



HOUSE OF COMMONS  
CHAMBRE DES COMMUNES  
OTTAWA, CANADA  
K1A 0A6

The Standing Committee on Transport has the honour to present its

### **THIRD REPORT**

Pursuant to Standing Order 108(2), your Committee has conducted a series of meetings on the proposed disposal of the federal grain hopper car fleet.

#### **INTRODUCTION**

In response to hopper car shortages in the 1970's the Government of Canada purchased 12,400 hopper cars in the 1970's and 1980's to move western Canadian grain to export market. The federal government undertook this purchase program because the railways were losing money moving grain under the former `Crow` rates and had no incentive to invest in new cars. The cars are provided free of ownership charges to CN and CP Rail for regulated grain movements.

The government announced its intention to dispose of the hopper cars in the 1996 Budget but the disposal has not yet taken place. The reasons for this are: two reviews of the grain transportation system; the railways had a right of first refusal to acquire the cars that did not expire until the summer of 2002; and the government hopper cars were one of the issues raised in a trade challenge by the U.S

#### **OPTIONS FOR THE FUTURE OF THE FEDERAL HOPPER CAR FLEET**

The Committee heard proposals from four witnesses for the future of the government cars. These include:

- **CN Rail** – CN is proposing to purchase the cars currently in service with CN at a market price;
- **CP Rail** – CP's plan proposes to maintain the status quo with the government of Canada retaining the cars and entering into a long-term operating agreement with the railways. However, if the federal government wished to exercise its right to sell the fleet, CP would make an offer to purchase some of the fleet at that time;
- **Farmer – Industry Partnership(FIP)** – the FIP proposal calls for the formation of a leasing company with a lease to buy option for the cars which would equal \$5 million per year for 20 years; and

- **Farmer Rail Car Coalition (FRCC)** – the FRCC plan calls for the federal government to sell the cars to them for a nominal fee to lease on a not-for-profit basis.

As well, Transport Canada indicated to the Committee that government retention of the cars was also an option under consideration.

## **GUIDING PRINCIPLES FOR THE POTENTIAL DISPOSAL OF THE CARS**

In the event that Transport Canada decides to sell the cars seven principles will be used to guide the decision for disposing of the hopper cars. These principles are:

- encouraging system efficiency, competition, commercial discipline and accountability;
- fostering good relations within the industry, including meeting the needs of producers and other stakeholders without impeding overall efficiency of the grain handling and transportation system;
- minimizing the risk of trade challenges, especially with the U.S.;
- ensuring an adequate car supply for western grain movements;
- optimizing the value for taxpayers;
- minimizing the financial impact on western producers; and
- ensuring an orderly transition.

The Committee, after hearing testimony regarding the four proposals and the presentation by Transport Canada outlining the guiding principles for disposal of the cars is well aware of how critical this issue is to the efficient movement of western grain. We are also aware that central to the future economic viability and efficiency of the grain transportation system is the accurate assessment of the annual maintenance costs per year per grain car and note that the Canadian Transportation Agency (CTA) is presently undertaking a review of these costs. We are also conscious of the fact that resolution of this issue must be done in a timely manner to ensure that producers have certainty with respect to how and by whom the grain handling system will be operated and managed in the future. Finally, although the Committee realizes that the government has announced its intention to dispose of the cars, it also recognizes that the status quo (i.e., government retention of the hopper cars) could still be an option and this is taken into consideration when making our recommendations.

The primary motivation for the Committee's review of the potential disposal of the federal hopper car fleet is to ensure that any decision taken by the Minister of Transport weighs the interests of both grain producers and Canadian taxpayers. Therefore, the Committee makes the following recommendations.

## **RECOMMENDATIONS**

Because the viability and success of any proposal is heavily dependent on the annual maintenance costs per car.

**The Committee recommends:**

- 1. That Transport Canada and the Canadian Transportation Agency (CTA) should immediately conduct the due diligence necessary to establish accurate maintenance costs. These figures must be ascertained and made public prior to any decision regarding disposal of the hopper car fleet.**

In the event that the federal government chooses to retain ownership of the grain cars.

**The Committee recommends:**

- 2. That the Canadian Transportation Agency (CTA) adjust the grain revenue cap formula to take into account the actual annual maintenance costs per car as determined by their review. Additionally, the government should ensure that a plan is put in place for renewal and replacement of the fleet.**

In the event that the federal government chooses to dispose of the hopper cars we believe that the process of selection among proposals should be open, transparent and ensure that an optimal trade off between benefits to grain producers and compensation to taxpayers is achieved.

**The Committee recommends:**

- 3. That Transport Canada in choosing an option for the disposal of the federal hopper cars, establish a Request for Proposal (RFP) process that is open and transparent and available to all interested parties.**

Copies of the relevant Minutes of Proceedings (Meeting Nos. 14, 15, 16 and 17) are tabled.

Respectfully submitted,

Hon. Roger Gallaway, P.C., M.P.  
Chair

## **Dissenting opinion of the Bloc Québécois to the Report of the Standing Committee on Transport.**

The Bloc Québécois took part with considerable interest in the study of possible options for disposing of the federal grain hopper car fleet.

The Bloc Québécois agrees with the recommendation that the Canadian Transportation Agency should first complete its review of annual maintenance costs per car and release its findings as promptly as possible.

However, the Bloc Québécois is in favour of maintaining the status quo, i.e., we consider that the federal government should retain ownership of the hopper car fleet. In our opinion, this option would best protect farmers' interests. The Bloc Québécois further supports the Transport Committee's recommendation that the Canadian Transportation Agency should adjust the grain revenue cap formula to take into account annual maintenance costs per car as established by the Agency's review.

## **Dissenting opinion of the New Democratic Party to the Report of the Standing Committee on Transport.**

### **RECOMMENDATIONS**

The primary motivation for the Committee's review of the potential disposal of the federal hopper car fleet is to ensure that any decision taken by the Minister of Transport insures the best economic result for Western grain producers.

#### **Recommendation 1:**

Because the viability and success of any proposal is heavily dependent on the annual maintenance costs per car, the Committee recommends that:

The Canadian Transportation Agency should complete its review of annual maintenance costs per grain car and make these costs public as soon as possible.

In the event that the federal government chooses to retain ownership of the grain cars.

#### **Recommendation 2:**

The Canadian Transportation Agency (CTA) adjust the grain revenue cap formula to take into account the actual annual maintenance costs per car as determined by their review. Additionally, the government ensure that a plan is put in place for renewal and replacement of the fleet.

Understanding that the FRCC, being a non-profit organization of farmers, can focus on one priority: farmers' needs, and has put forth a proposal that has been proven to be workable. And while other options may achieve that goal, the FRCC has shown tremendous dedication to their proposal since the federal government first announced the disposal of the fleet and has been working on their business plan since 2002. Therefore:

#### **Recommendation 3:**

That if the FRCC successfully meets the guidelines set out by Transport Canada, the government should lease the federal hopper car fleet to the FRCC as they have been proposing.