of the federal hopper fleet, followed by a summary of what CP has proposed, a lease agreement proposal. Then I'll offer some comments on at least two of the other proposals that we're aware of, by the FRCC and by the Western Grain Elevator Association.

On slide two, I'll give you a bit of background about the federal hopper car fleet. It was purchased by the federal government between 1972 and 1982. In those years, and prior to those years, railways were required to move grain at rates established in the 1920s, which many of you may recall as the old Crow rate. As a result, railways could not afford to buy a new fleet and the government decided to invest in the fleet. Since that time, legislative change and new investment by all stakeholders has led to what we now know as a very efficient world-class grain handling and transportation system for western farmers in Canada.

The total fleet of covered hoppers that Canadian Pacific Railway has, owns and leases is over 26,000 cars. Over 6,000 of those, or about one-quarter, are the federally owned cars. This, as you can imagine, is a significant number. Of that fleet, about 11,500 to 12,500 are dedicated to western grain farmer movements during the peak seasons. In non-peak seasons, that might drop by 3,000 to 4,000 cars.

In terms of the size of the cars, they are 4,550 cubic feet in capacity in the box and they have a maximum gross weight on rail of 268,000 lbs. They are not as efficient as some of the new cars and new technology that we offer, but they obviously are usable in the system.

More than 80% of the federal hopper cars have more than 20 years of economic life left in them. They are not obsolete. The railways particularly can take advantage of the remaining life in these older, lighter cars to reposition them in other services where the cubic capacity is not a limitation. That allows grain to benefit from the introduction of newer, larger cars.

In other words, what you can do is take the smaller cars, put them into fleets where you have commodities that are heavier, such as potash, cement, or other kinds of commodities, and you introduce the larger-capacity cars into grain so that you can actually move more grain in each car, and thus in each train, for greater efficiencies.

For reference, on slide nine in this document is an appendix that sets out the details of our fleet.

There was an operating agreement, which has now expired, between the railways and the government for the use of the cars. It had, and we continue to work under, that provision for what's called alternate use, so that when the cars are not used for Canadian export corridors—that is, either Vancouver or Thunder Bay—the railways pay an alternate use. What that does is incent the railways to put the newer, higher-capacity cars into other grain services such as the United States, Mexico, or eastern Canada—frankly, anything but export services.

● (1535)

The impact of that is that you have more empty miles. In other words, we carry more air in the cars because we're switching them to reposition them in order to keep them as much as possible into western grain services. So we have a loss of capacity through this incentive on alternate use, and that's how it currently works.

On another issue around the federal hopper cars, there are some who say that the federal cars are in poor condition, and we categorically say that is not true. We keep them up to all safety standards that we're required to keep them up to. Safety is critical to the railway. Recent inspections by Transport Canada show that 96% of the inspected cars are in average to very good condition.

I'd like to outline briefly for you the proposal that Canadian Pacific Railway has put to the government concerning a new lease. The proposal is this. The government would continue to retain ownership of the cars and the railways would assume the responsibility to replace the cars in the future, so that as a car wears out some 20 years from now, it would be the railway's obligation to replace that capacity. The term of the lease would be the life of the car. In this way, we would create certainty in the system—certainty for now and certainty into the future—as to how cars and capacity would come into the system. It would encourage investment in railway cars.

The railways would also develop what we call replacement strategies that would, in the short term and the long term, cascade these cars I spoke about—the older, lighter cars—into other products and introduce new cars into the grain fleet. It is because the railways have large car fleets and have a mix of commodities that we can use the cars in different services, which gives us the scope and scale to allow this mixing of cars and cascading.

CPR would also initiate an aggressive three-year plan to improve fleet quality, specifically around the hatches and the gates.

With respect to the alternate use program I referred to, we would suggest that this be replaced by a straight lease agreement, so the same amount of revenues flow, but it would not constrain specific cars to specific corridors. By doing this, you get more capacity and better asset utilization.

We propose that the existing assignment between Canadian National and Canadian Pacific Railway be retained. And importantly, impact on the revenue cap would be neutral; that is, there is no legislative change required to implement this solution. We believe this is a simple proposal that requires only a new agreement between the railways and the government. It results in better quality cars, more capacity, and more certainty. Fundamentally it has no risk to it.

I will make a few comments on what we know about the Farmer Rail Car Coalition proposal, and we have obtained information from various documents and at least one public hearing. The FRCC proposal calls for an immediate transfer of cars and all the details to be worked out later.

We believe that several elements of the FRCC proposal are flawed. To start, the proposal is non-commercially based. They would want to obtain the cars at a nominal value. The business model is then premised on receiving from the railways what the FRCC sees as excess revenues under the current revenue cap associated with car maintenance. This assumption is incorrect. There is no grant of money to the railways to maintain railway cars. Money to maintain railway cars comes straight from our revenues and nowhere else.

With respect to maintenance, FRCC quotes a number that we believe is only a fraction of the required cost to maintain the cars. What they've quoted accounts for regular in-shop and off-line car repair only. Costs for in-train repairs or heavy bad order repairs, transportation of the cars to shops, and program work are all missing. Nor is it clear how their proposal would impact existing car maintenance jobs in the railways currently existing across the Prairies. The estimated maintenance price that FRCC has laid out seems to exclude enhancements to gates and hatches.

All of these investments form a part of CP's proposal.

● (1540)

The matter of maintenance is very important because the business case is founded on the elements of maintenance, what FRCC has put into their proposal.

On capacity, we understand the FRCC plans to apportion the cars in the future to various producers or grain companies. We have tried to estimate what impact that would be in order to move these cars around the system to place them where they would want us to place them, and we believe that would create about an additional seven million empty car miles. We'll be moving air for another seven million miles more, basically reducing capacity by about 4,000 carloads a year. This FRCC asset, which they would acquire for free, would not have any legislated car supply responsibilities that railways have, because FRCC is not a railway.

Overall we believe there's a significant element of risk associated with their proposal. They do not have experience owning or operating a large fleet of essential rail cars, nor have we seen any indication on how they'd handle contingencies for liabilities in the event that their proposal fails.

● (1545)

The Chair: Ms. Szel, I hate to interrupt, I'm just mindful of time. You've been about 10 minutes now, I'm just wondering if you could wind up.

Ms. Marcella Szel: I will do that. I will move immediately to the summary. I can do that fast.

On the summary page, I just want to say that moving western grain to export is a complex business with many players in the system. Through investment by all parties, including the government, supportive legislation and consultation, Canada has a grain handling and transportation system that does work, and we should be looking for improvement.

Our view is that our proposal creates improvement in the system. It adds to it as opposed to detracting from it on the elements that I've outlined.

I would also like to say that if the government determines that they would rather sell the cars on a commercial basis, Canadian Pacific Railway would want to and would indeed participate in that system. Either way, whatever proposal goes forward, we believe that terms and conditions to ensure that farmer impact is mitigated can be found in any system we work forward with.

Thank you, Mr. Chairman.

The Chair: Okay, now Mr. Goldsworthy.

Mr. Ross Goldsworthy (Vice-President, Bulk Commodities, Canadian National Railway Company): Thank you very much, Mr. Chairman.

On behalf of Canadian National, I'd like to thank your committee for the invitation to be here today and for your consideration of this very important matter.

I'm Ross Goldsworthy, vice-president of bulk commodities. I'm joined today by Paul Miller, who is vice-presidentof transportation services.

I will try to get through this as quickly as possible to allow as much time for questions as possible.

The grain transportation is key if our Canadian producers are to be competitive in world markets. The current system is very complex, but it's working well. There are many players involved in the system: grain marketers, including the Canadian Wheat Board and the marketers of non-board grains and specialty crops; terminal elevator operators and country elevator operators; producers; grain companies; head offices; processors that use grain and oilseeds to create higher value products; and railroads, not only the class I carriers but the many short lines involved in the transportation of grain.

The challenge is to balance the requirements of all the participants while achieving high performance and efficiency levels for the system as a whole. Quite frankly, this is what railways do, day in and day out.

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

CN moves western Canadian grain by rail to many ports and domestic destinations. At the west coast, we have Prince Rupert and Vancouver. At the Lakehead, we have Thunder Bay. In the lower St. Lawrence, we have Montreal and Quebec City. At the Gulf of Mexico, we move grain to ports like Destrehan and Remy, in Louisiana. Mexico has become an important rail destination of western Canadian grains in recent years, from movement of only 200 carloads in 1998 to 5,000 carloads per year today or 0.5 million tonnes.

There are many receivers as well at key ports. At Vancouver alone, there are six licensed grain terminal elevators owned by Saskatchewan Wheat Pool, James Richardson International, Agricore United, Cargill Canada, Vancouver Wharves, plus other grain receivers. There are also many domestic receivers throughout Canada, the U.S. and Mexico. The system is complex, but it is working well and delivering grain reliably and effectively.

I'm happy to say there have been some significant improvements in system performance in recent years. For example, the average cycle time to the ports has come down to 16 to 17 days versus 20 to 25 days in the early 1990s. By way of capital avoidance, each one-day cycle improvement equates to about 600 cars of capacity, which would be worth about $45 million to $55 million worth of capital investment.

These types of efficiency improvements have been driven by direct shipper and carrier accountability and responsibility and a focus on the fluidity of the pipeline. What this points out is that cars and car ownership are only one aspect of a complex system, a system that is working well and continues to improve.

CN currently has about 11,000 cars in its western Canadian grain fleet, including the approximate 6,000 Government of Canada cars under question here today. The balance of our fleet is made up of cars owned by CN or leased from commercial leasing companies.

The ideal modern grain car has more capacity than the Government of Canada cars, both in volume and in maximum load. These larger modern cars are more suited for carrying lighter-density crops, such as canola and oats, and the densest crops like wheat and peas can fully utilize the carrying capacity of both the car and our strengthened track infrastructure.

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

● (1550)

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

As a result of the government's announced intention to divest ownership of the cars, CN last February submitted a confidential offer to purchase all of the Government of Canada cars currently in CN's service at a market price. We also committed to immediately undertake the major investment programs needed to extend the life of a large number of cars and to replace cars that are market obsolete or uneconomic to repair. This represents a commitment of $200 million to $300 million over the next 10 to 15 years, over and above the cost of acquisition.

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

I also want to make one other point very clear. CN also views continued government ownership of the cars as a realistic option. It was made clear at Transport Canada's technical meeting in Winnipeg on November 1 that many producer groups prefer that option because they feel it would have the least impact on rates. In fact, some of the Farmer Rail Car Coalition's strongest supporters acknowledge that their first choice for the future of the cars would be continued government ownership. As well, the latest group, the Farm-Industry Partnership group, I believe they're now referred to, also has included in its membership the Western Barley Growers Association, whose first choice would again be for continued government ownership.

We would, of course, require a long-term operating agreement to give us the security to make the necessary investments in replacement and rehabilitation of the fleet. However, if this were done I could foresee government ownership continuing, but with the government clearly free of any responsibility to replace the cars. If the government is determined to dispose of the cars, there is one principle we see as absolutely paramount for the government to ensure under any disposal option: protect the system efficiency and reliability. There must continue to be direct accountability for allocation decisions. Will the FRCC under their plan be involved in allocation? Today, the leasers of cars are not involved in any allocation decisions. The cars should continue to be operated as a truly common fleet. Again, that allows for maximum flexibility, maximum response in regard to all stakeholders' needs. The FRCC option is that they would lease to other groups rather than just strictly grain producers.

The proper capabilities and infrastructure must be in place for efficient car maintenance and storage of idle cars, and there must be a proper financing in place to immediately begin a program of fleet renewal and replacement. If we are allowed to purchase the cars there will be no transitional issues or long-term issues. Similarly, if the government chooses to keep the cars and we continue to operate them under a new long-term operating agreement, we believe that adverse impact on system performance will be avoided. In either case, the cars will continue to be operated and maintained by an existing operator.

Beyond the question of protecting system efficiency and reliability, we believe that the disposal option chosen by government must also satisfy two other principles: maximize value for taxpayers and respect an open, fair, and transparent process. The value for taxpayers is significant. The book value of the government grain cars is over $200 million according to Transport Canada. And maximizing value for taxpayers also reduces trade policy risk that would be associated with subsidized benefits.

● (1555)

You may wonder why CN has an interest in trade policy risks. The U.S. countervailing duty on wheat caused the curtain to come down on an important destination market for us. Over the past 20 months, CN has not moved a single carload of western Canadian wheat to the U.S. domestic market. Before that we were moving 5,000 carloads a year. That's half a million tonnes of producers' grain into the U.S., shipped on CN lines alone. As I said, if the government chooses to dispose through a public tendering process, CN would indeed bid.

To reiterate, CN believes there are many compelling reasons for railways to own or to continue to operate and maintain the government grain cars.

First, railroads operate a truly common fleet, where one CN car is used interchangeably with another. We are concerned about the Farmer Rail Car Coalition proposal and we feel that it opens up a Pandora's box of operating issues—from switching cars among shippers and origins, competing and conflicting priorities, new sources of delay in matching and supplying cars to order—all of which will add days to car cycles, reduce fleet capacity, and make the system less productive and reliable.

The Chair: I wonder if you could just move to summarize now, please.

Mr. Ross Goldsworthy: In conclusion, CN's challenge as a transportation provider is balancing the requirements and needs of all the supply chain, all the participants, not just a segment of the participants like the FRCC proposal and the Farm-Industry Partnership proposal. While at the same time we do this, we are also striving to achieve high system performance and efficiency levels for the system as a whole.

I encourage all members of this committee to ask themselves one basic question: what specific actions can the FRCC or the Farm-Industry Partnership group take that will even maintain the current level of system performance?

Thank you.

The Chair: Thank you.

I'm going to start with questions.

Mr. Batters is going to begin.

Mr. Dave Batters (Palliser, CPC): Thank you very much, Mr. Chair.

Thank you to the representatives of both CP and CN who appear here today on this very important issue—the potential disposal of hopper cars. This is a crucial issue. I think there are many reasons why this is important.

I sit here today, first and foremost, concerned for my producers and all producers in this country and the impact that this will have on freight rates. Also a very key consideration as we discuss this is, as has been alluded to, what is best for the Canadian taxpayer. Estimates are that these cars are worth $150 million to $200 million in crown assets. That's a key consideration.

Mr. Chair, how much time will I have?

The Chair: Seven minutes.

Mr. Dave Batters: Perfect.

I attended the technical meeting November 1, organized by Minister Lapierre, regarding this issue. I listened with great interest. At the end of that meeting, the consensus among a number of us—most players, I think, in that room—and certainly, I believe, the opinion of the minister, was that what is needed here before a decision is made by cabinet is an accurate reflection of the maintenance costs of these hopper cars.

That will be my first question to both railways. You manage good businesses. You've done this for a number of years. Certainly in your cost analysis you can give this committee some indication—hard costs—of how much it costs to maintain these cars on an annual basis. Give us an average. The entire issue of which proposal will ultimately be successful here depends largely on that question. That will be my first question.

The second question to both railways is this. You indicated that railways pay an extra fee to the federal government on an annual basis for usage other than hauling western grain, back-hauling other products. I'd like to know from both railways how much you pay annually in terms of back-haul charges for hauling material other than western grain.

Last, can you please illustrate for this committee why your respective proposals would be in the best interests of the producers in my riding of Palliser and the producers across this country in terms of limiting their freight rates? Why is your proposal, out of the four, the best to save producers money?

Thank you.

Three questions, please, Mr. Chairman.

● (1600)

The Chair: Maybe we could start with Canadian Pacific, and they could answer question one. Canadian National could also answer question one. We'll flip back and forth.

Ms. Szel or Ms. Weiss.

Mrs. Bev Desjarlais (Churchill, NDP): Just to clarify Mr. Batters' questions, I think his question was to each rail line, because they may have a different response. They'll each answer question one, correct?

The Chair: Yes.

Ms. Szel.

Ms. Marcella Szel: Thank you for the question.

With respect to your first question on assessment of the hopper car maintenance cost, we have in fact provided some information to Transport Canada as per their request. The information is not car specific because we don't keep information literally car by car. They're average costs. All the information that we provided Transport Canada we'd be happy to provide to this committee.

The Chair: Thank you.

Mr. Goldsworthy.

Mr. Ross Goldsworthy: CN certainly appreciates there's a great interest in the amount spent on the maintenance. From our perspective it is confidential and commercially sensitive information, because if these cars do in fact come into a bidding process, that information will form part of our proposal. What I can tell you is that we certainly spend what's required to keep the cars in good condition, and in our view it's greater than the $1,500 that's being bandied about by other parties. We are also in the process of working with the agency so they can report back, I believe, to Transport Canada with the actual cost of maintenance, which I think is an ongoing project.

Mr. Dave Batters: CP has indicated that they're willing to provide that information to this committee, using whatever mechanism for that to happen. Perhaps CN would be willing to as well, maybe in camera. I'll leave that for your consideration. CP is willing to divulge that information.

I guess what I'm getting at, Mr. Goldsworthy, is your comment that the FRCC proposal was predicated on $1,500. It would be incumbent on you to prove that it is higher than that. It could help your case, sir.

The Chair: Thank you.

Question two.

Ms. Marcella Szel: Question two contains information that, frankly, I'd be happy to tell you, except that we're under a confidentiality provision with the Government of Canada in terms of what the costs for that alternate use are. So what can I say?

The Chair: People from the department are coming in at 4:30, and that question can be posed to them.

Mr. Goldsworthy, I'm assuming it's a similar answer.

Mr. Paul Miller (Vice-President, Transportation Services, Canadian National Railway Company): I'll be honest. I wasn't aware that we were under confidentiality, but I'm sure we are. I'm sure it's the same legislation. We have the numbers here and can confirm them with Transport Canada, which I believe is your next witness, and then they could make the....

Mr. Ross Goldsworthy: Suffice it to say it's significant, in millions of dollars.

The Chair: Question three.

Ms. Marcella Szel: On question three, Mr. Batters was concerned about how our proposal is going to save money for farmers in Palliser.

Mr. Dave Batters: For western Canadian farmers. Why is yours the best out of the four to ensure that the rates are going to be the lowest for my producers and all producers?

Thank you.

Ms. Janet Weiss (General Manager, Grain, Marketing and Sales Bulk, Canadian Pacific Railway): As context, obviously freight rates or the total revenues that railways earn for the movement of western Canadian grains to export are governed by a revenue cap that basically limits our revenue-earning potential. Our expectation is that the proposal we put forward would not impact that cap. Day one nothing changes. The cars that are out there continue to be appropriately utilized, not adding any extra cost or risk.

I don't see necessarily that the proposal will generate savings to farmers, but it protects them against a lot of future costs, and those costs are really basic. Any loss of efficiency means incremental cars to the business, which does show up in the context of future cost that the farmers will see. What we see is a very safe, very low-risk solution.

● (1605)

The Chair: Mr. Miller or Mr. Goldsworthy.

Mr. Ross Goldsworthy: Following up on my colleague, obviously her comments about the revenue cap are relevant, but more so are her comments about the efficiency of the system. As I said earlier, one-day degradation in cycle time is equivalent to 600 cars, which at current asset values are worth about $45 million to $55 million. From our perspective, we think the railways offer greater assurance that we can efficiently meet all producers' needs, not just specific segments. We provide what we feel is less risk to a reliable and effective logistics system that is absolutely critical to get the farmers' product to the coast, or whichever market they are so participating in, on time. We see few to no transitional issues in transferring or selling or renegotiating the operating agreements with the railways versus the other proposals.

The overhead structure that we see the FRCC putting on the table to us only adds more incremental cost to the system that someone has to pay for. Again, we also are providing earlier completion of fleet refurbishment and those types of things that we think will minimize future cost impacts to producers.

The Chair: Thank you.

Monsieur Carrier.

[*Translation*]

Mr. Robert Carrier (Alfred-Pellan, BQ): Hello.

I am a member from Quebec, so I am not very familiar with hopper car operations, but I do see how very useful they are in Canada. In 1996, the government indicated its intention to sell these cars. For various reasons, this has not happened yet. I would like to know how important it really is to acquire these cars rather than pay rent to use them, which, I suppose, is the current situation. Correct me if this is not the case.

Should the government absolutely confirm its orientation, which is to sell these cars to facilitate your transport operations? My questions are addressed to both companies.

[*English*]

The Chair: Who would like to start? Let's start with CN.

Mr. Paul Miller: Thank you, sir, for that question.

At the end of the day, in terms of handling western Canadian grain, the number of cars is very important; it is a very significant portion of the total fleet involved in that transportation. A change of ownership, however, is not an absolute requirement to continue efficient operations for western Canadian farmers. As we've said in our presentation, we would be happy to acquire the cars and to participate in an open commercial bid to buy the cars, but we would also be happy to leave the cars in government ownership and renegotiate the operating agreement that would go along with that.

Mr. Ross Goldsworthy: If I might add one thing here: we put in the offer to buy based on the feedback we were getting from Transport that we needed to put something on the table. But as I said in my presentation, a new long-term operating agreement is also a viable option.

What we need is security in the term of that, so we can make the investments necessary to start refurbishing and replacing the cars as they age—and they're going to require that money. In that sense, we need a decision.

The Chair: Ms. Szel.

Ms. Marcella Szel: I think a question that you asked was whether it's necessary for the government to sell the cars in order to have an efficient system.

● (1610)

Mr. Robert Carrier: Your opinion.

Ms. Marcella Szel: Our opinion is no. Other than perhaps the government wishing to not own the asset, our opinion is that there is nothing about the government selling or disposing of the cars that improves the system. That's why we propose that the government should continue to own them and, instead, have a better, more modern leasing agreement to reflect today and tomorrow's realities and to take care of some of the issues around car quality and replacement of cars in time, etc.

But we see nothing that would create efficiencies by somebody else owning them. We would buy them only if they were to be sold.

The Chair: You have three minutes, so please proceed.

[*Translation*]

Mr. Robert Carrier: There is a detail you did not provide. Do you currently pay rent to use these cars?

It seems the maintenance performed by the government is not enough, which is why you prefer buying them and maintaining them yourself as the owner.

I would like to have more information.

[*English*]

The Chair: Mr. Miller.

Mr. Paul Miller: In terms of leasing costs, sir, when the cars are used in western Canadian export grain service, we do not pay lease costs on a mileage or time basis; they are provided to us by the people of Canada. When we use the cars in what is called alternate service—basically anything other than western Canadian export grain service—then there is a negotiated daily charge that we pay to Transport Canada for that use, and that's settled on a monthly basis. It's audited annually; and in fact, there's an audit going on of our payments at this time.

On your second question concerning maintenance, no, it's not that the government owns the cars or does the maintenance; the railways do the maintenance on the cars. However, the current uncertainty surrounding these cars has led us to question whether we can make the significant investments that are required until these questions are resolved.

The Chair: Thank you, Mr. Miller.

Ms. Szel or Ms. Weiss.

Ms. Janet Weiss: I don't have much to add except to say that the maintenance of the cars is certainly adequate in the context of their being safe, operable pieces of equipment.

They are 20 years old now. There are things that happen as cars get old. I think both railways are actually anxious to invest and continue to ensure those cars are in good operating condition. We need certainty with respect to the ownership or a lease arrangement with the government in order to make those types of investments, which is really a core part of what CP is proposing.

The Chair: Thank you.

Monsieur Bonin.

Mr. Raymond Bonin (Nickel Belt, Lib.): Thank you, Mr. Chair.

My first question is whether any of this maintenance is done in the United States. Is it all done in Canada?

I guess this applies more to CN.

Mr. Paul Miller: Very little of it is done in the United States, sir. If a car is in service in the United States and it falls, as we call it, into bad order, if it requires a repair and it's not safe to move that car it'll be repaired where it's found.

Mr. Raymond Bonin: On a need basis.

Mr. Paul Miller: On a need basis, exactly.

Mr. Raymond Bonin: But not as scheduled maintenance.

Mr. Paul Miller: No, sir.

Mr. Raymond Bonin: All of that is done in Canada?

Mr. Paul Miller: That's right.

What we would like to do, once we have the certainty surrounding these cars, is much more of that. In fact, we're very proud of our facility at Transcona, in Winnipeg, Manitoba. It's especially well set up to do heavy repairs on this type of equipment.

Mr. Raymond Bonin: Mr. Chair, I think you might have answered part of my second question, but I'm interested in knowing how CP would respond. If these cars were put on the auction block, or whatever method, and another entity were to purchase them, what would that mean for job loss in your shops, and in what cities? If you no longer maintained these, you probably would rent them from the farmers or from others. If you don't maintain them any more, it would mean people would lose their jobs within your company.

In what cities?

The Chair: Go ahead, Mr. Miller, if you want to.

● (1615)

Mr. Paul Miller: We have approximately 800 heavy-duty car mechanics in western Canada. They're certainly not all dedicated to the maintenance of these cars, but it's part of their ongoing responsibilities.

Under some of the proposals we've seen, as I understand it, the day-to-day running maintenance of those cars, assuming that would stay with us, would sort of net out, and there would not be a loss associated with that. In our facility in Transcona we have a current program of about 900 cars, not these particular cars but 900 hopper cars that we're going to do there this year. That involves roughly 70 or 80 full-time equivalent workers.

Ms. Janet Weiss: When we look at our network, and we look at the current repair programs we have in place in western Canada plus what is contemplated under a new operating arrangement, we would estimate there are probably about 100-plus jobs, around 125, specifically associated with the federal hopper car fleet. Broken out by province, obviously, it varies. In terms of ballpark figures, probably low would be 15 employees in the province, and high would be closer to 40 people.

The Chair: Are there any other questions?

Mr. Karygiannis, you had a question.

Hon. Jim Karygiannis (Scarborough—Agincourt, Lib.): Thank you very much for coming and for bringing a few of the concerns you have to the table.

I'm looking at the background that was given to us by the Canadian Pacific Railway. On page 2 it says that 83% of cars have 20-plus years of life remaining.

My question is whether there is a critical path management you're using, since although the cars are the government's responsibility and the government owns them, you are leasing them, you're looking at repairs, you're looking at maintenance—the whole nine yards. Do you have a plan in place—and this goes to both companies—that the cars would remain for 20 years, or are you just waiting until the day the government says it might sell them, and then you'll accelerate your plans? Can you share with us your critical path management as to repairs and the cycle of longevity of the cars?

Ms. Marcella Szel: Thank you.

When you say they're owned by the government and managed by the government, in point of fact we treat them as our own. They are part of our fleet and they are part of our normal car repair maintenance programs. We have very stringent, strict, and high safety standards in terms of all of our equipment, and these cars are no different from any other car we own. So even though they are marked as Canadian government or Alberta or Saskatchewan government cars, we treat them as our own cars for purposes of maintenance. They're with all our normal maintenance programs.

Because of the uncertainty around the cars over the last number of years, what we have not done is gone in to improve them with quality repair programs, and that's what we would propose to do. Those kinds of quality repair programs would respond to some of the issues we're currently seeing and sometimes extend the life of the car even beyond the 20-year program. That's what we're looking to do, once the certainty around the cars is established.

Ms. Janet Weiss: Just to add to Marcella's points, part of a maintenance plan, actually a program for the car, is looking at what's the best application and use for the car. We'd look at these cars and we would say part of a good program would be replacement of gates, part of a good program would be upgrading the cars to a carrying capacity of 286, then cascading them into another product and using a different part of our hopper car fleet. We have 7,000 cars that are already 286-capable, with a higher cubic capacity better suited to grain. We would look at escalating or advancing the movement of some of those cars into grain, which really benefits the whole system, from the grain companies that load those cars to us in the context of a better match of equipment.

The Chair: Mr. Miller, do you want to add anything to that?

Mr. Paul Miller: Thank you, Mr. Chair, and thank you, Mr. Karygiannis.

We have a plan that we would like to get going on in terms of heavy maintenance for these cars. Once a freight car gets to be 22 to 27 years of age, if you don't do a heavy repair on it, then your running maintenance and your out-of-service time starts to go up dramatically.

Heavy repair on these cars could run upward of $20,000 per car. It could be replacement of cords, it could be stiffening of sills, gates, and hatches, as Canadian Pacific has mentioned, or reconditioning of the trucks, reconditioning of the draft gear, and so on. Not every car would be $20,000, but just as an example, just in and of itself a set of four hatches for these cars is $3,600 to replace.

With our particular problem with the aluminum cars, when we factor that in, we have in round figures 3,000 to 3,500 cars that we would like to start on the heavy maintenance program, and in round figures, 2,000 to 2,500 cars, mostly the aluminums, that we would just retire and replace as they fell into bad order.

● (1620)

The Chair: Thank you, Mr. Miller.

Ms. Desjarlais.

Mrs. Bev Desjarlais: I have just a few questions, and I have to admit I've had the opportunity to go through this discussion with all of you previously. And trust me, I'll go back and check to make sure the notes match. I did have questions after the fact, and I think they were to be submitted. We had some information that did come back, and I'll just follow up on some of those questions now.

Either one of you could respond, because I'm sure you're going to give me a close enough answer. What's the cost of one of these cars? What's it valued at, roughly?

Mr. Paul Miller: I'm sorry, the current car?

Mrs. Bev Desjarlais: Yes, the current cars. Forget the aluminum ones; we'll deal with them differently. The other cars, what would they be valued at, for one car?

Ms. Janet Weiss: A new car would be $85,000 to $90,000 at this point.

Mr. Paul Miller: We would agree with that.

Mrs. Bev Desjarlais: And as we're all trying to sort out what the maintenance is, we're hearing that you don't keep a record per car as to the maintenance cost. I have to tell you I have a hard time believing that. Because I know when I take my little Ford in, whether it's a Tempo or something else, for sure the car dealership writes down the licence number, and sometimes the serial number, and then they hand it back to me and it lists everything that was done.

I'm wondering, what gets put on the maintenance orders when they're being done in, say the Transcona shop—all two cars that get done in the Transcona shop?

Mr. Paul Miller: It's eight, actually.

Mrs. Bev Desjarlais: Eight, okay. Thank you.

Mr. Paul Miller: We do keep a record of the expenses, by car number in our case. However, it's not an actual expense; it's the expense that under the Association of American Railroads billing we bill to one another, to whoever should happen to own the car, for example, if we perform that repair. It's not the employee's name and the number of hours and that employee's rate of pay. It's a standard set of costs to replace a set of wheels or replace a gate or—-

Mrs. Bev Desjarlais: I think people understand that in the health care field, the health system allocates that you're going to get $65 for taking a look at somebody's throat. So it's kind of done that way, is it?

Mr. Paul Miller: Kind of that way, yes.

Mrs. Bev Desjarlais: So there is a record per car as to what the cost would be.

Ms. Marcella Szel: An allocation.

Mrs. Bev Desjarlais: It's an allocation.

My question was going be, further along, whether there were additional costs incorporated into that that the company might have to deal with. I would imagine that some of those costs that CN or CP would throw in would be administrative costs, shareholder costs, advertising costs, and maybe a few other things that fall under administration. In reality, would that be thrown into the cost of the maintenance as well?

Mr. Paul Miller: I wouldn't say advertising or shareholder costs, but certainly overhead costs associated with owning facilities, and so on.

Mrs. Bev Desjarlais: Okay. So that might explain why the Farmer Rail Car Coalition would think there would be a difference in their cost for maintenance and the cost that possibly CN or CP would have, so until we know for sure what CN and CP are.... And I recognize your commercial part of it, I understand that, but we all know there are ways by which a committee can find out reasonably well what the costs would be and do an assessment. I don't think you're doing yourselves justice by making it seem as if it's a great big secret and you can't let it out. It just doesn't do justice to the committee, which is trying to decide what's best for western grain farmers. It makes it tough.

You did mention the Transcona shops, and I'm glad you gave the figure of eight cars, because there was an impression from your presentation that a lot of this work gets done in the Transcona shops. As someone who phoned each and every shop in Manitoba to see how much work gets done in each, I knew that a whole lot of the work on these hopper cars wasn't being done there. Would you care to tell the committee where most of this is getting done right now, though?

● (1625)

Mr. Paul Miller: The running maintenance gets done at whatever location the car requires it. Right now, that is far and away the bulk of the work we're doing on these cars. We haven't undertaken this heavy type of investment that many of these cars require. One place that does see probably a little bit more than others is Melville, Saskatchewan. We do some gate and hatch work there, because we have a cleaning facility there and we find some of the issues.

Mrs. Bev Desjarlais: Okay.

The figures we have from CP show that when Transport Canada did their inspection, 80% of the cars were in good condition and 18% required some gate action. I believe you give a figure that 96% were in good condition.

Ms. Marcella Szel: Average.

Mrs. Bev Desjarlais: They were in average condition. I think we can take from this that not a whole lot of major work has to be done on these cars, if they're being inspected and they're still seen to be in good shape. So I'm curious that you've all held off doing major work when we just had a Transport Canada inspection saying that they're in really good shape, and you're indicating 96%. So I'm a little thrown off. Which is accurate? Either they need a whole big bunch of work or they don't.

Mr. Paul Miller: If I may, the cars are maintained in safe and loadable condition. However, the average age of the fleet is getting into that period when a freight car of any description requires a heavy shopping.

The cars last 40 and now 50 years. Depending on the type of service and type of car, once you get to that 22- to 27-year age, you typically need a heavy shopping of that car—reconditioning of the running gear, trucks, and so on; otherwise, the individual replacement of parts is going to become very inefficient, and your total cost is going to be actually higher because of the out-of-service time.

Mrs. Bev Desjarlais: So would it be safe to say that the Government of Canada, as the present owner of those cars, should have a record of each and every car, since they're valued brand new at $85,000 to $90,000? That's a fair chunk. Would it be safe to say that there should be a record of each and every one of these cars and which ones need that major work, or are we just going to do it on a guess?

Mr. Paul Miller: No. What we would do when we undertake this type of program for any fleet of cars is inspect by car series. In any series of cars, some cars will be worse than others, so there will be an average cost. We'll say we're going to repair these cars up to something over the average cost, and if the cost to repair a particular car is in excess of that selected number, that car would be retired.

Mrs. Bev Desjarlais: Are you saying then that you would know how many of those government cars needed that work?

Mr. Paul Miller: We'd know just based on fleet age. Before starting to undertake the detailed planning of the program, we would inspect the number of the cars.

Mrs. Bev Desjarlais: So you're just basing it on age; you're not basing it on—

The Chair: Ms. Desjarlais, I'm sorry, but—

Mrs. Bev Desjarlais: Okay, I'm done. That's fine.

The Chair: I think Mr. Scheer wanted to ask one question. We have one minute left.

Mr. Andrew Scheer (Regina—Qu'Appelle, CPC): I had a bit more than one question, but I'll be very quick.

Just to follow up on that last point, you were talking about the quality repair program and that if it's over the average cost, that car would be retired. To do those heavy repairs that you're talking about, would that affect a freight cap if you get into doing some of those repairs that go above the level of maintenance that is happening right now?

Mr. Ross Goldsworthy: The revenue cap is simply a mathematical formula that the government has obviously put in place to put a ceiling on the revenues. They review it every single year and make an adjustment for various issues—and what they decide to do, they do.

The Chair: I'm sorry, but we've run out of time. We have other witnesses waiting and we're going to have bells, I'm told, at 5:15. I'm sorry to cut it off.

Mr. Karygiannis.

● (1630)

Hon. Jim Karygiannis: Mr. Gallaway, as a point of follow-up to my question, I've asked the management people at CN the specific question about critical path management, which I definitely know is used at CN. Unfortunately, maybe the brass upstairs on the 21st floor don't know what critical path management is, but if I remember the days I was working there on the 12th floor, critical path management was a method we were using—

The Chair: What's your point, because we—

Hon. Jim Karygiannis: My point is very simple. Would you be able to provide this committee with your last year's maintenance records for the cars, and when they needed repair, and what repair was done on them? Would you be prepared to provide that? That's critical path management. Certainly CN used to have it 25 years ago when I worked for you, and I'm sure CP has the same thing.

Ms. Marcella Szel: We'll undertake to check to see if that's available.

Mr. Paul Miller: And on our side, we're providing that information to the CTA now. However, if that were to come back to this committee, it would be fine with us.

Hon. Jim Karygiannis: Can I ask the clerk to undertake to do that?

The Chair: Thank you for coming. I know there were many more questions. Unfortunately, time is always a constraint here.

We're going to suspend for three minutes while we await and prepare for our next witnesses.

Thank you.

● (1630)

(Pause)

● (1636)

The Chair: We can continue with this meeting. We have with us now from Transport Canada—and I know them both—Kristine Burr and Helena Borges.

Did I pronounce that properly? Someone up here said “gorgeous”; it rhymes with gorgeous.

Welcome to both of you. As you know, we are trying to move along today. If you could make a statement within 10 minutes, it would be much appreciated. There are many questions around this table.

Ms. Burr, if you want to proceed.

[*Translation*]

Ms. Kristine Burr (Assistant Deputy Minister, Policy Group, Department of Transport): *Merci, monsieur le président.*

Mr. Chair, I appreciate this opportunity I am given to appear before the committee to comment on the sale of the government's hopper cars for grain transportation. I hope my observations and answers will be useful to the members of the committee.

[*English*]

As you are aware, I appeared before the Standing Committee on Agriculture and Agri-Food in early December, and I will be reiterating some of what I said before that committee. You'll understand, I hope, that there are some key points that bear repeating.

The federal hopper car fleet consists of about 12,400 cars. They were purchased during the 1970s and 1980s. The federal government undertook the hopper car purchase program because the railways were losing money moving grain under the regulated Crow rate of the day and had no incentive to invest in new cars. The governments of Saskatchewan and Alberta, as well as the Canadian Wheat Board, also purchased grain cars in the late 1970s. Collectively these cars are referred to as the government cars.

The government cars constitute the core of the railways' fleets for moving western Canadian grain. The railways supplement the government cars, as required, with cars they own or lease from commercial rail car leasing companies. It's worth noting that there is a very large and active commercial lease market in North America. As such, there are other potential sources of cars for the railways and grain shippers besides the government cars.

As you heard earlier, the government cars are provided free of ownership charges to CN and CP for regulated grain movements, i.e., export grain movements to the ports of Vancouver, Prince Rupert, and Churchill, as well as domestic and export movements to Thunder Bay. When not required for regulated grain movements, the cars can be used for other services, such as movements to the United States. The railways pay for the cars that are used for such alternate services. The federal government collects around $10 million to $15 million annually from the railways in alternate use fees and other charges such as demurrage.

The government announced its intention to dispose of the federal fleet in the 1996 budget, but the disposal has not yet taken place for a number of reasons, including the reviews of the grain handling and transportation system carried out by Justice Estey and later by Mr. Kroeger in the late nineties. Another consideration was that the railways had a right of first refusal to acquire the cars, and this did not expire until the summer of 2002. Finally, the government hopper cars were one of the issues raised in a trade challenge by the United States. These factors are no longer an obstacle to proceeding with the disposal.

Although the government has not yet made a policy decision on the disposal of the cars, it has received a number of unsolicited proposals. The Farmer Rail Car Coalition has submitted a detailed proposal to acquire the federal fleet for a nominal fee and manage the cars on behalf of prairie farmers. Transport Canada has been conducting a due diligence review of this unique proposal. We've engaged outside financial and legal experts to help us. As a result of discussions with TC's financial consultants, the FRCC agreed to make a number of changes to the assumptions underlying the proposal. Our financial consultant concluded that based on the revised assumptions, the FRCC business plan was workable. Our financial consultants have also assessed the FRCC's ability to pay more than a nominal amount for the cars, since we believe the government will want to optimize value to the taxpayers if it decides to transfer the cars.

The department has worked with the Department of Justice legal counsel, as well as outside lawyers, to review the constating documents of the FRCC, including their letters patent, bylaws, and governance structure. We have had a number of meetings with the FRCC, and they have revised their constating documents to clarify issues related to the FRCC's purpose, objectives, board of directors composition, transparency, accountability, reporting, and other governance matters.

CN has submitted a proposal to acquire its half of the federal fleet. CP has proposed that the government retain the cars and enter into a long-term operating agreement with the two railways. These proposals are also being reviewed.

In December, another proposal was received from a group representing some grain commodity associations, the Western Grain Elevator Association, which represents the major grain companies, and the Inland Terminal Association of Canada, farmer-owned inland terminals. So far we have done only a preliminary analysis of this proposal, as it would need to be further developed for us to subject it to a more detailed review.

As the committee is aware, a technical briefing session was held in Winnipeg on November 1 of last year. Industry stakeholders were given presentations by Transport Canada, CN, CP, and the FRCC, and were provided with an opportunity to ask questions. The Minister of Transport, along with some opposition members of Parliament, attended the Winnipeg session as observers.

● (1640)

Transport Canada officials indicated at the Winnipeg session that the following seven principles would guide the policy decision on the disposal. First and foremost is to encourage system efficiency, competition, commercial discipline, and accountability. Second, we would like to see a fostering of good relations within the industry, including meeting the needs of producers and other stakeholders, without impeding the overall efficiency of the grain handling and transportation system. We also need to minimize the risk of trade challenges, especially by the U.S.; ensure an adequate car supply for western grain movements; optimize the value for taxpayers; minimize the financial impact on western producers; and finally, yet very critically, ensure an orderly transition.

Transport Canada officials also identified three broad policy options at the Winnipeg meeting. Under the first option, the government would keep the cars and possibly adjust the statutory revenue cap, which limits annual grain revenues for the railways to better reflect the current costs of maintaining the cars.

The second option is a commercial disposal. This includes a range of sub-options such as selling the cars to CN and CP for fair market value, a sale through an open bidding process based on the best price, or a request for proposals based on other factors in addition to price.

The third and final option presented in Winnipeg was a negotiated transfer to the FRCC through a transaction that is as commercial as possible and optimizes value for taxpayers. A possible variation of this option would be a negotiated transfer to the group that submitted the proposal in December 2004.

At the Winnipeg session, stakeholders were invited to submit written questions to Transport Canada, CN, CP, and the FRCC. The answers to these questions were sent out to stakeholders on November 8, 2004. In addition, stakeholders were asked to send comments to Transport Canada on the disposal options and terms and conditions. We received feedback from 23 organizations. The stakeholder comments will be reflected in the analysis that we are conducting for ministers.

In addition to the review of unsolicited proposals, we are undertaking a number of other activities in preparation for a future submission to cabinet. We have had two estimates prepared on the fair market value of the federal fleet. The results are confidential but will be used as a benchmark in assessing the financial implications of various options. We've engaged technical inspectors to inspect a sample of the cars in order to assess their overall condition, identify what work, if any, is needed to rehabilitate the cars, and how much such work may cost. The inspection report is expected by the end of March of this year.

I should note that Transport Canada rail inspectors completed a safety inspection of the cars in April 2002. This assessment found that hopper cars met all safety requirements and were generally in good condition. In addition, a detailed inspection of the cars' gates and hatches was completed last summer. The results indicated that the gates and hatches on the federal hopper cars were in better condition than those on other hopper cars used for moving prairie grain.

Another important issue that has been raised is the impact of the disposal on the railway revenue caps and, in particular, the potential impact on the caps of an adjustment related to the costs of maintaining the cars. As many of you are aware, the Canada Transportation Act places limits on the revenues that CN and CP can earn from regulated grain movements. These limits are commonly referred to as the revenue caps. There are separate caps for CN and CP. The Canadian Transportation Agency is responsible for administering the revenue cap provisions and calculates the eligible revenues for railways, as well as their caps, to ensure the railways are in compliance.

As I indicated earlier, the government cars are presently made available to the railways free of ownership costs for revenue cap movements. The CTA provides for an adjustment to the revenue caps to reflect the railways' incremental costs following the disposal of the government cars.

An issue has been raised as to whether or not this would include an adjustment to reflect lower maintenance costs for the cars. We have asked the agency to estimate the amount for maintenance that is embedded in the revenue caps. The agency calculated a figure of $4,329 per car per year. Transport Canada released a summary of the agency report last April.

The FRCC claims that if it acquired the cars, it could contract out the maintenance for about $1,500 per car per year, and that the savings in maintenance costs would more than offset the lease costs they would charge to the railways. As a result, the FRCC believes that under its proposal the railway revenue cap would decrease, as well as the freight rates paid by farmers.

This particular issue has generated considerable concern and questions. We are undertaking additional work in an effort to determine more precisely what the actual maintenance costs might be for the type of cars currently in the fleet. We have sought legal advice as well on whether or not the existing language in the act permits a downward adjustment for maintenance. Our lawyers have indicated that an amendment may be necessary to the legislation to clarify the agency's authority to make the maintenance adjustment downward.

Some stakeholders expressed concerns about the potential trade implications of some of the disposal options. Transport Canada officials have discussed this issue with federal government trade experts. The general conclusion is that, from a trade perspective, a commercial disposal is preferable. However, we've been advised that there should not be a significant impact if the cars are sold for less than fair market value. Obviously the degree to which you can get toward a commercial range of value would enhance that point.

Mr. Chairman, as I indicated to the Standing Committee on Agriculture and Agri-Food, we have not yet completed our analysis of the options. We need to complete that work so that ministers can consider the advantages and disadvantages of all the options, including the impact on producers and other stakeholders. It would be premature to select an option before this analysis is complete.

As Minister Lapierre has indicated to stakeholders and to this committee, he is anxious to take this matter to cabinet for a discussion. We hope he will be able to do this soon, and we're working very hard to enable him to do so. Any government decision on the hopper cars will be announced in due course.

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

● (1645)

The Chair: Thank you, Ms. Burr.

We're going to begin with Mr. Batters, who has questions.

Mr. Dave Batters: Thank you very much, representatives of the department, for appearing here today on this important issue. I'm sure Minister Lapierre will study with great interest the findings of this committee before he makes any decision, as he will weigh carefully the Standing Committee on Agriculture's report.

The crux of the matter before us is this. Ms. Burr alluded to the fact that the study regarding maintenance costs is ongoing, and really that is the essence of the question here. The entire matter hinges on how much it costs annually to maintain these cars, and that was the consensus coming out the meeting November 1. I'd ask representatives of the department to start by telling this committee why it's taken so long to re-examine or update the estimate of maintenance costs. My understanding is that the last time this was done was 1992—that's 13 years ago. My understanding is that prior to that it was to be updated every four years. I'm wondering why we're sitting here in 2005 without a clear indication of the maintenance costs of these cars.

Again, before you answer, I'd submit to you that this is the crux of the matter. The FRCC claims that the maintenance cost on these cars is roughly $1,500 per year. If that is the case, farmers, my producers in Palliser, have been overcharged for a dozen years in terms of how much it has cost to transport their grain. If it is $4,300, as the last estimate indicates, then the FRCC's plan simply doesn't work. It's not a feasible business plan.

I wonder if you could indicate why it's taking so long and what your feelings are about my last statement.

● (1650)

The Chair: Ms. Burr.

Ms. Kristine Burr: Mr. Chair, thank you.

The rate that was established was based on the rate in 1992. At that time the value that was established was around $5,300— I don't have the exact figure, but in that range. When we moved to deregulated rates, the rate was actually adjusted on a yearly basis. So every year the agency sets a rate, and the rate as of last year was $4,300. So it has come down over time. At the same time, we recognize that there are potential productivity gains that have been achieved over the last few years. This is why we've asked the agency to go back and do a thorough assessment to see if there are further modifications. As you've rightly pointed out, one of the key issues is the whole question of the ongoing cost to maintain the fleet. So we are looking at that.

The Chair: Okay, Mr. Batters.

Mr. Dave Batters: Are you telling me then that this has been adjusted annually, that every year since 1992 there's been a re-examination and a re-costing of the maintenance rates?

Ms. Kristine Burr: The agency no longer goes back and does an exhaustive costing review, which was the subject of extensive hearings and extensive analysis. Instead, they do an adjustment based on costing factors, and it's been adjusted on an annual basis.

Mr. Dave Batters: I can guarantee you my farmers are watching with great interest as to what the actual costs of maintenance are.

My next question is—when I asked this of the railroads they were a little reluctant in their answer—regarding these backhauling fees, if the railroads are hauling materials other than western Canadian grain. I'd like to know what the total amount paid by the railways annually for backhauling other materials is. My understanding is that this money goes into general revenue. I'm wondering why this money isn't set aside to defer repair costs or used to replace these cars.

Ms. Kristine Burr: I think what you're referring to as backhauling is the alternate use.

Mr. Dave Batters: Sure.

Ms. Kristine Burr: That's money that flows to the consolidated revenue fund whenever the cars are used for anything other than the traffic of export grain or domestic grain eastward.

It was a matter of policy. The decision was taken back in, I think, 1996 or 1997 that the revenues would flow to the government.

Mr. Dave Batters: Thank you.

I have one more question, Mr. Chair.

I guess I'd say to representatives of the department, is this it now? As we sit here today, is this it? We have four proposals, and they've come to us in a piecemeal way. First we had the FRCC. Then we had both railways decide to present proposals. Now, at the last minute, in December, we have this Farm-Industry Partnership proposal . It seems to have been done in a very piecemeal way.

Will there be a formal tendering process? This is a $150 million to $200 million crown asset. Why did we not engage in a formal tendering process for these cars?

The second part of my question for Ms. Burr is this. You indicated that the last proposal came in and hasn't been adequately studied yet, but the minister indicated that he wanted to go to cabinet on this by Christmas. Do you have assurances that this proposal will be studied thoroughly and will have recommendations made on its merits or detracting factors before any decision is made?

● (1655)

Ms. Kristine Burr: At this stage there's been no decision made to dispose of the cars, so the first issue for ministers to decide is whether or not there will be a disposal, and at that stage the question of which option to choose in terms of how to dispose of them would be made as well.

At this point in time, as far as the fourth option is concerned, we have a general proposal, but it is in no way as detailed as the business plan we've received from the FRCC, for example. And I believe the proponents themselves are holding off on more detailed proposals for us to look at until they know what the decision will be on the part of the government.

Mr. Dave Batters: My last question is this, Mr. Chair.

The Chair: Quickly, please.

Mr. Dave Batters: Do you think it would have been beneficial, though, for all the parties to have a specific deadline, a formal tendering process where you said, here's the date, get the proposals in, and then the minister's going to make a decision? In hindsight, do you think that would have been beneficial?

Ms. Kristine Burr: We still have that option if ministers decide they want to dispose of the cars.

I would note, Mr. Chair, that there are some stakeholders in the grain industry and elsewhere who favour the retention of the cars by the government. There is no clear consensus on disposal, and that's one of the reasons the ministers will have to look at that.

The Chair: Thank you, Mr. Batters.

Monsieur Carrier.

[*Translation*]

Mr. Robert Carrier: Hello. My first question will be brief. I would like to know what the main interest of the Department of Transport is in selling these cars. What is their goal? What are their interests?

Secondly, if you did sell these cars, I would like to know if an offer can be made to certain companies other than the major transport companies we know, i.e. CN, CP, etc. For example, a Vaudreuil—Soulanges company had written to the then Minister of Transport, Mr. Collenette—it's an old case—, regarding the purchase of certain cars, which would be made available to them because they needed them. The company is Les Grains JP. I know there are three similar companies in Quebec that transport grain, among other things. I wonder if it would be possible, for the sake of commercial fairness and if you go ahead with the sale, to have a good distribution of the offer of these cars, rather than limiting the offer to the larger companies.

Ms. Kristine Burr: For the second question, I do not know if other groups expressed interest this time. Extending the offer is an issue that could be examined by the minister.

As for your first question, I will ask Ms. Borges to answer it.

Ms. Helena Borges (Executive Director, Rail Policy, Department of Transport): The government's 1996 decision to transfer or sell hopper cars was consistent with the other policies for other government properties, such as airports and ports. The government's intention is to transfer all its transport operations. That's why they made this decision.

Mr. Robert Carrier: Thank you.

[*English*]

The Chair: Ms. Desjarlais, thank you.

Mrs. Bev Desjarlais: I'm just going to go to the alternate use and the marriage of the fees the Government of Canada has collected.

I'm glad Mr. Batters has pointed out that once again money being collected from some form of transportation is going into general revenue. We see this with the airport rents and numerous other transportation costs, and now this—which, I have to admit, up until this point I hadn't realized was going into general revenue.

Since 1996, if I heard you correctly, when this started taking place, would it be reasonable to assume that $108 million from usage has gone into general revenue?

● (1700)

Ms. Kristine Burr: I'd have to check the exact number, because there have been years where we collected as little as $5 million or $6 million. It fluctuates with the usage.

Mrs. Bev Desjarlais: I took the average of the $10 million to $15 million you were using and took $12 million.

Ms. Kristine Burr: It's been fairly high the last couple of years, probably because we've had fairly small crops, so there hasn't been as much grain moving in the primary purpose shipments.

I would note, however, that this decision was taken as part of program review, so that at that point in time the intention was to try to get money into the consolidated revenue fund because we were looking for money.

Mrs. Bev Desjarlais: I certainly understand that. I'm just basing the fact that we have an asset worth $150 million to $200 million, on which we've collected roughly $108 million in nine years.... However, at the same time, western grain farmers have not necessarily benefited from a decrease in the cost of maintenance. But the cars were being used for something else, which would have incurred additional maintenance costs. Was that reasonable?

Ms. Kristine Burr: Generally speaking, I think because there is no charge for the use of the cars, some benefits have been accruing to western farmers by virtue of the policies of the last few years. We will be looking at the maintenance issue, though.

Mrs. Bev Desjarlais: Fair enough. I think it certainly added a different dynamic to this whole game.

Now, in 1995, I believe, the Auditor General did a review of western grain transportation—some of the different freight programs that were in place. Has there been since that time any kind of review of, say, the hopper car program by the Auditor General?

Ms. Kristine Burr: No. We've had several reviews of grain transportation, of which I'm sure you're aware—certainly Mr. Estey's review, and of course the review by Mr. Kroeger. Then there was some examination of grain transportation in the review by the Canada Transportation Act Review Panel. The broader issue has been examined, but not the hopper cars per se.

Mrs. Bev Desjarlais: I have a tendency to really trust the Auditor General's reports. Knowing how much of a value this has proven to be to the general revenue, it might not hurt to find out exactly what's happening.

Ms. Kristine Burr: Mr. Chair, if I may just add another point that might be helpful to Madam Desjarlais, we have audited the use of the cars when they're not being used for western grain shipments. We wanted to make sure there were adequate revenues coming to the federal government and to the consolidated revenue fund—and therefore to the taxpayer—in order to make sure no revenue is slipping away. Occasionally we've had to have minor adjustments, but generally we can assure you that at least the revenues are flowing to the taxpayer, if not to the producer.

Mrs. Bev Desjarlais: During that audit, would it have ever been discovered if there were times when the cars were being used for something else even though there was western grain that needed to be shipped?

Ms. Kristine Burr: I don't think that was really the focus of the audit; it was a more narrow internal audit focus on whether we were getting value for money.

Mrs. Bev Desjarlais: I'm not suggesting that either of the rail companies would have done that; you're here, so I thought I would ask the question.

The Chair: Okay, if that's it, Mr. Steckle is going to start.

Mr. Paul Steckle (Huron—Bruce, Lib.): I sit at the another side of the table this afternoon.

I've been involved in this issue for probably seven or eight years. Never have we had real clarity in terms of the operating cost, the maintenance costs of cars. It's rallied around the $4,500 to $5,000 mark. I think Mr. Batters basically struck the right note when he suggested that perhaps the rail car companies, CN and CP, have made a lot of money, and if they haven't, then obviously the Farmer Rail Car Coalition group simply cannot make it work with their numbers.

When I look at the seven principles that you've outlined as the principles on which you're going to base a decision ultimately as to whether you will dispose of the cars, or whether we'll find a lease arrangement, or whether we'll have some other way of getting rid of the cars, I think those are good principles. I would support those principles. I believe it's time we make a decision.

The Farmer Rail Car Coalition has been suggesting that they should have ownership for one reason only, and that is to give service to farmers and to have rail cars available for the service of grain delivery to the east and west, depending on where it has to go. I think it's laudable on their part to do that. It's also fair to say that I think they've put forward a fair proposal, and it's fair to say also that they have not given us all the numbers, but I believe you know what those numbers are and you feel that it's a fair case to be made to dispose of the cars through the FRCC.

Then we have another group coming in at a late hour with a proposal, and I don't know what they are. We didn't have them come before our committee, the ag committee.

I think at some point there comes a time when we have to make a decision. This has gone on far too long. I think we have to bring some clarity, some certainty, some finality to this issue. In my whole preamble there are lots of questions as to why it has taken so long. I guess you will probably know what those costs are before there's a decision made as to who gets these cars and whether the proposal put forward by FRCC can work. I'm sure we will probably never know until that decision is made.

Do you feel certain that when the decision is made it will be made in the interest...? I believe it has to be made for one reason only, for the benefit of western farmers for the transportation of grains. I would hate to think that some day we would give this to the rail car companies, where we really don't have control. I'm not sure that in the end we shouldn't have some strings attached so that there is a certainty that government will get the kind of service from the FRCC, if they in fact end up getting the cars.

I just want some assurances from Transport Canada today that you people understand why these cars should be disposed of, if we decide to dispose of them, and for what reasons.

● (1705)

The Chair: Thank you, Mr. Steckle.

If you want to answer that, go ahead. I'm going to assume that part of that question is political, Ms. Burr. They're political decisions.

Ms. Kristine Burr: Yes, I think some of those thorny issues will be mulled over by ministers, but I would say that in trying to develop the principles we have identified, one of the issues for us at Transport Canada is particularly important. I think it goes somewhat to your point, sir, about making sure that whatever decision is taken benefits western producers. We would perhaps raise it to a slightly higher level and say we would want to be assured that whatever decision is taken benefits the efficiency and effectiveness of the grain transportation system and, in consequence, it would certainly benefit western producers. These are some of the preoccupations and concerns that we've brought to the examination of the various proposals.

The Chair: Do you have any other questions?

Mr. Bonin, we have two minutes left to ask questions.

Mr. Raymond Bonin: I can use that two minutes, I'm just wondering how I should go about it. I'm wondering what we're doing here. Are we micromanaging as a committee? I thought the decision was made to sell them. Did you not say that earlier?

Ms. Kristine Burr: Not yet. The decision was taken in 1996 and it didn't quite happen, and we've had various issues to study over the years. At this point in time, with new ministers and a new government, the question is again on the table about whether to dispose of the hopper car fleet or not.

Mr. Raymond Bonin: I know they're not sold, because we're talking about them, but the decision to sell was made in 1996.

Ms. Kristine Burr: At that time, yes.

Mr. Raymond Bonin: That's right. At what point do committees micromanage the sale of assets? Are we going to have a meeting every time we say we're going to be disposing of buildings? What are we doing? What advice does the department want from us, whether we should sell them at a lower price to the farming community? Does the public works department have a policy where they should go after the highest dollar? Why don't we ask them?

This meeting here is micromanagement.

● (1710)

The Chair: I'm not certain, Ms. Burr, if you want to answer that question. Please go ahead, but ultimately the committee has decided to examine this issue. If you want to make a comment, feel free to do so.

Ms. Kristine Burr: Mr. Chair, we would welcome any advice the committee would care to give us.

The Chair: Thank you very much.

Next, Mr. Scheer. We have about 15 minutes left and the bells are going to be ringing around 5:30 p.m. Mr. Scheer, please proceed.

Mr. Andrew Scheer: Thank you.

When you were talking about the potential trade ramifications on the sales of the cars, you mentioned that the closer we got to commercial value, the less likelihood there would be of trade implication. Would I be correct in assuming, then, that the possibility of selling the cars for one dollar would then be off the table, or is it still a possibility that Transport Canada is looking at, giving it away for such a low nominal fee?

Ms. Kristine Burr: As I mentioned earlier, one of the issues, of course, is value for taxpayers. That's one of our principles. So the final decision on disposal would obviously be made by ministers, but we would certainly be recommending that this be a consideration.

I'm going to ask Madam Borges to comment a little on the trade issue, because I think that's a useful thing for you to be aware of.

Ms. Helena Borges: The trade consideration is at play now. As you know, we've had a trade challenge by the U.S. for the last two years, and on the last decision, which happened last fall, they imposed a very small duty on the hopper cars; it's 0.032% per tonne. That decision is being reviewed every year, but that is the impact right now, and it is a small impact. As we said earlier, if you get closer to the commercial value, we would assume that this would be lifted. There's no guarantee, of course, but that's the assumption base, so they wouldn't get any higher than that because right now their cars are being provided for free.

Mr. Andrew Scheer: This government doesn't have an excellent track record on successfully dealing with trade issues with the U.S.

You mentioned that the maintenance aspect of the freight cap had already come down from about $5,400 to about $4,300?

Ms. Kristine Burr: It's $5,200 to $4,239.

Mr. Andrew Scheer: If it's already come down from that, why would you need amendments to legislation to further reduce it if a disposal was made?

Ms. Kristine Burr: The agency has raised with us the question of whether they would need a clear authority in the wording we currently have in the Canada Transportation Act to make that adjustment. For greater certainty we would add an amendment if we were amending the CTA, which is what we're currently looking at, so for greater certainty it would be very clear that they have that power.

Mr. Andrew Scheer: If the federal government maintains ownership and goes with the status quo option, at some point you'd have to start looking at a replacement program if they've only had a lifespan of about 20 years. Would you get out of the grain car business altogether—as the car's lifespan expired, then that would be the end of it—or would you look at a full replacement program and get right back into it for another 40 to 50 years?

Ms. Kristine Burr: At this point in time there's no plan to replace the fleet. We would anticipate that as cars come out of service, the railways, which have a level of service obligation as part of their regulated requirements, would be providing cars for grain transportation.

Mr. Andrew Scheer: Do you have any idea how long this process might go on? I know it was brought up over there, but on the one hand we have the minister asking before Christmas and on the other hand we have all these things.... Have you heard from the minister or anyone in your department on setting any of those targets—before summer, before the end of summer, that type of thing?

The Chair: Before you answer that, I just want to point out, Mr. Scheer, that it's difficult for Ms. Burr to answer a question that is a decision to be taken by cabinet.

● (1715)

Ms. Kristine Burr: Yes. Thank you, Mr. Chair.

The Chair: I wanted you off the hook this time.

Please proceed. You have a couple of minutes, and I don't know who else wants to....

Mr. Andrew Scheer: If the replacement of the hopper cars is taken on by the railroads, what passing on of costs to producers would you see? These cars cost $85,000 to $90,000 new. Presumably that would be paid by somebody other than taxpayers if the government doesn't own them anymore.

So would those costs then be passed on to the producers?

Ms. Kristine Burr: Yes, there's a provision under the revenue cap that, as cars come out of service, the railways could charge for the addition of new cars. It would not happen all at once, of course. The fleet was acquired over a number of years and some of them are older than others.

The Chair: Does anyone have any other questions?

Madame St-Hilaire.

[*Translation*]

Ms. Caroline St-Hilaire (Longueuil—Pierre-Boucher, BQ): No. I will speak after the witnesses have left.

The Chair: So you have no questions for our witnesses.

[*English*]

Okay. There being no further questions, I want to thank Ms. Burr and Ms. Borges for coming today. We're not adjourning yet; we have one matter that involves.... I thank you, and if you want to leave, please feel free to go.

Committee members, some of you are apparently aware that the transport minister has proposed an appointment to VIA Rail, that person being Monsieur Paul Côté. The press release dated February 1 points out that the proposed appointment will be referred to the Standing Committee on Transport for a review. As we know, the Standing Orders allow notice of a name that is a proposed appointment, and I think Madame St-Hilaire would like to say something about her willingness to hear and talk to Monsieur Côté.

[*Translation*]

Ms. Caroline St-Hilaire: You take the words out of my mouth, Mr. Chairman. Since we learned it through the communiqué released by the minister, who assured us he would consult us, I understand that this is a strong recommendation made to the committee. I hope we will hear Mr. Côté quickly so he can solve the many problems at VIA Rail.

[*English*]

The Chair: All right. Thank you.

Mr. Jim Gouk (British Columbia Southern Interior, CPC): I will go one step further and ask that we call him to appear before us at the earliest possible time.

The Chair: Okay, I am certain we can discuss that on Monday, at which time we will also discuss the question of committee travel and we'll firm that up. So whatever you think at the moment, just put your mind at ease that we will deal with it on Monday.

Ms. Desjarlais.

Mrs. Bev Desjarlais: With regard to the appointment, I just want to be clear as to exactly what the process is for the review and whether or not we could have the background on Mr. Côté—his credentials as to why he's the man for the job. Is that information available to us?

The Chair: We will ask for it.

Mr. Gouk.

Mr. Jim Gouk: We have about 10 minutes before the bells are going to start ringing. You touched on the committee travelling. You went over it so fast that if I hadn't been paying attention I might have missed it again.

Part of the problem I have with the announcement that we were travelling on February 13 was the lack of notice and consultation. We should try to deal with it now, because if we wait till Monday, just that much more time will have gone by again. If we can deal with it now. I would prefer that.

The Chair: The proposal for the date of February 13 to begin the travel was made, and I will tell you that we have received from the Liaison Committee funding to travel for two weeks' time. That travel, those two weeks, must be spent—that is, the money must be consumed—on or before March 31. That approval was given just as the House broke, and that was the problem.

I met with the clerk in January, at which time he provided a list of committees that are travelling during the period of February and March. During the week of February 13 no committees were travelling, so it was a good time for a slot to be picked.

Now, I understand the problem with prior commitments, but we always have that problem. We all have those problems, or some of us have those problems, from time to time. But if it's the committee's wish not to travel at that time, it's not a problem to me.

Mr. Gouk.

● (1720)

Mr. Jim Gouk: Roger, I appreciate the factors that came into play with your making that decision. However, first of all, we don't have to use the money by 31st. We simply use what we can, the money expires, and then we ask for money for the remaining week, which I'm sure would not be arbitrarily withheld if the study is in progress.

Secondly, yes, there are going to be conflicts for somebody, I'm sure, but with consultation ahead of time we can minimize that conflict and ensure that it's mutually agreed upon.

I talked to some other opposition members besides my own party and found that February 13 creates conflict for them, as it does for me. Notwithstanding the fact that there are four on our side and only two are going to be travelling, because it deals with airports and given my background, I would likely be one of the two for most of it, if not all of it, and I'm simply not available that week.

So I would propose that we throw out for the committee at large to consider the week of February 21, the week of March 7, or the week of March 21, and possibly do eastern Canada while we're closer, tagging Washington, D.C., on with that to reduce the amount of travel for the longer reach to western Canada. We should apply for funding to do the additional week required in April.

The Chair: Your suggestion is the week of March 7 or alternatively March 21.

Mr. Jim Gouk: No, it's February 21 or March 7 or March 21.

The Chair: I'm sorry, all right.

Mr. Jim Gouk: Any one of those three weeks is agreeable to me. I'm throwing this out for a response from other members.

The Chair: The budget is going to be a problem in one or all of those weeks. I'm not certain of the budget date at this point. I've heard at least three possible dates, but it falls in that time.

Mr. Jim Gouk: I think the 21st would work. I think we're pretty good then.

The Chair: Ms. Desjarlais.

Mrs. Bev Desjarlais: Yes, on that, I had indicated to you that I would check as well and see whether there were conflicts, and there are for me as well within those dates.

I do have a bit of concern, though, over how the process evolved. The decision that somehow the transport committee is going to be restricted because other committees are travelling ticks me off a little bit. If we decide at a certain point that we need to travel as a committee, and if the others have to adjust accordingly, so be it. I think if anyone looked at the amount of travel that this transport committee has done—let's go to 1997—it's so damn limited you often wonder what the heck we were all doing. I don't think this committee should feel any guilt whatsoever about picking the time that we want to travel, and everybody else should work around it. I think we should stand firm. These are important issues, and as many people on this committee who need to travel should be able to.

The Chair: Thank you.

Ms. Desjarlais, we all remember the attempts to travel about a year and a half ago.

Mr. Batters.

Mr. Dave Batters: Mr. Chair, perhaps I can recommend a solution. It seems quite simple that if we had a representative from each of the four parties sit down and have a discussion, perhaps after this meeting or at a mutually agreeable time, these four individuals could consult with their colleagues and come to a mutually agreeable week. I appreciate that communication is sometimes difficult, but that seems to be the only and the best solution.

The Chair: All right.

The last word to Mr. Bonin, but I think the steering committee can deal with this.

Mr. Raymond Bonin: Mr. Chair, I don't have calendars or the proposed schedule here, but I'd like to suggest that the Washington trip does not need to be tied to the western trip. We could go to Washington in the morning and come back at night on any other day that might fit in, and then we're not leaving for such a long time.

The Chair: Good suggestion, thank you.

Well then, the steering committee can meet and the clerk will be in touch. We'll meet early in the week, or perhaps tomorrow.

Thank you.

We stand adjourned.

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

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

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