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## Standing Committee on Natural Resources

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EVIDENCE

**Tuesday, April 1, 2008**

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**Chair**

**Mr. Leon Benoit**

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•(1110)

[English]

**The Chair (Mr. Leon Benoit (Vegreville—Wainwright, CPC)):** Good morning, everyone.

We were debating a motion at the end of the last meeting, which of course carries on today. But if all members are agreeable, we'll leave the motion until later in the meeting so we can get directly to the witnesses today. Is that agreeable?

**Some hon. members:** Agreed.

**The Chair:** Okay, so we will do that. That will help.

I want to also remind all members of the committee about the meeting with the delegation from the Scottish Parliament. That is at 3:15, actually, at 306 West Block. Right after QP, those of you who have agreed to come could go to 306 West Block, and we'll have a very informal meeting with the delegation from the Scottish Parliament. I appreciate that.

Let's get to the business of today's meeting. Today's meeting is the final meeting of our study on the opportunities and challenges facing the forestry industry.

We have with us today, from the Forest Products Association of Canada, Marta Morgan, vice-president, trade and competitiveness. Marta, you have David Church with you today. You can introduce him when it's your turn to make a presentation.

We have, by video conference, from Terrace Bay Pulp Inc., Hartley Multamaki, vice-president, planning and development. He is here via video conference. That doesn't show on the orders of the day, but that is in fact what's happening.

Also, from Buchanan Pulp Sales, we have Pino Pucci, president. And from Buchanan Lumber Sales we have Hal Brindley, president, and John Adams, transportation manager.

We will have the presentations in the order listed on the orders of the day, starting with the Forest Products Association of Canada and Marta Morgan. Go ahead, please, Marta.

**Ms. Marta Morgan (Vice-President, Trade and Competitiveness, Forest Products Association of Canada):** Thank you very much, Mr. Chair. Thank you for inviting us here to testify at this committee today.

I would like to introduce David Church, who's the director of transportation at FPAC. He's here at the table with me.

I know that the president of FPAC, Avrim Lazar, has been here to testify in these important hearings already.

We are the national association for the forest products industry. We have members from coast to coast. We represent producers of pulp, paper, and lumber, among other products. So we cover quite a representative swath of the Canadian industry.

We're very pleased to be invited here again today to speak to you about issues of transportation, which are quite near and dear to our hearts. I will be focusing my remarks today on the issue of rail transportation. We have provided for you a leave-behind in French and English that covers the substance of my remarks, so I will keep them brief and leave lots of time for discussion.

[Translation]

The forestry sector is a major client of the railroads; it represents about 25% of the total income of Canadian railway companies. Transportation costs are the second biggest expenditure for that sector.

[English]

A cost-effective and efficient transportation system is a critical competitiveness factor for the forest products industry. As with so many other Canadian resource industries, we tend to be located in remote areas and must travel long distances to get our products to market. With regard to the rail system in particular, its efficiency and cost-effectiveness are critical to this industry and its future in Canada. You well know the difficult times the industry is facing right now, from the many witnesses you've heard from during the course of this investigation you're conducting.

There are two key elements of rail service. One is cost, and the other is service. I'll tackle them separately.

We conducted a study, which we released last year, that looked at the cost of rail service to forest companies in Canada. Based on widely accepted methodologies, we concluded that the forest industry is paying \$280 million in excess rail charges per year—to the two major rail companies, primarily—above and beyond what would be paid if there were competition in the rail network in Canada.

You will have probably seen last week that the Canadian Wheat Board commissioned a similar study in which they found that grain farmers are paying in excess of \$175 million over and above what they would pay under a competitive situation.

The heart of the issue with rail service in Canada is that in a large part of our economy, particularly our export-oriented economies in rural areas, shippers only have access to one line. In our industry, 90% of shipments only have access to one of the two class-1 railways or to a short line that's attached to one of them.

The other issue, and I would say this is an issue that has really been even more predominate in the minds of our members over the last three years, is that of rail service. Rail services comes down to two issues. Do you get the cars that you ask for and that you need to ship your products, and do you get them when you ask for them or at some other time that is not necessarily when you need them?

This has been an increasing problem. It's been a significant issue for our members over the last three years. We have many complaints from our members on these issues. Even in a commodity business such as lumber, for example, the issue of timeliness and reliability of service is becoming more and more important. We've all heard the phrase "just-in-time delivery". How it works in our industry is that we have huge customers with North American reach, such as Home Depot, for example, who don't want you to just ship them the lumber and dump it in their yard. They want you to know how much they have of your lumber on their shelves, they want you to manage their inventory, and they want you to be able to deliver when they need it.

So to the extent that our transportation system can't provide that kind of service, the costs then fall back upon the Canadian shipper, because it's certainly not the large U.S. buyer who, at the end of the day, is going to bear those costs.

FPAC has been working very hard with other shipper associations and with members on both sides of the House. We have noted with much appreciation the non-partisan consensus around Bill C-8, which was recently passed very quickly by both the House and the Senate, and we're very appreciative of the leadership that was shown on both sides of the aisles on Bill C-8. We are hopeful that this bill will provide some meaningful avenues for shippers to challenge both high rates and poor service by the railways.

The bill contained a number of provisions that should allow shippers to more effectively challenge ancillary charges, which are charges such as fuel charges and demurrage charges that are tacked on top of the rate. It will allow shippers to band together to challenge some of these charges, which is a great advantage because it allows shippers to pool their resources on individual cases where the issues are common to them. It also removes a provision of the Canada Transportation Act that made it very difficult to challenge the level of service being provided.

• (1115)

So all in all, we commend Parliament. This is a positive step; it's in the right direction. We're hopeful that it will be effective and it will move the bar somewhat in terms of providing some avenues of recourse to shippers.

When Bill C-8 was introduced in Parliament, the ministers of transportation and agriculture committed that within 30 days of its passage they would launch a rail service review. We have been working with officials at Transport Canada providing them input with our views on what this review should consist of and how it should be conducted.

It's essential, in our view, that this service review be conducted as quickly as possible, that it be independent, that it be comprehensive, and that it allow for the full participation of shippers. We are hoping that the service review will result in recommendations for practical steps to improve rail service.

So to the extent that this committee is looking at transportation as it affects the forest industry, we would encourage, Mr. Chair, that you support the rail service review and that you support a full, comprehensive, and independent review with meaningful recommendations to come out the other end.

It should be understood, however, that the most fundamental challenge in the long term regarding rail service—and the reason that we find ourselves in this difficult situation as shippers—is the fundamental lack of competition within the rail system. I think you would hear this whether you were looking at the forest industry, or agriculture, or coal, or any other shipper whose products and facilities are located in rural areas.

There are potential solutions to this problem. They are probably not solutions for today. We've just had a bill that's recently passed. We have a rail service review that's about to be launched. But I do think that in the medium and longer term we need to reopen the debate around issues such as running rights and how to make competitive line rate options actually workable—options that already exist within the act. Until we actually tackle this issue of a real competitive threat, we are unlikely to see the competitive outcomes that we'd like to see in terms of the kind of service and rates that shippers receive.

I'll stop there. Thanks again for inviting our testimony today, and I'd be pleased to take questions when it's appropriate.

• (1120)

**The Chair:** Thank you very much for that presentation. It was very helpful indeed.

Before we go to questions, we still have, I believe, two more people making presentations.

Next we have Hartley Multamaki, vice-president, planning and development, from Terrace Bay Pulp Inc. Go ahead, please, Mr. Multamaki.

**Mr. Hartley Multamaki (Vice-President, Planning and Development, Terrace Bay Pulp Inc.):** Thank you very much. It's a pleasure to appear in front of this standing committee.

The Terrace Bay pulp mill is the newest member of the Buchanan group of companies. My friend and colleague Pino Pucci is the president of lumber sales, so we are going to tag-team this presentation.

The Terrace Bay pulp mill was shut down by Neenah Paper about a year and a half ago. It was shut down for nine months. We purchased that mill and restarted it. It is one of the largest pulp mills in North America. It is directly and indirectly responsible for the employment of about 1,000 people along the north shores of Lake Superior.

Obviously, one of the biggest issues for us is transportation. It's a very large cost. We have three options: rail, marine, and trucking. What I was going to do was get Pino to talk about the rail issue, and I will follow up with a conversation about the other two options that are out there.

Pino, I'd ask you to make that presentation.

**Mr. Pino Pucci (President, Buchanan Pulp Sales):** Thank you.

I'm actually just going to start off here by adding to some of Marta's comments, which we full-heartedly agree with.

On June 20, 2007, Hank Ketcham, chair of the forest products industry competitiveness task force, wrote a report and noted that the task force was formed by a group of leading industry executives in partnership with senior federal policy-makers with an objective to identify means of accelerating renewal and innovation in Canada's forest sector and key actions required by industry and government to realize needed change.

It was noted that the challenges facing the industry were structural in nature, and that if left unaddressed they would lead to a trajectory of continued decline for the sector. Here we are in April 2008, and truer words could not have been spoken.

Of the four major elements detailed, one of the primary ones noted by the task force was that the failure of Canada's rail transport policy to provide a competitive check on the market power of the railways cost Canada's forest industry \$280 million, as Marta noted. This equates to approximately 15% of the industry's total freight bill.

It was also noted that while the ability of the railways to extract monopoly rents from shippers substantially undermines the competitiveness of the Canadian forest products industry as a whole, this situation is particularly damaging to the cost competitiveness of those production facilities operating in the most northerly and remote communities. And that would surely include some of the facilities we are discussing with you today.

We fully agree with the task force's findings and believe that the government allowing this corporate concentration is a major factor allowing this to happen.

We believe that 15%-plus additional freight charge is not only decimating Canadian industry, but that it is only being accomplished through an artificial limiting of supply and that this surely goes against the Combines Act, which was replaced with the Competition Act in July 1986, designed to prohibit monopolies, misleading advertising, bid rigging, price fixing, and other means of limiting competition.

I'm not sure if everyone got a copy of my March 3 letter to CP Rail. I hope you have, but here are a few additional critical issues we in this industry are facing today.

First, in light of the significantly reduced demand on virtually all railcars in the forest industry—and that involves lumber, pulp, paper, OSB, plywood, etc.—every single sector is currently facing rail rate increases. This is only being accomplished by putting cars into storage and not renewing leases, thereby artificially limiting supply so that they can drive rates in this monopoly system. To us, this not

only makes us non-competitive, but makes it impossible to sell to and service customers when these tactics are employed.

Secondly, our pulp mill, a recent restart, is producing approximately 120 cars of product weekly. We have a hard cap and cannot even order more than 70 cars per week, as CP, which is the line into the mill, cannot supply, and we do not have the ability to bring in other cars to the mill. In effect, we will eventually face running the mill to approximately two-thirds of its capacity, which would skyrocket overall costs and therefore force us to shut down all operations once again for good.

Third, we have been told by our rail account representative that any reduction in rail in any rate at all is not an option, regardless of market conditions. We believe in a free market. Rates should be determined by supply and demand. This is not the case here.

We also wish to take this opportunity to lend our support to not only our industry but to the Canadian farming industry, which just last Tuesday asked the Canadian federal government for a full review of what it costs the railways to transport grains. They noted that "currently farmers are being victimized and are being gouged through the freight rates that are being charged to export the grain", since most farmers are forced to use either the CN or CP line, creating a virtual monopoly on rail transportation.

Earlier this year the Canadian Transportation Agency ordered changes to revenue caps that could save prairie farmers as much as \$72 million annually in freight costs. We in the forest products industry are asking for the same intervention to save us from the inevitable path of curtailment and closure these monopoly practices have set us on.

Thank you.

• (1125)

**Mr. Hartley Multamaki:** Thanks, Pino. I'd like to pick up from there.

As an inland producer at Terrace Bay Pulp, we do have other alternatives, I guess, but not satisfactory alternatives. One of them is marine transportation, and I wanted to talk for a few minutes about that.

We are on Lake Superior and do have the option of going out the seaway. I would point out that when we restarted that mill, one of the directions—and I think both the provincial and federal governments have strongly encouraged this direction—was to seek alternative export markets out of North America. Pursuing those alternative markets, primarily in Europe, means using a combination of either rail and sea—that is, marine traffic—or just marine traffic. The issue with marine traffic for us, of course, is that a return voyage between Terrace Bay on Lake Superior and Europe is about \$136,000. It's a very, very expensive way of doing business, and the primary costs within that are things like pilotage fees. So the seaway is a very difficult and expensive option for us. It's something that needs to be looked at.

Again, we do rely very, very heavily on the railway, and I don't want to take away from that, but we do have marine transportation options as well. We also use trucks, which are problematic, in that their loads are relatively small, and to travel long distances with them is expensive.

I think the other point to understand is that with the rail lines, our competition doesn't face the same issues. Elsewhere in the world, railways do not behave in the fashion that Canadian railways do. In fact, they're happy to try to become as competitive as they possibly can and to provide a higher level of service at every opportunity. That's what we're competing with. Certainly our competitors are able to bring their products to market in a more cost-effective and more efficient manner at times than we are.

In closing, I would also point out that rail transportation, from an environmental perspective and a carbon perspective, is a more suitable method of transportation than using trucks. For every tonne of pulp that we bring to market, if we used the railway and/or marine transportation, it would be a more environmentally friendly way of doing business. We recognize this, and the forest products industry as a whole has been very, very responsible across the country in attempting to reduce greenhouse gases and to contribute to a reduction in carbon emissions. So the railways have a role to play as responsible organizations, and a role that we, as Canadians, have provided to them. I think they need to provide more competitive service, and instead of constantly increasing prices and constantly reducing services, they need to participate in a more reasonable fashion.

Thank you very much.

**The Chair:** Thank you very much to both of you gentlemen for your presentations.

We'll go now directly to questioning, starting with the official opposition. Mr. Boshcoff, for up to seven minutes.

**Mr. Ken Boshcoff (Thunder Bay—Rainy River, Lib.):** Thank you very much, Mr. Chairman.

I'd also like to thank the committee for agreeing to this extra meeting on this topic specifically, and for allowing me to invite these specific witnesses. The issue of transportation, particularly as we've discussed it here, really does warrant its own day. So thank you again.

This issue with regard to railcars in particular came to a head, I would say, about six weeks ago with the rather urgent correspondence from Terrace Bay Pulp. I'm sure that FPAC is aware of that. This can't just be affecting one mill or one operation in the country.

Can you give us any kind of idea of what the national impact is, so that we can gauge it? What have you heard from others in the pulp industry specifically? When you listed the long list of operations in forest products, it seemed there wasn't anybody who wasn't affected. We're just trying to figure out how big a national problem this is.

I think both FPAC and Terrace Bay Pulp could address this question.

• (1130)

**The Chair:** Okay, let's go first to Terrace Bay Pulp.

**Mr. Pino Pucci:** From our perspective, in talking to other customers and/or suppliers.... That is why I referred to both our lumber side and the pulp and paper and OSB plywood sectors and all that.

We've recently had meetings and conversations with both rail lines and the people they supply and the customers we actually ship to. I mean, it's something that's going on everywhere.

You have a forest industry in crisis and reduced demand, definitely, from paper mills in Canada, pulp mills in Canada, and lumber mills in Canada. In our specific situation, tying into others, you probably have a reduction in demand in excess of 50% of the cars you require. On top of that, they're announcing an up to 7% rate increase in light of all that.

The way they're doing this is by just putting everything back into storage or by not renewing leases, and therefore there is this artificial limiting of supply. And they're using that to drive the rates.

I'm hearing that from other western producers in all industries, whether it be OSB or anything to do with forest products.

**The Chair:** We'll have Ms. Morgan.

**Ms. Marta Morgan:** Yes, this has been an issue that has been raised by our members consistently over a number of years. We've seen particular issues in the west, in British Columbia, for example.

What happens in practice is that a company will request a certain number of railcars. They won't get the number they requested, or they'll get them on a different day. They'll ask for ten a day, and instead they'll get 40 on Friday. This is a tremendous cost to companies, because they have to have employees on shift to load the cars. So they will be prepared for a certain delivery schedule, and then when that delivery schedule doesn't happen, they will incur the costs of sending that shift home and bringing them back when the cars arrive.

They also incur costs charged by the railways. The railways apply what is called a demurrage charge, which is a charge when your car sits there and isn't loaded after 24 hours. And it's 24 hours after they deliver it, no matter when they deliver it, whether that's when you asked for it or not.

One of our member companies is currently storing their pulp outside in Chetwynd, B.C., because they cannot get railcars to move the pulp out of that mill.

**Mr. Ken Boshcoff:** Thank you very much.

**The Chair:** Did you have something to add, gentlemen?

**Mr. Ken Boshcoff:** I only have seven minutes, so I have to ask this question. You can add it on, if that's okay.

What we've heard now are some relatively long-term solutions or intermediate solutions. What do you think the federal government can do immediately? Because this is obviously a current situation that is only being exacerbated on a daily basis. I think your situation represents an urgency. If it's not a national crisis, then it's certainly coming towards one.

•(1135)

**Mr. Pino Pucci:** Okay, I'll add something to address that. The simplest way to put it for us is to say that we produce about 120 cars of pulp today, weekly, at Terrace Bay Pulp. We cannot order from CP, the only line we have to that mill, any more than 70 cars a week.

So if you try to punch into your railcar order system 80 or 90 or 100, you cannot punch in any more than 70. They do not have the ability, as the only line in, to supply the cars we require, nor do we have the ability to do anything about it by bringing in any alternative cars or anything like that.

Meanwhile, they have a bunch of railcars parked in storage or returned on leases and not renewed leases. One way or another, probably the most immediate action is somehow getting them to pull cars out of storage and having the government get involved in leasing the cars and making cars available to us.

**Mr. Hal Brindley (President, Buchanan Lumber Sales):** May I have one second, also?

I'm Hal Brindley. We have two lumber mills, Longlac and Nakina, and of 700 cars we've ordered at those two mills since January, we've only had about 380, or less than 56%.

Not only do we have the cars that Marta has already talked about getting to the mills, but once they're at the mills, they park them on sidings waiting for room on a main line to take them out. We've had cases when we've had cars parked outside the mills, loaded, and we've already invoiced the customers, and they're sitting there for up to two weeks, because they don't have facilities on their lines to handle the volume.

That's happened. We've had 17 days, 19 days. That's right on the CN report we get every day that says they're parked outside the mill. So they don't have the facilities to bring cars to us or to take them away once they are loaded.

**Mr. Hartley Multamaki:** Can I make one final comment? At the Terrace Bay pulp mill we in fact are downpiling pulp out in the parking lot.

We have so much capacity, but of those 120 cars we need, we're only getting 40 to 70, and the excess capacity has filled up our warehouse. All the warehousing space that's available to us is full, and we're downpiling in the parking lot, as Marta has said some of her clients are doing as well. So it is a huge issue.

Ultimately what will happen is that mills will be forced to close down as a result of the practices of the railways, and people will be laid off. We're in a very difficult situation.

**The Chair:** Do you have a comment, Ms. Morgan?

**Ms. Marta Morgan:** I can say two things to that in response, Mr. Chair.

One is that I think the industry now needs to take advantage of some of the provisions that were recently enacted in Bill C-8, which should make it more effective for industry to raise complaints with the Canadian Transportation Agency on level of service.

Second, from a policy and legislative perspective the government needs to be encouraged to quickly get going on this rail service

review to make it real, to collect the data about what's going on with individual shippers like this, and to look for some real solutions.

**The Chair:** Thank you.

Now we'll go to the Bloc Québécois. Go ahead, Madame DeBellefeuille, for up to seven minutes.

[*Translation*]

**Mrs. Claude DeBellefeuille (Beauharnois—Salaberry, BQ):** Thank you, Mr. Chairman.

Thank you for your presentations.

Ms. Morgan, there's a lot of talk of rail transportation, but in your brief I noted that truck transportation is also mentioned. The witnesses who were with us via videoconference also talked about marine transportation.

Can you describe to us the current situation in Canada and give us a breakdown, by province, of the rail, marine and truck transportation situations? How important is rail transportation compared to marine and truck transportation? I am not only interested in hearing about the situation in western Canada, but in all of Canada's provinces.

[*English*]

**Mr. David Church (Director, Transportation, Recycling and Purchasing, Forest Products Association of Canada):** In overall terms of the percentages that the industry uses for each of the modes, it's probably 70% by rail and 30% by truck. Most of the product that we ship goes to the United States. For the most part, to get the tonnage to export or to offshore destinations, it has to go either by rail or by truck to the port.

Province by province and certainly in western Canada, the vast majority of the tonnage that's shipped out goes by rail, simply because you cannot get enough trucks up to the mill locations to serve the tonnage that's coming out of those mills. Virtually all of it goes by rail.

In Alberta it's the same thing. Saskatchewan, I would guess, is the same thing as well, simply because of the distance to the markets. As you get farther into Ontario and Quebec, it's probably less by rail than it would be out west; it's probably 60% or 55% by rail and 45% by truck. As you get into Atlantic Canada, it's probably the same thing.

What you need to remember is that because of the volumes we're producing and the nature of the product, the mills prefer to ship by rail. If they had a choice, they would prefer to ship by rail because of the volumes coming out of the mills and the product being manufactured. The difficulty is that the railways cannot provide the service for the mills in Quebec and Ontario, so they ship by truck.

I hope that answers your question.

•(1140)

[*Translation*]

**Mrs. Claude DeBellefeuille:** So there is very little, or perhaps no, marine transportation.

[English]

**Mr. David Church:** There is, but the vast majority of the mills are not on tidewater. There are a number of mills right on the water, and that tonnage would obviously go directly to the ship. Mills in Trois-Rivières, Shawinigan, and so on that are shipping offshore are going to ship it by rail or truck to the port of Montreal or the port of Trois-Rivières or the port of Quebec City.

[Translation]

**Mrs. Claude DeBellefeuille:** What is the ratio between natural resources and finished products which are transported? Can you give us the percentage of natural resources or pulp which you ship by rail?

[English]

**Mr. David Church:** Virtually all of the pulp is shipped by rail. Some of the newsprint is shipped by truck to the United States, to the publishers in the eastern United States. That would go by truck. A large portion of it, though, is shipped by rail to warehouses in Chicago or Philadelphia or St. Louis and then shipped by truck from those warehouses to the publishers.

[Translation]

**Mrs. Claude DeBellefeuille:** The forestry industry is not the only sector complaining about the bad service the rail companies provide; farm producers and the petro-chemical industry also have the same complaint. In fact, every industry which deals with the railway companies complains about the poor service provided by Canadian Pacific and Canadian National. They all say that these railway companies have a monopoly, which explains the quality, or lack of quality, of the service provided.

Your association has high expectations with regard to the railway transportation review which the minister promised. Have you officially asked to be a full-fledged participant, since you ship your products by rail, in this review? In your document, you say that you want to be involved and to play a major role in the review. Have you made a written request of the minister? If so, can you provide the letter to committee members?

**Ms. Marta Morgan:** We have worked very closely with the other associations representing shippers, who have the same interests we do, and with whom we have worked together on Bill C-8. We are working with these associations to provide our collective input to the government. I could ask our partners if there are documents we can provide to the committee.

Our association has not sent a letter to the minister. However, we can give you certain documents which outline the point of view of shippers with regard to the review of the services. We could also come back before the committee, Mr. Chairman.

**Mrs. Claude DeBellefeuille:** Ms. Morgan, you said that you have certain expectations of the government with regard to the review being conducted in a timely manner and as quickly as possible, since the financial health of your industry is at stake. What do you mean by "in a timely manner"? Do you have an idea of the timelines which would be acceptable for your association?

• (1145)

**Ms. Marta Morgan:** We hope that the government will be beginning the review as soon as possible. We believe that an in-

depth, detailed review, which contains conclusions, should take between six months and one year to complete, but no more.

**Mrs. Claude DeBellefeuille:** Not more than a year from the time

**Ms. Marta Morgan:** From the time the review begins.

**Mrs. Claude DeBellefeuille:** Perfect.

Do I have any time left, Mr. Chairman?

[English]

**The Chair:** Your time is actually up, Madame DeBellefeuille.

Ms. Bell.

**Ms. Catherine Bell (Vancouver Island North, NDP):** Thank you, Chair, and thank you to the witnesses today for the information.

Being the third one to ask a question, I think some of the things I would have asked have already been answered, so I am going to pick up on something that was mentioned by Mr. Multamaki regarding the environmental option of rail.

We look at our increasing greenhouse gas emissions and at every way possible to cut our emissions across the country. Every industry is looking at reducing emissions, especially the forest sector, because we want to advertise a sustainable sector.

We're promoting wood products as a sustainable alternative or a green way to go in building homes and other buildings, with also the possibility that carbon is going to be costed and the industry is going to have to pay for that as a way of reducing greenhouse gas emissions.

Has there been any kind of study done on what the savings would be or what the cost would be if their usage of rail is not increased or the availability of rail is not there?

**Mr. Hartley Multamaki:** I don't have access to studies of that nature. However, I would point out that in the last figures I saw in Canada, the forest products industry is one of the only industrial sectors, if not the only sector, that has met what in the past would have been Kyoto targets. The last number I saw was about 28% below those targets in 1990. We've done an excellent job of beating the greenhouse gases.

Unfortunately, a big part of that is because of the curtailments in operations and the shutdowns and certainly the application of new technologies and what not. I think it's very apparent, if you look at the figures, that the transportation industry, along with the electrical sector, has a significant impact on greenhouse gases and carbon emissions.

If you were to eliminate the opportunity of rail and had to go by truck, there would be a significant increase in greenhouse gases, mostly because there are a lot more diesel engines on the road moving the same amount of product. Rail is a very environmentally friendly option because of the ability to move large volumes with very low emission rates. It's the same with the seaway. Unfortunately, the seaway is only available to those people who have access to it and are relatively close. It doesn't do a lot of good for people in Saskatchewan and Manitoba unless they can get it to a port. I would suggest that is a key item you bring up.



**Mr. Hal Brindley:** Also, I'd like to mention our two mills at Longlac and Nakina. They're about 95% serviced by rail because we can't truck from Longlac to Atlanta or to other areas. Rail is the only viable way of doing the types of volumes we're doing for the distances we travel.

• (1150)

**The Chair:** Thank you, Mr. Multamaki and Mr. Adams.

Go ahead, Ms. Morgan.

**Ms. Marta Morgan:** I would agree. One of the things that's happened over the last few years is that as fuel costs have gone up trucking has become an even less viable option for exactly the reasons the other witnesses have mentioned.

While it is clear that rail is an environmentally preferable alternative, the forest industry has met Kyoto seven times over, primarily through switching to bioenergy and from collecting energy off the grid. FPAC committed to become carbon neutral by 2015 without buying carbon offsets through the whole value chain, and of course part of that is the transportation system and ensuring we have the lowest carbon footprint transportation system.

One thing the Railway Association of Canada has proposed—and it's one of the few areas where we make common cause with them, but I should mention it—is the elimination of the fuel excise tax. It is partly for environmental reasons, given that it's an environmentally preferable mode of transportation that does pay for the maintenance of its own routes. We would support them on that, both from the environmental perspective and also from a cost reduction perspective. We would expect those costs would be passed along to shippers.

**The Chair:** Ms. Bell, you have about a minute and a half.

**Ms. Catherine Bell:** Thank you.

I live on Vancouver Island, and we have a small commuter rail service. There's a little bit of a transport issue with it, but it's a community owned rail line. We call it our corridor. They are looking to the federal and provincial governments to help bring the tracks up to speed. It's an older service.

One of the things they say is that before the forest industry, which is one of the main industries in the province, can realize its full potential, it needs efficient rail transportation. I think it's interesting that this small organization recognizes that, and I'm hearing that from across Canada.

I think you said that in British Columbia rail is the largest transport service for forest products. And I think the federal government did give some money under the pine beetle program to improve rail service on one of the lines to bring out forest products. Can you tell me anything about that?

**Ms. Marta Morgan:** It's my understanding that the federal government has been working with B.C. under the infrastructure program and it has made funding under the infrastructure program available for improvement on short-line railways in partnership with provinces.

They've been working quite actively, I believe, with Quebec. Quebec has put together a whole proposal, and I believe that option would be open to other provinces as well, under the infrastructure

program. But I'm not familiar, under the pine beetle program, whether there's been specific funding for railways in B.C.

**The Chair:** Thank you, Ms. Bell.

Mr. Church, you had something to add.

**Mr. David Church:** I was just going to say that the federal government has committed fairly significant sums of money to the Asia-Pacific gateway to improve the transportation system through to the port of Vancouver, which is obviously a benefit for us, because so much of our tonnage now—both solid wood and pulp and paper and so on—is going to Asian markets. So anything that can be done to improve the Asia-Pacific gateway is obviously a benefit to our industry and I assume all the other industries located in western Canada.

**The Chair:** Okay, thank you.

We go now to the government side, to Mr. Trost, for up to seven minutes. Go ahead, please.

**Mr. Bradley Trost (Saskatoon—Humboldt, CPC):** Thank you, Mr. Chair.

Ms. Morgan was saying in her testimony that now may not be the time to discuss greater competition issues, but frankly, that's largely what this is all about.

I'm going to give all of you here a few minutes, and then if you want to give longer answers than you normally would in this back-and-forth we've been doing here, feel free to go on a little longer. Basically sketch out your ideal world of what you would want for competition: what you would want, why you would want it, and how it would affect your industry, your facility specifically, etc. It's a very broad question I'm asking here. You talk about running rights, effective competition, line rate provisions—anything else? I'm giving you a bit of a wide-open, go-for-it period here.

• (1155)

**The Chair:** We'll start with Ms. Morgan.

Gentlemen, perhaps you can be ready to answer after.

Go ahead, please.

**Ms. Marta Morgan:** FPAC has long been an advocate of running rights as a more fundamental structural solution to the lack of competition in the industry. Running rights would allow one railway to run over the line of another railway at rates for that portion of the trip that would be set by the Canadian Transportation Agency. There's already a precedent for running rights in certain situations within the act. We believe that ultimately that would be probably the most practical and best solution to create the incentives and the ability for real competition.

We've seen that there are some provisions within the act that have actually worked to create competition. One that works quite well is interswitching, where the agency sets interswitching rates for lines within 30 kilometres of one another. This has created effective competition in major urban areas. We know these kinds of provisions can work and we believe that running rights for rural areas is probably the most practical. So you could negotiate with one railway or the other and you would effectively allow access over the lines. I think that's really, for us, probably the best solution.

The other possibility is within the act already. There are provisions for what are called competitive line rates. This is a provision that has never really been effective. The railways have refused. It allows the railways to compete for each other's traffic, but they've never really been inclined to use it in practice. There are legislative modifications that could be made to make those provisions more attractive, perhaps, but our history with those is that the railways have avoided using them, and it's fairly discretionary to the railways. So we're less convinced that this would be effective in the long run.

**The Chair:** Thank you, Ms. Morgan.

Now, gentlemen, who would like to start?

**Mr. Pino Pucci:** I'll start.

From our standpoint, simply put, the rail lines do not have the ability, with how they're running their assets, to deliver to the capacity of the mill. Simply, when you produce 120 cars a week and they cap you out at 70, and they have the only line in, they're not giving you the assets you require. You're forced to either find an alternate means or shut down a certain capacity at the mill, which then generally makes you non-competitive.

Basically, we would ask that either they have the ability to deliver to the mill's capacity, or if that's impossible, if they admit that they don't have the ability, then we need to have the ability to bring other cars into the mill and look after it ourselves.

But the point that really needs to get across in this whole thing is that this inability to deliver assets is their method of driving rates. They are artificially reducing what they're making available so that they can, in conjunction with that, announce rate increases yearly. I think that's the system we're operating in.

**Mr. Hal Brindley:** The major problem with the CN northern route is that I can't see how you'd have five people doing that route. The problem is they don't have the assets to move the volume that they're moving. Consequently, their trains are too long, and they can't pick up the stuff we have. So I don't think having ten carriers there is going to work. What we're trying to do is get the carriers we have do a better job with what they're doing—basically, supply cars to us so we can load product, and once we've loaded it, take the product away to our customers so they can receive it.

• (1200)

**Mr. John Adams (Transportation Manager, Buchanan Lumber Sales):** You asked what the perfect world would be. When we order cars at our sawmills, sometimes we're on one shift, sometimes two. We order six cars a day. If they don't bring us six cars, we have four loaders sitting there doing nothing. They'll bring them after they go home at night. They have to be more consistent. I've heard they're

“out of hours” a million times this winter. If they're out of hours, hire more people so we can get five cars a day.

They put on a special switch train in Hornepayne just to serve our mills. A main line would drop off empties there, and that one train would look after Longlac and Nakina. They go to Longlac in the morning, draw some cars, then by the time they get to Nakina, they're out of hours—no cars for Nakina. Then it keeps building up, and we just can't run that way.

Then on Friday evening, when the four o'clock shift's over and everybody's going home for the weekend, the railway decides to drop off 30 cars. To satisfy our customers, we have to pay overtime, work all weekend. Then when we come in Monday morning to start work, there are no cars for regular work.

It has to be more consistent. I don't know how they'd do it, but I would think if they had more personnel...because I've always heard, as the only excuse for not getting service, “out of hours”.

Thank you.

**Mr. Hartley Multamaki:** I agree with Ms. Morgan that running rights are also a partial solution to the situation.

I also want to talk for a second about the lack of consequences as a result of having what's basically a government-supported monopoly. There are no consequences for having very poor service. The rail lines don't suffer the financial costs of delivering cars late, of not picking up cars, of capping mills at 70 cars when they should be producing at a capacity of 120 cars. There is no reason why the railway would not continue to do business the way they are because they have a government-authorized monopoly.

I would suggest that we really need to look at how they run their business at the expense of everybody around them.

**The Chair:** Okay, thank you.

Starting the second round now, we go to the official opposition, Mr. Alghabra, for up to five minutes. Go ahead.

**Mr. Omar Alghabra (Mississauga—Erindale, Lib.):** Thank you, Mr. Chair, and I want to thank all the witnesses for joining us today.

It's frustrating, given the economic conditions we've been hearing that the forestry industry is facing—the rising dollar, the slowdown in the housing market in the U.S., the shortage of skilled labour—that today we're hearing about an additional burden. I think we're talking about a whole different issue, and it's regrettable that CN and CP are not here today. I understand they were invited, but they're not here.

I find it kind of strange, and I would have liked them to respond to this question. We're saying that they have the ability to add cars to be able to meet the demand the customers are requesting. And if they have the infrastructure to do that, why aren't they doing that? If it's just a matter of increasing cars, why aren't they doing that? We know how the world works—supply and demand—and if there's demand that will be willing to pay for those additional cars, why aren't they putting on these cars?

I'm interested in hearing from the witnesses.

**The Chair:** Ms. Morgan, just before you start, I just want to clarify that CN was invited and it said there was a conflict in the schedule of the person who would be best able to answer the questions. CP wasn't invited, just to clarify that.

Go ahead, Ms. Morgan.

**Ms. Marta Morgan:** I would like to hear their answer to that question as well.

From our perspective, I think there are two things going on here. One is that it's just classic monopoly behaviour, which is that if you can restrict supply, you can drive up prices, and it's monopoly 101. I think we've seen it in every industry that has monopoly power. You see a lower supply than you would otherwise see, so they can keep their margins higher.

I think the other factor that's going on—

• (1205)

**Mr. Omar Alghabra:** Can I stop you there for a second? If they have a monopoly, they can still charge the same margin and still increase their top line. So I'm not sure, is there more to it than that?

**Ms. Marta Morgan:** Well, I think the other thing that's going on with CN, the railways, is that their business model is to try to optimize their core routes. So for them it's all about making the maximum dollar of revenue by keeping their core system as efficient as possible. So where you have problems is on the branch lines, not within the core system, with CN. It's getting your product from your mill. It's getting it going from your mill. Their revenue optimization system drives them to reduce car availability. That's the best explanation I can give you, but I'm sure they could give you a better one.

**The Chair:** Do any of you wish to add to that?

**Mr. Hal Brindley:** Basically the two mills I'm talking about, Longlac and Nakina, and also McKenzie and Hudson, are on the main line, and the main-line trains are already maxed out when they leave Toronto or when they're coming to Toronto, so they don't have the facility to pick up extra cars. If they're running three maxed-out trains a day, they don't want to incorporate the fourth one if it's not going to be 100% utilized at the same time.

So we've talked to them, and we say they're not going to grow their business if they don't start the fourth train, because we have cars they can pick up. And that's where the debate is. They're trying to maximize their assets to the point where—their term is “velocity”—it makes it totally efficient from their point of view, but totally inefficient for the people who are on their services.

If they're getting paid more for petrochemicals or more for other products than they are for lumber, then we sort of fall by the

wayside, because they're trying to service those other industries where they can charge more because they are a commodity-of-the-time, such as oil and gas and stuff like that.

**Mr. Pino Pucci:** I guess there are two ways of answering the question about why they as a monopoly can just keep increasing the rates even if they increase the supply. Everyone is aware that all the rail lines are printing record profits today. In a monopoly system, I guess you have one of two ways to get those record profits. The first way would be leaving the rate the same, or lowering it, and doing significantly increased volumes. The second way would be to increase the rates and lower the supply, running to the same profit dollar.

We've had direct meetings with these account reps from the rail lines, and behind closed doors they'll tell you that they're running to a profit number, period. If they see reduced demand coming from a lumber mill, it means those rates will have to go up to get the same profit dollar and the same line profit they're used to getting, period.

In light of curtailments, they take the option of announcing 7% rate increases, which only makes you have to curtail even more, making you less competitive. Inevitably, what you're doing is that you're facing a shutdown at all your operations.

**The Chair:** Thank you, gentlemen.

Now to Madame DeBellefeuille, for up to five minutes. Go ahead, please.

[*Translation*]

**Mrs. Claude DeBellefeuille:** Thank you, Mr. Chairman.

Mr. Church, you said a little earlier that forestry companies use railway transportation about 70% of the time, and truck transportation about 30% of the time. You said that railway services cost you \$280 million a year. I realize that there's a lot of talk about the problems associated with railway transportation today because it is the most used method of transportation but 30% is nevertheless transported by truck.

Given the increasing price of fuel, can you estimate how expensive it is for your industry to transport products by truck? Can you give us a figure, as you did with regard to railway transportation?

[*English*]

**Mr. David Church:** Unfortunately, no, we don't.

What I do know is that the companies out west that are using trucks are basically doing so because they cannot get effective rail service. So they're trucking to another railhead, putting lumber on a truck and shipping it to another railway, because the railway that serves their mill is not able to provide the equipment and the service they want—and likewise for pulp and newsprint mills out west.

So it's an increased or added cost to them. But what that cost is, I don't know. We don't get involved in those kinds of cost analyses for them.

•(1210)

[Translation]

**Mrs. Claude DeBellefeuille:** Ms. Morgan, since your association knows how much it costs to use railway transportation, why can't we have that figure for truck transportation? Does your association have that figure, which could be useful to us in our study?

**Ms. Marta Morgan:** We don't have that information right now. That's because there is a lot of competition in the trucking industry. It is not an industry which is subject to political or legislative influence, or one in which companies feel the need to band together to pursue common objectives.

We can try to find that figure. We haven't looked into it in the past, but we will certainly try to find it and provide it to you at some later date, if it would be useful to you.

**Mrs. Claude DeBellefeuille:** Based on your answer, Ms. Morgan, you're telling us today that you don't have any recommendations for the federal government to improve the trucking industry. Isn't there anything you would like to see improved in that sector?

**Ms. Marta Morgan:** No, that's true, once in a while we do look at regulatory issues to ensure that the trucking system is efficient and as cost-effective as possible, but for now, we don't have any recommendations to make which could be useful to us.

Really, the problems we are dealing with mostly have to do with railway transportation.

**Mrs. Claude DeBellefeuille:** You said that it costs the forest industry \$280 million to ship natural resources and forest products, and that it represents about 25% of the railway companies' revenue. How much does it cost to transport the natural resources versus finished products?

**Ms. Marta Morgan:** I would simply like to make a clarification. The amount of \$280 million, which represents about 13% of our total costs, is what we pay above and beyond what we should be paying because the railway companies have a monopoly. I cannot do the math right here, but I know that the total amount is higher than that.

Whatever the case may be, you are asking about the breakdown. Our companies produce pulp, paper, softwood lumber and panels. We have conducted an analysis broken down by product, and we realized that it was the same for each product, namely that each company spent a lot more than it would if there was competition in the system.

**Mrs. Claude DeBellefeuille:** So if I understood correctly, the amount of \$280 million represents an estimate of what your industry is paying above and beyond what it would be if the system were competitive.

**Ms. Marta Morgan:** That's correct. Companies which produce grains have the same problem. A study was made public last week, and it estimated that these companies pay \$175 million more than they should because of the lack of competition.

**Mrs. Claude DeBellefeuille:** Thank you very much.

[English]

**The Chair:** Thank you.

Merci, Madame DeBellefeuille.

We'll go now to Mr. Comuzzi, for up to five minutes. Joe, go ahead.

**Hon. Joe Comuzzi (Thunder Bay—Superior North, CPC):** Thank you.

I appreciate the gentlemen from Thunder Bay being present with us, as well as you, Marta.

I'm just going to do some historical background, if Hartley or whoever wants to answer this.

The Buchanan group of companies embraces all of the nine or ten sawmills, plus Terrace Bay, and a variety of other companies, but you're all under one common ownership. Yes or no?

•(1215)

**Mr. Hartley Multamaki:** Yes.

**Hon. Joe Comuzzi:** I have to get quick answers, because we only have five minutes.

You wanted at one time to go for the quota system—although it was difficult to get you to understand that. Then when the quota system was over, you opted for free trade. You wanted to go for free trade, even though we had an opportunity to buy into the quota system for a few more years. Is that correct? You—your companies—wanted free trade, and we wanted to get rid of the quota system. The answer is yes?

**Mr. Pino Pucci:** Sure, we wanted free trade. Yes, absolutely.

**Hon. Joe Comuzzi:** During that process of trying to arrive at free trade, which took three and a half to four years—a very, very expensive litigious process, and very expensive to all the companies in Canada—you eventually decided that you needed to have some kind of government support. You supported the previous government very much, which I appreciated, making \$1.4 billion available, with \$800 million for the softwood lumber agreement, which you could tap into to keep your companies going. You supported that, but unfortunately the previous government didn't have the opportunity to get that through before the election.

Is that correct?

**Mr. Pino Pucci:** That is correct, yes.

**Hon. Joe Comuzzi:** So we find ourselves today in a situation where we are facing a problem that is not uncommon, nor one that we haven't faced in this industry in northern Ontario from time immemorial.

Am I correct? Transportation has always been a major concern.

**Mr. Pino Pucci:** Correct. It is just magnified today.

**Hon. Joe Comuzzi:** It's magnified today because of the other problems.

But you also know full well that before you took over the Terrace Bay operation, to make kraft, that its prior owner, Neenah Paper, and Kimberly-Clark before that, couldn't come to some agreement with Canadian Pacific Railway, and that in the last several years they had to use trucks to get their product from Terrace Bay into Thunder Bay—and then it was trans-shipped to other centres. Is that correct?

**Mr. Pino Pucci:** And we continue that practice today.

**Hon. Joe Comuzzi:** Yes. I only bring that out to compound the problem we're seeing. We're trying to find the solution to this problem. But you never, other than with your own barges and so on, utilize a full facility that we have available to us through marine transportation in northern Ontario.

I'm getting to the crux of what I want to say, which is that we haven't fully realized the potential for marine transportation. You can't expect two independent corporations, Canadian Pacific Railway, which is not owned by the government, and Canadian National Railway and the Buchanan company.... You can't expect the government to impose rules and restrictions on the railways. It has to come through compromise between you folks.

**Mr. Pino Pucci:** Okay, sure. I'll clarify.

How do we address this situation? Every year we run a multitude of barges through the entire shipping season, as long as there's no ice, right from the day.... Our barges are getting ready right now because of all these rail issues. We had nine barges last year. You're talking about approximately 600 cars' worth that we are actually putting onto barges, just to take across the lake to put into a warehouse so we could actually take away our dependence on the rail lines.

So in terms of exploring marine, as of right now, as we sit here, starting three weeks ago, we have pulp shipping, in a multitude of ways, up to the Three Rivers area so we can get a ship to pick it up. That's a significantly incurred cost to us. We bought a warehouse here in Thunder Bay on the lakeshore, which is completely full right now. We actually are bringing in not only our big barges but all our mini-barges. We're looking at building a dock in Terrace Bay—

• (1220)

**Hon. Joe Comuzzi:** I don't want—

**Mr. Pino Pucci:** —to address that. It just got approval.

**Hon. Joe Comuzzi:** —to cut you off, but you are looking at the potential to increase your shipping capacity through marine transportation, yes or no.

**Mr. Pino Pucci:** Absolutely.

**Hon. Joe Comuzzi:** Yes. Now that's where we can play a role as a government.

You realize, of course, that we have a port authority in Thunder Bay. What goes around comes around, fellas. You haven't been too responsive to this port authority and in being entirely fair in your dealings. You know, when you had that ship come in from Europe, you didn't use the longshoremen. They were very upset. You know, you're having some problems you shouldn't have. Can't we get these issues resolved and really utilize the marine transportation that we have available to us?

**Mr. Pino Pucci:** We are currently working with the longshoremen. We're actually putting together a deal with them right now. I mean, to say we haven't wanted to use them in the past.... We have found it more competitive to send pulp from Terrace Bay up to Three Rivers, where they had a 50% rate reduction on handling pulp and items like that, versus the Port of Thunder Bay. We're talking throughput rates, stevedoring rates, wharfage rates, and everything that is included. It was more competitive for us to ship it all the way

to Three Rivers and have a boat pick it up there than to do it in our port here.

We're currently in negotiations with the stevedoring companies in Thunder Bay as well as with the Thunder Bay Port Authority to see if they can get us close to those rates. We'll actually supply assets, whether that be forklifts or anything like that, to help in that process. We'll put our own employees there to do some unitizing so we can actually look at having ships bring backhauls into Thunder Bay as well as export our pulp and lumber out of the port.

**Hon. Joe Comuzzi:** The answer to the question is yes, you're going to utilize it and see if you can come along with some marine transportation that will be agreeable to you folks and to the port authority, and you can come together and bring the cost of your transportation down. Is that correct? You're working on that?

**Mr. Pino Pucci:** Yes.

**Hon. Joe Comuzzi:** You see potential there. I want to work with you on that. I think that's the future.

**Mr. Pino Pucci:** Yes, I appreciate that.

**Hon. Joe Comuzzi:** That's the future for us in being able to be competitive in the world market. We're on the shores of Lake Superior. We have three deepwater ports. We have Nipigon and we have Red Rock and we have Marathon that are not utilized.

**The Chair:** Thank you, Mr. Comuzzi. Your time is up.

Mr. Tonks, you have up to five minutes. Go ahead.

**Mr. Alan Tonks (York South—Weston, Lib.):** Thank you, Mr. Chairman.

Thank you to our deputants, both on our telecom and who are before us today.

I will follow up a little from Mr. Comuzzi's line of questioning.

Last night many of us attended the Marine Pilots Association meeting, and they presented a video with respect to a realignment of the seaway and the canal structure and the integration of that to an overall national transportation strategy.

We have been attempting to undertake an analysis with an action plan that would address the forest industry. There has been abandonment of rail rights-of-way to short lines. Some short lines have been competitive on their own. Some, after capital, are not able to even declare a reasonable profit.

In fact, the argument of the railway companies themselves was that they have abandoned short lines because they could not operate these lines at a profit after capital.

You have asked for a rail services review, but the point you're making is that there are competitive realities that are driving your need to have better service from the rail, but from the total transportation system.

Instead of a rail services review, do we need an overall transportation review, looking at marine, looking at trucking, and looking at the issue with respect to the excise tax, for example, on diesel fuel?

Are you not looking for a larger prescription from government to resolve this issue because it's a very large portion that is affecting the forest industries? If you just go after rail alone, would you not accept the rejoinder from rail that they too are caught up in this very difficult competitive thing, where they would put forward their after-capital profits and say "Look at us. We're not making as much as freight. We're not even making maybe as much as the forest industry", and then you never come up with a resolution.

My question is, should we have an overall transportation strategy that figures in, strategically, forest industry products and then make recommendations from that with respect to marine, trucking, and rail—what serves the industry best?

• (1225)

**Mr. Hartley Multamaki:** Perhaps I can comment on that.

**The Chair:** Actually, Ms. Morgan is going to comment first. Perhaps you could be prepared to do that when she's finished. Thank you.

Go ahead, Ms. Morgan.

**Ms. Marta Morgan:** Mr. Chair, I think the points that have been raised are very good ones. Obviously it's the efficiency and the effectiveness of the overall transportation system that, at the end of the day, is really the bedrock of our success as a trading nation.

There are issues in other parts of the transportation as well, whether it's ports, whether it's capacity, whether it's competition within those elements of the transportation system.

We've been very supportive of successive governments' efforts, for example, to invest in the Asia-Pacific gateway. We think that can only be positive for our industry, for obvious reasons, looking at all the freight coming in and out of the west coast.

However, we do think that when we look across the system as a whole, the biggest issue for us does remain rail, simply because it is the most feasible and practical way for us to transport our products, given the location of our facilities and the location of our customers.

So I think that's the reason we focus most of our efforts on trying to improve rail service and cost, just given its dominance in our cost structure now and likely into the future. But certainly we've been active participants in other broader looks at the transportation system and recognize that we have an interest in the overall system.

**The Chair:** Go ahead, Mr. Tonks.

**Mr. Alan Tonks:** Was it Mr. Multamaki who wished to make a comment?

**The Chair:** Yes.

Mr. Multamaki, were you going to answer?

**Mr. Hartley Multamaki:** Yes, I had a couple of comments.

I agree with what Ms. Morgan had to say. She's correct: the bulk of our product is transported by rail, and that's why we tend to focus on it. Also, the alternative, for example, of marine is not necessarily available to all of the industry that's out there. It is, fortunately for us, a viable alternative. As we said to Mr. Comuzzi, we are very clearly interested in continuing to operate a marine division and providing the most competitive and cost-effective method of getting our products to market.

I do agree that there is a need for a look at a national transportation strategy that would ensure that as a trading nation we have the most competitive transportation system in the world. Our competitors, other countries like China and the Scandinavian countries, are doing that. They are very competitive in getting their products to market. We need to do the same thing, recognizing again that rail is such a large component of our transportation process that we can't ignore it or we can't gloss over the fact that there are significant problems with the rail lines.

**The Chair:** Thank you.

Thank you, Mr. Tonks.

Mr. Anderson, go ahead, please, for up to five minutes.

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

I wanted to come back a bit to the trucking and the marine shipping aspects for a minute.

We're going to do a report. It's going to be put together, and we're going to make some recommendations. I'm wondering if there are some specific things you would like us to consider recommending in terms of the trucking industry and marine shipping. I know we've talked about that a little, but I'm wondering if you have some specific things that you would like to see us recommend. Mr. Tonks mentioned things like excise tax. I know that there's been an issue with truckers regarding hours of duty and those kinds of things. It's fairly specific, but we want to make some specific recommendations as well.

**Mr. David Church:** With respect to the trucking industry, I don't think there's anything. There is enough competition in the trucking industry these days. Our mills are able to work with their trucking company providers to get the product from the mill to the market in a timely fashion.

In the marine sector, there may be a couple of issues you may want to look at. One was referred to as the marine pilotage issue. One of the things FPAC has been an advocate of for a number of years now is commercialization of the marine pilotage system. Right now in many regions of the country there is one marine pilotage authority that provides the service at the ports. We think that, like any other sector, it should be subject to commercialization and competition.

In addition to that, there's also the Shipping Conferences Exemption Act, which basically now provides for ocean carriers or ocean conferences the ability to get together and set rates. There is legislation—there is now a movement in the European community—to eliminate the antitrust immunity that conferences currently enjoy. We as FPAC and a number of other shipper associations have been strong advocates for the elimination of that antitrust immunity to force the ocean carriers that ship by container or carry containers to compete in the marketplace the same way we have to, without being able to get together and set rates and so on.

Those are two issues that come to mind right now.

The third one that you may also want to consider is the marine services fees that are presently imposed by the federal government on services provided by marine carriers. Those services include icebreaking and other marine services, like the placement of buoys in ports and so on. Those costs get passed on to our members, our shippers, and particularly those mills that are located on the east coast, where icebreaking is required, in Newfoundland and in the St. Lawrence River. There is an additional cost burden to those mills, in some cases up to 50¢ a tonne. That's a cost that we have to incur and cannot pass on to the marketplace.

In the marine sector, those are issues you may want to consider looking at down the road.

Thank you.

• (1230)

**Mr. David Anderson:** I'm wondering if the gentlemen have anything they would like to contribute.

**Mr. Hartley Multamaki:** I have just one comment.

I agree with everything my colleague has said about the marine side of it. The only thing I would add is on the trucking side. There is a huge amount of competition, I agree, and anybody or any organization can go out and buy a truck. You can negotiate with large numbers of competitive trucking organizations, and we do that.

The one thing that is of concern is the infrastructure that's out there. Being in northwestern Ontario or northern Ontario, the infrastructure that the trucks run on, the roads and highways, is of concern. I think as part of a national strategy, we need to look at the primary highway systems and certainly recognize that there is a role for the provincial government to play in that. We have to have primary highways that are up to standard and that are high-speed so that we can get our products to market on them in a reasonable fashion.

Thank you.

**Mr. David Anderson:** I think a number of us who are from rural communities can relate to that.

Do I have some time left, Mr. Chair?

**The Chair:** Yes.

**Mr. David Anderson:** I have a question. Earlier I think one of the gentlemen from Thunder Bay had suggested that they would like to see rail revenue caps on rail movement.

To give a little bit of background, I am from western Canada. We have rate caps on our freight on grain. I think it has resulted in a real

loss of efficiency in the system. Railways don't seem to have a lot of interest in moving that product that they are getting a little lower rates on than they expect they should get.

How serious were you about that? That wasn't presented as one of the alternatives when Mr. Trost had asked what you would like to see happen with the railways. So I'm wondering what your thoughts are on that, and I'd ask FPAC for its comments as well.

**Mr. Pino Pucci:** Actually, maybe it was communicated wrong. I wasn't suggesting any great caps or anything like that. We were talking about what was going on with the farmers and what they did over there.

We were saying that we agree with FPAC's findings and Hank Ketchum's note with regard to the 15% additional freight costs that we're actually paying because of the monopoly system we're being forced to operate in.

I don't know how to address it, but one way or another, when you have decreasing demand significantly, that should generally mean that rates go down, because in the same system you should have additional car supply. At the exact same time as there is a decreasing demand, we have rate increases being announced. That's only being achieved by artificially limiting the supply.

So whether it's a rate cap or some other way of addressing it, I don't know, but I know the system today isn't working.

If you go back two years, regardless of the Canadian currency and issues like that, you have Canadian industry across the country, in the forest products industry, going down, taking extended foreclosures, shift reductions, and/or complete mill foreclosures.

• (1235)

**Mr. Hal Brindley:** I'd just like to add on that as well that two years ago, when I ordered  $x$  number of cars in the course of a week, I would normally get those cars through their guaranteed system. Now when I order cars, I get guaranteed only half of that. They don't have the cars in the system because they've put them in storage.

**Mr. Pino Pucci:** Just to add, in talking about rate caps and anything like that, let's not forget that the railways are all making record profits today. They're making record profits and giving us the worst service we've ever seen.

**The Chair:** Ms. Morgan, do you have something to add to that?

**Ms. Marta Morgan:** I would agree. We're not supporting re-regulation of rates. What we are supporting is more options for shippers to challenge poor rates and poor service. We would support the long-term structural solution, which is actually introducing competition into the system, which would bring down rates.

**The Chair:** Thank you very much.

We do have some other business for the committee, Mr. Trost's motion that we'd started to debate at the last meeting, and also we have to talk a little about when the report for this committee will be finished.

I would like to thank all the witnesses for coming today: Mr. Brindley, Mr. Adams, Mr. Pucci, and Mr. Multamaki by video conference; and Ms. Morgan and Mr. Church here in our committee room. Thank you very much.

We're going to allow the witnesses to leave and we'll carry right on with the meeting.

The first order of business is to continue the discussion on Mr. Trost's motion. We were dealing with that at the last meeting and ran out of time.

I don't remember where we were. We have Mr. Trost and Mr. Alghabra on a list, apparently ready to speak to that now.

Mr. Trost, go ahead, please.

**Mr. Bradley Trost:** Mr. Chair, it has been a couple of weeks for all of us. I know I was getting indications from across the table here that members were wondering specifically what we had or hadn't decided to do at the last meeting.

According to the minutes, had we come to a conclusion or a decision? Maybe the clerk could help clarify exactly where we were.

**The Chair:** We were carrying out debate on the motion, so we will just continue that and go to the question, hopefully, as soon as possible. You have the minutes of the—

**Mr. Bradley Trost:** I don't completely remember where we were in the debate.

One thing, though, that has come to my attention over the last couple weeks during the break period is that evidently the finance committee put forward a rather specific series of resolutions on this issue having to do with forestry. One of the things they put in there was a call to have a round-table conference, a meeting—I forget the specific terms—a national forestry summit. It struck me as a little bit odd that the finance committee would get around to it before the natural resources committee would—not that I think we're too offended by our finance committee colleagues, but it would have been nice to have it come from here rather than from finance.

That's one thing I would like to put on the table—that it would have been nice if we could have done it first or could have been the committee responsible for it, rather than another committee that's not so directly involved with the industry.

• (1240)

**The Chair:** Mr. Trost, just for clarification, what are you suggesting here? You said another committee has already brought this forth, but what does that mean?

**Mr. Bradley Trost:** Well, I was just suggesting that we've had two weeks. If people are ready to pass the motion now, okay; if people are going to vote it down, of course I'm not going to put it here, because I don't want the motion defeated. I'd be willing to lay it off for a later period, which is one of the things that was being suggested last time. I'm just checking now to see if the members are still of that view after two weeks of recess and the new actions taken at the finance committee.

**The Chair:** Mr. Alghabra, go ahead.

**Mr. Omar Alghabra:** Thank you, Mr. Chair.

I do appreciate the sentiment and I agree with him that although the finance committee passed a motion, this is probably the appropriate place to do it, except we are doing a comprehensive study. Probably their motion was just a symbolic gesture or they were adding their opinion on what needs to be done. I think many of us indicated before we went on our Easter break that we were all in agreement with the sentiment and the idea, but we want to put it within a framework and a comprehensive report that outlines the framework and the recommendation for the summit and other items that the governments can do. I think this might be pre-emptive and I'd like to see it within the report, rather than imply that this was the only outcome of the study, which, as you know, includes a lot of other components.

I would hope that we would include it in the report rather than vote on it today, because I think it's short on details and it would give the study injustice.

Thank you.

**The Chair:** We have Mr. Anderson, Mr. Boshcoff, and Madame DeBellefeuille on the issue, and then hopefully we can decide how to proceed from there.

Go ahead, Mr. Anderson.

**Mr. David Anderson:** Mr. Chair, I think this was a good leadership initiative by Mr. Trost. If it's going to turn into a symbolic gesture, which Mr. Alghabra says is all it is, it's going to be because the opposition does not want to go ahead with it. We can certainly include it in the report, but we're into April already. It seems as though for the last six months, the opposition has.... We've switched topics; we've talked very much about doing forestry and getting our report out, but we're still not at the point of having a finished forestry report. We would like to see that as quickly as possible, but we think we need to take some initiative on this if we're going to be able to host it and sponsor it.

I think we need to pass the recommendation that we do that and call on the minister to convene this round table and get on with that. That doesn't preclude anything from being in our report; it doesn't preclude having a report with other recommendations, so I think we should pass it.

Mr. Trost has indicated he's willing to table it if the opposition insists on that, but my opinion is that it would show good leadership from this committee to pass this motion and then to try to move ahead with this conference.

**The Chair:** Mr. Boshcoff is next.

**Mr. Ken Boshcoff:** Thank you very much.

Although we've had calls for a national summit probably for over 20 months, it is reassuring to see more people getting on board with this.

The resolution as proposed here is for the Minister of Natural Resources. Clearly, our resolution from this committee would ask the Prime Minister to do this at a national level. The minister can convene this round table at any time. He's been able to do that since being appointed. We know Stéphane Dion did it over a year ago.



In terms of presenting motions and resolutions at this time, I can put forward 15 or 16 of these types of things right now, if we want to do it that way. I thought we were formulating a report as a committee, so I've held back on this type of thing.

But this is flawed. It is not the Minister of Natural Resources we want to do that. He can do it; he could have done it any time over the past two years. We want the Prime Minister to do this and show the significance of forestry on a national basis. That's where this committee, I would think, should be going.

Thank you.

•(1245)

**The Chair:** Madame DeBellefeuille.

[*Translation*]

**Mrs. Claude DeBellefeuille:** Thank you, Mr. Chairman.

It would perhaps be a good idea to remind Mr. Trost that the day before the debate on this motion, the finance committee had already adopted its own motion. Ms. Bell and I had pointed that out at our last meeting.

You will also recall that I had tabled a motion calling on the government to take action by quickly implementing a plan to come to the assistance of the forestry sector. Due to a misunderstanding in translation, I accepted Mr. Allen's amendment; he said that it was a good recommendation, but that we could wait until the end of the report to propose concrete measures designed to assist the forestry sector, which was facing a major crisis at the time.

That logic goes both ways. So if this emergency plan can wait until the end of the report, I think that a motion on a round table, a conference or a summit can easily be part of a report as a recommendation.

My position remains the same, Mr. Chairman. I invite Mr. Trost to incorporate his recommendation into the report that we will be considering shortly.

**The Chair:** Thank you, Ms. DeBellefeuille.

[*English*]

Mr. Comuzzi is next on the list. Go ahead.

**Hon. Joe Comuzzi:** Thank you.

It bothers me, Mr. Chairman—I happen to live in an area that is drastically affected by the problems faced by the forestry industry—that this committee is sitting around listening to all of the evidence without having the will to say there's something that has to be done immediately about this particular industry, the second largest industry in Canada. The industry has some serious flaws that have to be corrected.

We've waited I think two weeks since it was brought up to this committee. We're wasting time. It's an industry. Every one of us in this room has people who are looking for jobs, who are laid off, and at other companies being laid off, and we're not doing anything of a positive nature to correct this as a government.

This round table or symposium that we're proposing is something that would get people to act immediately. I think we're wasting time deciding whether we should do it or not do it. We should be

spending our time talking about what the rules of engagement would be, spending time talking about what the committee's mandate should be, and spending time talking about who should be on the committee from among the most important experts in our country who know a great deal about forestry and about the future of forestry, rather than members of Parliament who have a general knowledge.

All we know, Mr. Chairman, is the problems that we face, as we heard a little while ago, about transportation. We should be spending our time deciding who should be on that committee and what its mandate should be, rather than whether we should have the committee.

So I'm urging my colleagues here to move on it, and now it's up to you folks. But...Jesus!

**The Chair:** Mr. Comuzzi, it's clear there is a disagreement on this.

Go ahead, Mr. Trost.

**Mr. Bradley Trost:** Mr. Chair, my view has changed during the debate here. If the opposition wants to nitpick this in the future and force it to be the Prime Minister instead of the Minister of Natural Resources, my offer to table is off the table. I will be calling for a vote on this, my motion, today. I'm asking for the question to be put.

**The Chair:** We have to hear the rest of the people who want to speak. There are three more on the list. We could do that and then go to a vote.

Mr. Alghabra.

**Mr. Omar Alghabra:** Thank you, Mr. Chair.

Mr. Chair, I tabled an AECL report a few weeks ago. I tried to put one together and after a discussion with the committee members there was an agreement that we have a comprehensive report. Let's make sure there's substance and we listen to witnesses and let's look at it from a holistic approach, a non-partisan approach. We just spent the last few weeks examining witnesses. We and all the party leaders have indicated this is a good initiative.

I think it's a sneaky way of saying this is short-term or this is what the recommendation needs to be. We're going to have a comprehensive report. I agreed with the committee after the debate to table my AECL recommendation in exchange for a full report. I'm surprised Mr. Trost is changing his mind, because he tends to have a very open mind and is able to work with his colleagues, but it's up to him: it's his motion.

I wanted to make it very clear that this is an attempt to shortchange the report the committee's doing, and if he wants to table it, we're not going to be supporting this one-dimensional, short-sighted attempt at presenting recommendations after the weeks of study the committee has done.

Thank you.

•(1250)

**The Chair:** Point of order, Mr. Tonks.

**Mr. Alan Tonks:** Mr. Chairman, I was just talking with our researcher. It was my understanding that we had deferred this decision with respect to the format and so on pending the opportunity to have the report.

I think we're a little bit out of order. I think we should table this discussion. I understand from our researcher that we are going to have that report available, and you may wish to clarify this, Mr. Chairman, but I think it's very important for us to see that report and then to take this and look at the format we wish to have.

I thought that's what we had agreed on more or less at the end of the discussion we had. Perhaps you could ask the researcher to clarify that for us, Mr. Chairman.

**The Chair:** That was the final issue I was going to talk about today, that the draft report should be ready Wednesday night or Thursday morning. So that's another issue for us to decide: what we do with the committee meeting on Thursday, because people will need a chance to look at the report before we start discussing it. But that's a different issue.

Ms. Bell, you are on the list.

**Ms. Catherine Bell:** Before I make my comments, I would like to know the answer to Mr. Tonks' question as to whether or not this discussion is in order. I believe that was what you asked.

**The Chair:** Yes, the discussion is in order.

**Ms. Catherine Bell:** So we didn't table the motion pending the report? That was my understanding of the question he asked. I'm a little confused.

**The Chair:** We are debating the motion. I hope we'll go to the question on the motion.

**Ms. Catherine Bell:** The notice of motion was introduced on February 29 and we talked about it in mid-March. At that time I think I said the minister could implement a round table at any time, he didn't need us, and a motion had already passed at the finance committee, which my colleague supported. I also said I'd be inclined to support it because it was one of the recommendations from some people over the course of the hearings. It wasn't the overwhelming recommendation I heard, but it was one.

I have some concerns about the way this motion is written. I have a question for Mr. Trost. I would like to know if he has brought this motion to the attention of the natural resources minister. I'm sure he pays attention to what goes on here at the committee. Does he have the mechanism in place to get this up and running tomorrow? If not, does it matter if we wait a couple more days before making this recommendation part of the report?

• (1255)

**The Chair:** We have about three or four minutes. There is a committee scheduled here for one o'clock. We either have to go to a vote on this—and we have several other speakers—or continue it at the next meeting on Thursday.

We have five people on the list. We clearly can't get to everyone before the end of this meeting, so I will end the meeting when our time is up in about three minutes.

Go ahead, Mr. St. Amand.

**Mr. Lloyd St. Amand (Brant, Lib.):** I've come to have some confidence in Mr. Trost's instincts, particularly his first instincts, and I invite him to return to his rational, typically cerebral self and table the motion until Thursday.

**The Chair:** Madame DeBellefeuille.

[Translation]

**Mrs. Claude DeBellefeuille:** Mr. Chairman, I was touched by Mr. Comuzzi's remarks. I felt that if we were to oppose this motion, it would be as if we weren't interested in the issue, in the dramatic situation facing the forestry sector.

Perhaps I am mistaken and my impression is wrong. However, I want to remind you that the Bloc Québécois and the opposition parties in the House of Commons proposed some very concrete solutions to the government on how to quickly come to the assistance of the forestry sector. There are a great many suggestions and recommendations on the desks of the Prime Minister and the minister.

I understand his interest in a round table. In Quebec, there was a round table and the Forestry Summit. The Quebec ministre des Ressources naturelles et de la Faune tabled a green paper on the issue. The difficulties facing the forestry sector are of great interest to the Bloc Québécois. I think that is a good recommendation and that it can be part of the report.

We should avoid getting into the habit of short-circuiting reports by tabling motions that can easily be added into a report as recommendations that we can debate. If Mr. Trost is patient, in a few days, we could add it to the report and reach an agreement on it quite quickly.

[English]

**The Chair:** Thank you.

Mr. Boshcoff, go ahead please.

**Mr. Ken Boshcoff:** I thank you for that, Mr. Chair.

If it's necessary that it continue, I propose an amendment that the standing committee report to Parliament include a priority recommendation that the Prime Minister convene a national summit on the forest industry crisis. That way we know it will be in the report, all parties will have been considered, and it will be amended at the highest levels.

Thank you.

**The Chair:** Mr. Boshcoff, I just have to have a look at that in writing, if I could.

I would like to hear the motion again. It seems to me that it's more than an amendment, that it in fact would be a new motion, so I do need to see that in writing before I can rule on that.

**Mr. Ken Boshcoff:** I will do that, Mr. Chair. And with all respect, there seems to be consensus that the standing committee report should include a recommendation for either a round-table discussion or a national summit. Who convenes it, whether it is the minister or the Prime Minister, seems to be up for debate here today. It was always the impression of many of us that this would be a high-level summit convened by the Prime Minister. I will write that out for you to confirm that it's in the record.

My understanding is that we get the draft tomorrow.

• (1300)

**The Chair:** You should get the draft report probably Thursday morning.

**Mr. Ken Boshcoff:** It will be Thursday morning?

**The Chair:** It might be Wednesday night or Thursday morning, because it has to be translated as well, and that slows it down a bit.

**Mr. Ken Boshcoff:** So if it's only a matter of hours before we get this, then I will withhold my amendment until the draft report, and amend the draft report at that time, Mr. Chair.

**The Chair:** On Thursday we will still, though, have to start with this motion. We will continue with that.

Our time is up here for today, so we'll leave it at that. On Thursday we will continue this, and we will have a draft report and hopefully we'll decide on Thursday how to deal with that.

The meeting is adjourned.

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