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EVIDENCE

Thursday, December 9, 2010

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Chair

Mr. Larry Miller

Standing Committee on Agriculture and Agri-Food

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•(0845)

[English]

The Vice-Chair (Hon. Mark Eyking (Sydney—Victoria, Lib.)): Good morning, everybody. This morning at our meeting we're going to be discussing rail issues. The chair has informed me that he's running late. He's asked me to fill in as vice-chair.

An hon. member: He had a late night.

The Vice-Chair (Hon. Mark Eyking): Yes, a late night. We've seen that Conservatives were singing quite adamantly last night, and it's good to see that there's joy amongst them all.

Some hon. members: Oh, oh!

The Vice-Chair (Hon. Mark Eyking): Anyway, to get back to the meeting, I'm tidying up a little homework that we have here. Our clerk—

Are you okay, Madame Bonsant?

[Translation]

Ms. France Bonsant (Compton—Stanstead, BQ): Yes, fine.

[English]

The Vice-Chair (Hon. Mark Eyking): At our last meeting, we showed our dismay that Transport Canada was not going to be here, so our clerk has sent another invitation to them asking them to come. She also clarified that she ensured in her e-mail to Transport Canada that Transport Canada understands that, following our conversations, officials were invited to address specific issues of cost of shipping grain by rail.

Chloe got a response. The response from Transport Canada is this: "My apologies for not getting back to you earlier. This morning I got back to the department that said yes.... They confirm that it is understood that we were invited to address the issue of cost of shipping grain by rail and that we would be pleased to appear before the committee later on this topic". That's a way of saying no, but they would come to our committee later to discuss it. So I don't know that we need to get into a lot of dialogue. I guess the answer from Transport is that they are willing to come later.

Does anybody have any comments?

Hon. Wayne Easter (Malpeque, Lib.): Yes, Mr. Chair, I do. I think the committee should inform them that we believe this response is unacceptable.

I think if we have to subpoena Transport Canada to come, then we should do it. If they say they're going to come at a later date now, I

suppose a subpoena is not necessary, but I think we need to inform them as a committee.

I don't think any of us on any side of the House would be happy with the fact that when a committee makes an invitation to a department on an extremely important issue for rural Canada, and especially in this case for farmers, we get this kind of inadequate response. It's just not acceptable, and I think they need to be told that formally.

•(0850)

The Vice-Chair (Hon. Mark Eyking): Are there any more comments?

Mr. Lemieux.

Mr. Pierre Lemieux (Glengarry—Prescott—Russell, CPC): I think the committee did the best they could. The chair was asked at the last meeting to approach the minister and his staff and to state that they wanted the department to come in front of them. That was done. I think there's a service review under way, and they're probably suggesting that they come after their findings are published, not before. If they come before, they can't really say a lot. I think that's what's there.

The Vice-Chair (Hon. Mark Eyking): I'm just trying to get a sense of this so that we can get on to our witnesses. There is a sense from all members that we really wanted them here. Would it be fair that we send a letter that would show our displeasure that they weren't here? Would that be fine?

Some hon. members: Yes.

The Vice-Chair (Hon. Mark Eyking): All right. To the minister? Yes.

Mr. Brian Storseth (Westlock—St. Paul, CPC): This report is very important, as Wayne has pointed out, as has our side. I would suggest that we make some time in the new year and that we tell them when they're going to be at the next committee meeting—that we want them.

The Vice-Chair (Hon. Mark Eyking): Yes, that we tell them the time. We'll probably put that in the letter, right? We'll probably write directly to the minister. There are two ministers kind of responsible here—

Mr. Brian Storseth: I think that in all fairness, Mr. Chair, we should look at this after we deal with our witnesses.

The Vice-Chair (Hon. Mark Eyking): We have a letter here, but I don't think we're going to get into it. At the end of the day, they're not here. I think we should show our displeasure to the minister and say that we will be asking them to come forth at the next—

Mr. Pierre Lemieux: Maybe we can take it up at the end of the meeting, Chair. They have a letter; they're giving a reason in the letter. It's related to a comprehensive service review that they're undertaking. They're in the middle of it right now. They're saying that if they came they wouldn't be able to answer any questions until the service review is complete.

The Vice-Chair (Hon. Mark Eyking): Mr. Easter.

Hon. Wayne Easter: Mr. Chair, that's not the point.

The point is that a parliamentary—

Mr. Pierre Lemieux: It is the point.

Hon. Wayne Easter: I don't care if they're doing 20 reviews. A parliamentary committee representing Canadians in our responsibilities as an agriculture and agrifood committee has requested a department to come before this committee.

No excuses are acceptable. We've asked them to come, we have reasons to believe they should be here, and they should be here. I don't accept that response. If they want to come and sit in that chair and explain what they put in that letter, that's their right to do so, but that kind of response is unacceptable.

And I don't think, Pierre, that you should be defending them.

The Vice-Chair (Hon. Mark Eyking): Mr. Lemieux.

Mr. Pierre Lemieux: Thanks, Chair.

I'm not defending them—

Hon. Wayne Easter: You are.

Mr. Pierre Lemieux: I'm telling you what's in the letter that's right in front of you, that was put in front of all members, because that was not expressed to the committee.

The second thing is that if they did come in front of the committee and then couldn't answer any questions, you'd be the first one onto them about the fact that they should have let the committee know this before they wasted the committee's time by coming in front of the committee and using up precious witness time. I think their approach is reasonable.

The committee, when they first invite a department, don't know what's going on in the department. Or they don't know the status of a particular review: how could they know? And now the dialogue has started. They didn't say that they would not come; they just said that now is not the best time to come. That's a reasonable approach. They didn't say they were never going to come. They said they will come but it's better that they come after the review is done. To me, that makes sense.

There is no sense having witnesses come, Chair, if they can't answer any questions about the very subject that we want to talk about. That makes no sense at all. They'd be wasting the time of this committee and they'd be bumping other witnesses, and to what end? It is better that it's handled this way: that we have invited them not knowing where they were in their process. They have responded by telling us where they are in their process and saying that they'd come at a time that's opportune for them to be able to answer questions.

That is reasonable, and they've stated their willingness to come.

The Chair (Mr. Larry Miller (Bruce—Grey—Owen Sound, CPC)): As requested by you, I did talk to the minister on this. What he said was.... He didn't make a commitment. He said that basically the minute the review is done, they will come, and he said that they can send staff, but they can't answer anything at this point. That's where it came from. Whether we like it or not, that was it. But he has made that commitment. I hadn't even seen this letter until now. I knew it was coming; they said it would be here for this morning. It's unfortunate, but that's the reality of it.

I think we should move into—

I'm sorry. I didn't see you there, André. Go ahead.

[*Translation*]

Mr. André Bellavance (Richmond—Arthabaska, BQ): First of all, I wanted to say that Pierre talked about a letter that we had right in front of us, but I do not have it, nor does France.

Secondly, only members and ministers can—

• (0855)

[*English*]

The Chair: I'm sorry, André.

An hon. member: We're not getting any translation.

The Chair: André, would you try it again?

[*Translation*]

Mr. André Bellavance: I was saying that Pierre talked about a letter that is right in front of us, but I do not have it, nor does France.

Secondly, I just wanted to remind the committee that only ministers and members of Parliament can refuse to appear before a committee.

They say that they will perhaps appear at some point, but we should be quite firm with public servants, because if I remember correctly, this is not the first time that the Standing Committee on Agriculture and Agri-Food has asked officials to appear and that they have wanted to come when it suited them. But there are some constraints with the agenda.

I don't think that we are being overly demanding by asking them to appear on a specific day when we give them reasonable notice. I understand that it may be difficult for them to appear at 8:45 a.m. if we write them the day before at 5:00 p.m. In that case, I can understand the difficulty, but when reasonable notice is given, I don't understand their inability to find someone at the department who can talk about the railway issues.

Larry, I don't think you were here earlier, but the suggestion was made to inform them of our dissatisfaction and to find a time slot when they can appear.

[*English*]

The Chair: I can certainly parlay that in a letter, if you so wish. I just want to clarify that I don't know who said this went out to all members; I didn't. And it didn't go out to all members, as far as I know.

Isn't that right?

It just arrived this morning, André.

Mr. Pierre Lemieux: Okay, Chair. The first thing is that I didn't say that it went out to all the members. I said it was placed in front of all members, meaning that the clerk had just placed it in front of members.

The Clerk of the Committee (Ms. Chloé O'Shaughnessy): I have just received it, so I haven't.... I just have my copy here.

Mr. Pierre Lemieux: Oh, where did I get my copy from? I don't know where that came from, then....

Well, then, Chair, the second point is that they haven't refused to come. I think that's an important point. They're not refusing to come. This happens in committee when we invite witnesses, be they government witnesses or witnesses from industry. Even witnesses from industry can't always come when the committee invites them. We don't turn it into a showdown; we simply arrange another date. That's all that's happening here.

Chair, to give my colleagues the information that's contained in the letter, I think it's worth reading it into the record. So I would ask that either you or the clerk read this letter into the record. It will be translated for my colleagues from the Bloc and then they will better understand what it is that's contained in the letter. Right now they don't have a copy of it.

The Chair: I would just suggest that if everybody had a copy of it, I wouldn't have to read it, and we could get on to our witnesses.

Is that okay?

Hon. Mark Eyking: Mr. Chair, I find that this is really not being done properly. When I started chairing this meeting, there was no letter in front of me. There's no translation of this letter. This letter is....

As far as I'm concerned, they're not here, and they should be here. This committee wanted them to be here. We gave them advance notice. This letter is all bullshit, and I think we should move on and we should send a letter to the minister stating our displeasure. Now, whether you want to distribute that letter and have it translated...fill your boots.

The Chair: I think it has already been suggested that I write a letter and I will.

Can we move on?

Mr. Pierre Lemieux: No, Chair. This letter is addressed to the chair.

The Chair: Yes, it is.

Mr. Pierre Lemieux: It's addressed to you; it's to be shared with the committee. So I'm going to read it into the record, because when they're expressing their outrage, they don't know what they're expressing their outrage about. They're just expressing it about a letter whose content they have no idea about. It doesn't make any sense, so—

The Chair: Okay. Well, I think what we're going to do, Mr. Lemieux, is make sure that everybody has a copy. I don't think it needs to be read in and we're going to move on—

Mr. Pierre Lemieux: No, I want to read it in, because I want my committee members to understand what's in the letter, and then you might not have to write the minister—

The Chair: Would having a copy not do the same thing, Mr. Lemieux?

An hon. member: Put it in now.

Mr. Pierre Lemieux: Put it in now. Besides—

Hon. Wayne Easter: On a point of order, Mr. Chair—

Mr. Pierre Lemieux: Oh my goodness—

Hon. Wayne Easter: —we asked them here.

Mr. Pierre Lemieux: You started it.

Hon. Wayne Easter: I'll look at the letter and see what it says. We wanted them here. We are now allowing Transport Canada, because they're not here, to waste the time of our witnesses on an important issue. I don't want to waste our time with their letter when they're not here to respond to it.

Mr. Pierre Lemieux: Then quit interrupting and let him read it in. You're the one doing the points of order.

Hon. Wayne Easter: I want Transport Canada, not Pierre Lemieux.

Mr. Pierre Lemieux: No. But, Chair, it's an important point. I'll read in one of the key paragraphs here. It's speaking to the chair, and it says: As you are aware, the Government is currently undertaking a comprehensive rail freight service review. The review is focusing on the performance of stakeholders involved in the rail-based logistics system—primarily the railways, but also shippers, ports and terminal operators. An external panel is preparing a final report for the Government's consideration, which should be completed by the end of the year. It is expected that the review will identify ways to improve the efficiency, effectiveness and reliability of the rail-based logistics chain, which is essential for Canada's economic competitiveness. Once the report is released, the government will make a decision on the response to the report.

It is important to allow the panel to complete its recommendations before the Government addresses concerns on rail freight issues, including concerns raised by agricultural producers on railway services and costs. It would be premature for Transport Canada officials to appear before the committee while the panel is still completing its work.

Once the review has been completed and the Government has made decisions on the next steps, officials at Transport Canada would be pleased to attend the Standing Committee to discuss issues related rail transportation in the agricultural sector.

• (0900)

The Chair: Thank you. I think the members could have read that just as easily themselves.

We're going to move on to the witnesses—

Hon. Wayne Easter: I have one last point, Mr. Chair—

The Chair: Yes.

Hon. Wayne Easter: —on why the letter has no merit.

If you look at the order of the day, it is, pursuant to Standing Order 108(2), a study of the "railway costing review". Transport Canada's response is on a service review; that is not what we asked them to come here for. We want them to answer questions on why the railways are being allowed to gouge farmers, according to the Canadian Wheat Board study, of \$275 million in 2008 and 2009.

That's why they were asked here, and that excuse is unacceptable.

The Chair: Thank you.

We're now going to move to witnesses from the Canadian Federation of Agriculture, Mr. Banack and Mr. Oberg.

Which one of you is going to speak?

Mr. Banack? You have 10 minutes, please.

Mr. Humphrey Banack (Director, Canadian Federation of Agriculture): Good morning.

It's interesting to hear the talk about the rail service review. As an industry, we're all waiting to see where it is going to come out at the end of January. We're waiting to see what it comes to. I'm sure you will hear a reply from us at that time.

Good morning. Thank you for your time.

My name is Humphrey Banack. I'm the president of Wild Rose Agricultural Producers, Alberta's largest producer-funded general farm organization. I met with several of you in October to discuss the rail service review process.

At that time, I was in the process of putting \$225,000 worth of canola on the ground because rail service was inadequate to meet contracts that were in place. To date, I have moved half this canola, and I hope to move the rest by the end of the year. The inland terminals we deal with are 40% behind in shippings due to poor rail service to date.

That's just a little update. Although this is an important issue, our objective here today is to speak to you about rail freight rates in western Canada.

Thank you in particular for the opportunity to speak to you on behalf of the Canadian Federation of Agriculture. With me today is Allen Oberg, chair of the Canadian Wheat Board's board of directors. We are here today on behalf of the CFA, an across-Canada federation of general farm organizations, sector-specific commodity groups, and cooperatives. I am a member of the CFA board of directors and Allen is a member of the CFA national council.

My wife and I farm with my brother and sister-in-law near Round Hill, Alberta, in the central area of Alberta. Transportation is one of the major expenses on our farm, and on all prairie farms, because our grain-growing region is located so far from export positions.

No other grain growers in the world have to move their grain so far to port. My farm is 1,100 kilometres from the port by rail from Prince Rupert and 3,500 kilometres from the St. Lawrence River. American farmers have a much shorter journey to their export position. Farmers in Australia and the Ukraine are only about 300 kilometres away from export water.

There's also something else to keep in mind. In western Canada, we have to move our grain by rail because no other competitive alternative exists. Farmers in Australia, the Ukraine, and much of the U.S. can choose from two or three modes of transportation to reach their tidewater.

As you are aware, a government-appointed panel recently released its interim report on the review of service issues and problems related to the rail-based logistics system in Canada. The CFA is pleased with the panel's extensive review and analysis of the current situation facing railway shippers, including western Canadian grain farmers.

The report portrays an accurate reflection of the problems grain farmers face when shipping their grains to export positions. As pointed out in the report, the biggest challenge farmers face is the market power exerted by railways and the lack of competition therein.

This situation has led to inadequate performance and excessive costs to western Canadian grain farmers. When the Crow rate was replaced by the current revenue cap methodology in 2000, subsequent productivity gains were to be shared with farmers. At that time, the federal government had hoped that competitive pressures and market forces would result in lower transportation costs due to productivity gains. Unfortunately, because of the near monopoly of railways, this has not happened.

The CFA recognizes that the service review panel's mandate explicitly excluded cost or price-related issues, including freight rates, the revenue cap, ancillary charges, and competitive access issues. However, the review panel outlined many problems with railway costs, and for grain farmers in western Canada, this is of paramount importance. Our message is clear: we need the Canadian government to put a rail cost review into motion right away, not a year from now, and not two years from now.

Thanks to devastating rains in the spring, farmers have just harvested an unusually poor-quality crop. Meanwhile, Minister Strahl has committed only to "thinking" about the possibility of a cost review after the current rail service review is completed. Somehow, we have to get you, our elected representatives, to understand that these are separate issues involving entirely different groups of analysts and experts, and that every year we wait is another year that goes by with farmers paying millions more than our fair share.

Freight rates need to be based on actual costs, not annual revisions from outdated formulas. We're coming up to 20 full years since the last full review of railway costs. Farming has changed a lot in that time. The railroads are proud of telling anyone who will listen that they're certainly not operating the same way they did then, and freight rates need to be based on today's reality, not the world of 20 years ago.

● (0905)

I'd now like to defer to my colleague Allen Oberg.

Mr. Allen Oberg (Member, National Council, Canadian Federation of Agriculture): Thank you, Humphrey.

As Humphrey said, my name is Allen Oberg. My brother and I run a grain and cattle operation near Forestburg, Alberta. I have been a member of the Canadian Wheat Board's farmer-elected board since 2002 and was elected chairman of that board this past June.

Earlier this year, a broad coalition of farm organizations led by the CFA released an important study confirming what western Canadian grain farmers have known for some years: that we are paying way more than our fair share in rail freight.

This study was commissioned by the Canadian Wheat Board and conducted by a highly respected and highly experienced rail analyst, John Edsforth of Travacon Research. Mr. Edsforth examined rail freights in western Canada for the 2007-08 and 2008-09 crop years. Copies of that study are available for you here today.

I want to comment briefly on Mr. Edsforth's approach. Mr. Edsforth examined rail freights in terms of a particular benchmark. That benchmark is 20% of volume-related variable costs. This is the same benchmark for a fair and reasonable return to railways used by the former Western Grain Transportation Act, or WGTA. It is also the percentage that the Canadian Transportation Agency has determined is the average system contribution for rail movement. A 20% level is also what Travacon Research believes would be the maximum achievable in a competitive environment.

Using this benchmark, Mr. Edsforth concluded that for the two crop years 2007-08 and 2008-09, western Canadian grain farmers paid \$123 million and \$275 million over and above what would have been considered fair under the WGTA. On a per tonne basis, that works out to \$4.61 per tonne too much during 2007-08 and \$8.81 per tonne for 2008-09. On an average for those two crop years, we are talking about \$6.87 per tonne above what was considered fair and adequate under the WGTA. That is not just on wheat and barley that's marketed through the CWB; it applies to all major grains exported by western Canadian grain farmers.

To illustrate what this means to prairie farmers, let me tell you about my farm. I'm 1,056 kilometres by rail from the Port of Prince Rupert. Over the last two crop years, I shipped an average of 3,660 tonnes of grain. At \$4.61 to \$8.81 per tonne, that means I paid anywhere from \$17,000 to \$32,000 more than I would have under the WGTA. And that's just me, that's just my farm, and that's just in one year.

In total, farmers are contributing \$200 million over and above what was considered fair under the WGTA, and that's each and every year. Any farmer who wants to know what this study means for his

particular farm can use a simple online calculator to figure it out. They simply fill in the tonnes they've delivered, and the calculator comes up with the range of money that could otherwise be staying on their farm. This calculator, by the way, is available through the Canadian Federation of Agriculture website.

How did we get here? Well, there's no great mystery about it. We got to this point because of a huge consolidation of rail infrastructure. More than 1,000 prairie elevators have closed since the 1990s. Today we only have 240 grain elevators across the entire prairie region.

The system needed to become more efficient, and it became so. Today, the railways are shipping more grain in bigger blocks. They were able to pick up more grain with fewer stops along the line, so they are saving money, and that's a good thing. We support the system becoming more efficient and we support the railways making a reasonable profit. But as one of the railways' largest customers, western Canadian grain farmers believe that some of those efficiencies should be passed on to us.

In fact, just the opposite has happened. Over the last 15 years, freight rates have continued to trend higher, and the closure of thousands of elevators means, of course, that we farmers are hauling our grain by truck for much longer distances.

● (0910)

Since 2000, we have had annual revenue caps on Canadian rail company income for grain movement. The revenue cap takes into account things like changes in the volume of grain shipped, changes in fuel costs, and inflation, but it does not factor in the railways' true costs. When railway costs go down because of increased efficiencies, farmers don't share in these gains even when farmers have contributed directly to these efficiencies. As farmers, we're losing millions every single year that we wait for the Canadian government to call for a rail costing review.

Let me repeat. No one is objecting to profitable railways in Canada, but farmers cannot continue to shoulder an unfair share of the load. Freight rates must be fair, both for farmers and for the railways. The question isn't, "Why should we have a costing review?" The question is, "How can we not?"

Thank you, Mr. Chairman.

The Chair: Thank you, gentlemen.

We'll now move to Pulse Canada and Mr. Bacon.

You'll have 10 minutes.

Mr. Gordon Bacon (Chief Executive Officer, Pulse Canada): Good morning, Mr. Chairman.

Good morning, members of the committee.

Very quickly, I'll note that Pulse Canada is a national organization made up of grower organizations from each of the major pulse-producing provinces and of members of the Canadian Special Crops Association, which are the processors and exporters of peas, beans, lentils, chickpeas, canary seed, mustard, buckwheat, and sunflowers.

I think that all of the witnesses you're going to hear are businessmen. We have a business focus: we're trying to increase the profitability of our industry. At Pulse Canada, we're focusing on what every business does, and that's trying to reduce the costs that our industry faces and also to drive up the value, and particularly in pulses, with the tremendous story we have in health, nutrition, and environmental sustainability.

As it relates to costs, the number one issue for our members is transportation. I just want to quote one line out of a World Bank report that really puts our issues into perspective: "Predictability is central to the overall costs that companies incur in logistics and thus to their competitiveness in global supply chains".

The key word there is "predictability". What we are facing is a lack of predictability, and this is creating some costs in our industry. For this reason—our focus on trying to address rail costs—Pulse Canada, for the last four years, has had a major focus on transportation. We have played a major role in the Coalition of Rail Shippers and we have spent a lot of time over the last two years on the rail freight service review.

I want to give you just a couple of opening comments and then turn it over to Greg Cherewyk. I want to mention that from a pulse and special crops perspective on the costing of rail service, there are really two areas. There's the visible cost of a rail freight rate, but what we want to bring into this is an important part of the discussion; that is, of the costs shippers are paying, they're paying for service that is unpredictable.

Greg has summarized some of our key findings related to that lack of predictability, how it impacts our costs, and what we believe needs to be addressed to reduce costs and increase the profitability of our sector.

• (0915)

Mr. Greg Cherewyk (Executive Director, Pulse Canada):
Thank you, Gordon.

You should all have in front of you right now a copy of a presentation that I am going to refer to. As Gordon said, I am going to talk about some of the factors that have the greatest impact on cost for our industry.

If you look at page 2, you'll see that I've given you a quick summary of what the rail freight service review looked at. I want to draw your attention to the very first bullet, which says "8 Quantitative analysis reports". What's different about this review and the approach that government took this time around is that we looked at the facts. We went away from town hall meetings, shipper surveys, and questionnaires, and we focused on the evidence. We quantified what service looked like. It is to the credit of Transport Canada that we took that approach.

What were some of the facts? On page 3, I've summarized a key quote there, and that concerns the railways' performance in terms of

meeting demand. Both railways together met 100% of the demand only 49% of the time. They met 75% of the demand approximately 57% of the time. If you look at the last sentence on that slide, you'll read that "these average performance levels mask week to week changes in performance that are very significant".

On page 4, we look at how the railways did in terms of meeting commitments—not meeting the demand, but meeting the commitment that they have made to their customers: "Over the course of the study period, the shippers in the analysis received 90% of planned car supply on the planned day only 12-28% of the time".

Now let's look how the railways performed in terms of their focus on the customer. On page 5, we note: "High error rates (error rates on bills from 20% to 70%) experienced by customers" on their demurrage bills. These are bills that our members pay for failing to load their cars in 24 hours. In fact, in our industry, many of our members hire part-time or full-time staff just to monitor the accuracy of demurrage bills.

If you look at page 6, you can see a key thing that speaks to the railways' contribution to system efficiencies. One of the most important things you can offer as a logistical service provider is an estimated time of arrival. It helps your customer plan their operations efficiently and effectively, and it helps them work with their supply chain stakeholders to ensure that they're operating efficiently and effectively. Yet "the railways acknowledge that the accuracy of this information is not subject to measurement...and the computer logic... is subject to a high degree of error".

I'm not going to walk you through all the elements of the study and talk about transit time, variability, and the other findings of the report. I want to jump right ahead to the rail freight service review panel's conclusion: the major cause of rail freight service problems is a lack of effective competition or market power that reduces the railways' accountability for performance, and that has led to less than adequate service.

The last sentence on page 7 says: "It has long been recognized in transportation law that regulations are required to address potential abuse of market power by the railways". On page 8, the panel says that "there are no practical ways to directly increase rail competition" and that the effectiveness of the current Canada Transportation Act protection provisions did not result in "reasonably adequate" service.

On page 9, we read that the panel "believes that the results of the Phase I research work...would have been much different" if shippers had had "access to effective competition and/or effective regulatory tools". On page 10, the panel "recognizes that effective legislation and regulation may be necessary to foster an environment that encourages commercial solutions".

Yet on page 11, instead of following that logical thinking process, they abandon it and suggest that the railways voluntarily implement new process improvements and sign agreements, and that at some point in the future—"2013"—the government should come back and look at this again to see whether we've made the steps towards progress that we all expect. I don't think I need to tell you how the shipping community views recommendations that really say nothing should be done and that someone else should come back and look at this again at some point in the future.

What I do want to spend some time talking to you about is the cost of inaction. On pages 12 and 13, I'm going to refer to a report that Pulse Canada commissioned in late 2009 and received in 2010. It was a report on the cost of unreliable and unpredictable transportation to our industry. We commissioned this report through SJT Solutions, Logistic & Marketing Services, and Mercantile Consulting Venture.

• (0920)

What we looked at was this: what is the cost of unreliable and unpredictable service? There is a real cost—we know that—but we wanted to quantify it. We looked at two ways of approaching this: the qualitative analysis and the quantitative analysis.

The quantitative analysis looked at the impact on our business over the last decade or more. On page 13, you will see a list of changes to the nature of our business as a result of unreliable service. I'm not going to speak to every one of these points, but I will highlight a few.

You've all heard about reduction in container availability and vessel capacity. Put simply, inconsistent and unreliable customers don't get containers or vessel space. The agriculture industry in North America is widely recognized as the least reliable and most inconsistent customer the steamship lines have. It definitely constrains our ability to access containers.

Point number three is on the extension of shipping windows sold. We used to be able to pull the trigger on four-week sales in our industry. That doesn't happen anymore. We don't bid on that business because we can't deliver. That changes our export markets. We routinely use contract extensions, and there are penalties associated with extending your contract. That just means we routinely include contract penalties and cost calculations, which means we put fewer dollars into the pockets of farmers. If we're getting 100% of our demand 49% of the time, we're over-ordering to mitigate risk, which creates inefficiencies across the supply chain.

These are some of the changes to the nature of our business that have occurred over the last decade as a result of unreliable service.

If you turn to pages 14 and 15, I'll talk a little bit about the costs of unreliable service. There are three main areas you look at when you consider costs: incremental costs associated with high levels of inventory, penalties associated with contracts and demurrage, and costs associated with hedging transportation on reliability.

If you look at all of those factors—and on page 15 we do summarize them for lentils alone based on 2008 data—and if you look at total additional storage, administration costs, labour costs, price penalties, demurrage charges, and container detention fees,

you'll see that we arrived at an average figure, for lentils alone, of \$11.92 as the cost for unreliable service.

If you applied that figure, \$11.92, to the forecasted export total for lentils this year, you would arrive at a figure of approximately \$14 million in lost earnings. That's on lentil shipments alone as related to unreliable service.

On average, we ship 30 million tonnes of grains, oil seeds, pulses, and special crops every year. I'm not suggesting to you that the figure of \$11.92 applies neatly to every one of those commodities, but you should expect that the number will be very large when you look at the cost of unreliable service.

Are freight rates important? Is the price of freight important? Absolutely. But if you turn to page 16, you'll note that we're saying price isn't everything. If price was everything, every farmer in Canada would be driving what they call the Belarus tractor. If price was everything, we'd all be driving Yugos. Both are notoriously cheap. Both are notoriously unreliable. You could purchase a Yugo for under \$4,000 U.S. when they were available, and if you had, you would have had what *Car Talk* voted the worst car of the millennium.

Our members expect value for their freight dollar. That must remain our top priority. The first action the government can take to address profitability at the farm level, profitability at the processing plant, and profitability in the export office is to address service, and to do that by putting forward a regulatory framework that compels all of our supply chain stakeholders to make predictability the central focus of their interactions.

We must first define the level of service that's expected by our business community. Then it would be appropriate to ask whether or not the cost of that level of service is appropriate. This is how, around the world, you establish a brand of consistent and reliable quality and consistent and reliable service. This is how we ensure that our export-dependent ag economy is competitive.

The ask from the pulse and special crops sector is, again, that government look at immediately drafting and passing what the panel included in its interim report as a fallback provision, immediately drafting an act to create the conditions that will result in the commercial solutions we're looking for. We're not so naive as to believe that's going to happen right away. We know that's going to be a long, hard process to put in place, but we have more than enough evidence to take substantive action on this issue.

• (0925)

But we don't have to wait for is performance measurement. That has to begin immediately. There has been a suggestion that this is not something that we need to undertake, but if you don't measure the performance of this system after having undertaken this review, you have no way of knowing whether the improvements you've asked for have resulted in the impact you desire or whether or not those impacts are sustainable.

These are important economic indicators, as important as measuring the performance of your gateways that you've dumped billions of dollars into infrastructure for and that we're happily measuring performance of today. We must measure the performance of the supply chain—the assembly line that feeds product into those gateways—and that we don't have to wait for that. We must begin today.

Thank you very much.

The Chair: Thank you.

We'll go to rounds.

Mr. Easter, you have seven minutes.

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

I thank all of you for coming today.

I find it rather strange that the pulse growers are offside with most other organizations on the costing review issue.

Gordon, you said that shippers are paying for services that are unpredictable. Do you believe they're not overpaying? I imagine you've read the study on the costing review. Are you saying the numbers in that study are wrong?

Mr. Gordon Bacon: Well, we're definitely not offside with any organization. I want to make that clear.

What we have said is that we believe the approach and the logical order of addressing this is to define the service, cost the service, and decide whether that cost is appropriate. We have a system that desperately needs improvement. We have to be talking about the performance of that system and find the appropriate cost.

I've used the example—and let me use it here again—that in our industry we may be told that our rail freight is going to arrive on Friday, so we may be arranging trucking and labour for over the weekend, but we don't find out that the train isn't going to come. So if we have to be charged \$500 by the railways for them to pick up the phone and call us to say that the train is not going to arrive, charge it. We have huge costs built into our system.

A focus on the visible rail freight rate without a focus on the kinds of costs incurred by the industry for the lack of predictability is going to start at a place where we're not going to be addressing the number one issue, and that's the predictability of the service. As Greg said, then we can talk about whether the rates charged for predictable service are reasonable.

Hon. Wayne Easter: I just call the Department of Transport the “department of railways”, because they're always there for them. Now even the parliamentary secretary is...

Do you not think that both issues could be dealt with at once? Clearly, from the study, and just to look at Mr. Obert's farm, his farm is being overcharged—gouged—\$17,000 to \$32,000 per year by the railways. Multiply that by the number of farmers and the number of commodities being shipped. Don't you think both issues have to be addressed at once? Both have an impact, and one is the overcharging.

Greg said earlier that the major cost of the lack of service is the lack of competition and that has led to less than adequate service.

Isn't that also the reason why there's an overcharging of rates under the revenue cap? There isn't competition and you also have a compliant government: isn't that the reason?

Mr. Greg Cherewyk: Today's rates apply to today's current level of service. We have great expectations with respect to improvements in service. We have huge expectations with respect to improvements in consistency and reliability. We're expecting service level agreements that define standards and include penalties for non-performance. All of this will entail changes at the railways. There will be a change to their cost structure, I guarantee you.

What we're saying is to first address what is a priority for us; that is, define our service expectations—because they are new, they are great—and then look at what it'll cost you to deliver that.

• (0930)

Hon. Wayne Easter: Let me then come back to my original question. Do you disagree with the numbers in the Wheat Board study?

Mr. Greg Cherewyk: Absolutely not.

Hon. Wayne Easter: Okay.

Mr. Greg Cherewyk: It's not a matter of being off order. It's a matter of order of priority.

Hon. Wayne Easter: Coming then, to the Wheat Board, or to all of you, for that matter, I think people have made the point that when the original changes were made and the revenue cap was put in... Nobody is arguing that the railway shouldn't make a regional profit, but can anybody tell me how they're doing these days? Are they doing reasonably well? What are their profit levels? On the last numbers I've seen, they were doing pretty damn well, I think a heck of a lot better than people in the farm community.

For the CFA, which was involved in the original discussion, wasn't it the intent when the changes were originally made for farmers to share in the efficiency gains?

Mr. Humphrey Banack: Yes. I guess part of what we looked at is the Kroeger study that was done in 1999 and 2000. At the end of it, the group recommended that a review be undertaken of “productivity gains and sharing of these gains...at a point in time when it is felt that most of the overall changes to the System...had likely occurred”.

We believe that there have been a large number of changes within the system, such as the ability for railways to group lots of cars together. We're seeing 110-unit train cars that we never saw in 2000. We're seeing efficiencies in locomotive diesel usage and labour. We're not pulling cabooses around the country anymore. These efficiencies have occurred. The Kroeger report said that we should have a review of those rates after efficiencies occurred.

Hon. Wayne Easter: Humphrey, with the numbers of elevators that have closed—I think you said that over 1,000 have closed and you're down to 240 elevators—is it correct that in fact the farm community and the provincial transportation system, which actually taxes for highways, so that's the average taxpayer...is it mainly the farmer who is picking up additional costs while the railways are making the gains from those efficiencies?

Your figures—and I think Allen, you mentioned these—are that it's costing you \$6.87 a tonne too much over that two-year period.

Mr. Allen Oberg: Yes, that's right.

Hon. Wayne Easter: So clearly, the bottom line is that the railways are gouging the farm community, and the government, for whatever reason, is not forcing the railways to comply with the original intent of the changes.

Mr. Allen Oberg: There's really no mechanism there for those efficiency gains to be passed back to farmers. In the previous system, where we had regular costing reviews, the railways were allowed to keep those efficiencies for four years. Then there would be a costing review and those efficiencies would be passed back to farmers by a new rate scale. But since we've had the revenue cap, there is no mechanism—

Hon. Wayne Easter: Your intent is that this costing review would in effect do that.

Mr. Allen Oberg: That's right.

The Chair: Mr. Easter, your time has expired.

Mr. Bellavance, for seven minutes.

[*Translation*]

Mr. André Bellavance: Thank you, Mr. Chairman.

Mr. Oberg, my questions are for you. First of all, the Canadian Wheat Board recently conducted some studies to determine how much railway companies make from handling grain and grain products. You did that for 2007-2008 and also for 2008-2009. The study shows that CN and CP made some hefty profits. No one is opposed to profitable railways. However, those profits should not be made at the expense of grain producers.

In 2007-2008, the firm that you dealt with evaluated profits at \$221.7 million. For the 2008-2009 crop year, it was \$383.5 million. You have shown us something interesting as well: that is a huge increase in revenue which is capped at 20% and which was deemed fair, equitable and acceptable under the Western Grain Transportation Act.

As I was saying, the idea is not to prevent the railways from being profitable; it is to ensure that agricultural producers are not the ones bearing the brunt of these staggering profits. And the 20% revenue cap has clearly been exceeded.

Mr. Oberg and Mr. Banack, you added your signatures to the letter sent by the Canadian Federation of Agriculture to Prime Minister Harper on this specific issue. Did you receive a reply from Mr. Harper to the letter written on June 30, 2010? If so, what was his reply?

• (0935)

[*English*]

Mr. Allen Oberg: We have raised the issue of a costing review with a number of elected officials. Minister Ritz initially was supportive. We have also met with Minister Strahl. His answer was that “when you get support from Minister Ritz perhaps we can look at a costing review”, but the answer has always been to wait until the service review is completed.

As to your specific question as to the reply from Prime Minister Harper, I'm unaware of what that reply said.

Mr. Humphrey Banack: I'm not sure of any reply from Prime Minister Harper either. I know that we did receive a reply from Minister Ritz and Minister Cannon, before Minister Strahl's time. Their answer was that they'd look at the possibility of conducting a review after the service review was complete. That's my best recollection of how this all turned out.

The commitment was that after the service review was complete they would consider looking at a costing review. That's why we're here today: to push that consideration forward.

[*Translation*]

Mr. André Bellavance: So they considered the possibility of doing so, but no commitment was made. I would like some additional details, Mr. Oberg. You talked about a complete cost review. The Canadian Wheat Board has already conducted a rather interesting study, which I addressed earlier in my preamble.

What are you looking for more specifically that you did not find in your own study, which was conducted by an independent firm? You are talking about a cost review, and you are asking for the government to get involved. What will that add to what you already have in your study?

[*English*]

Mr. Allen Oberg: A costing review would certainly reveal whether our numbers are reasonable or correct. We believe they are. This is the second time we've had Mr. Edsforth look at rail costing. This last report is actually an update of that. That's something a costing review would certainly reveal.

It seems that the railways don't want regulation, but they don't want competition either. As Mr. Banack said, back in 2000, in the Kroeger report, it was hoped that competitive factors would bring those efficiencies back to farmers. But when a competitive issue was brought forward for common running rights so that another carrier could provide competition on major rail lines, the railways lobbied against it. In fact, there was an application made to the CTA to allow for that and it was dismissed.

So in the absence of competitive factors, the only way to drive those efficiencies back to farmers is through regulation. A costing review would certainly achieve that.

• (0940)

Mr. Humphrey Banack: Further to that, the Edsforth studies provide what we believe is one side of the story. The costing review will allow a full telling of the story and will allow the railroads to step forward and put their side forward. This is viewed as a farmer-based study and, truly, it is: it's commissioned by farmers for western Canadian grain farmers. The full costing review will allow a full review of the whole system. The railroad will have its chance to justify its side of the equation. That's where we're at.

Can we guarantee that we're going to see a difference in cost of \$6.81? To be quite frank, no, we can't. That's where a full costing review is very important. I guess we're taking a long crapshoot of a look at things here. This may go against us. There is a possibility that this could come to a point in time where we may pay higher freight rates. But it is an approach that we are willing to take as western Canadian grain farmers, because, like I said, we want a full costing review, and we believe the full costing review will allow both sides to tell the entire story.

The Chair: You have 30 seconds, André.

[Translation]

Mr. André Bellavance: In your view, should the Western Grain Transportation Act be amended, or is it just that no one is doing the cost reviews as in the past? Should that be implemented or should the act be changed outright?

[English]

Mr. Allen Oberg: I think the legislation should be amended so that there would be regular costing reviews as part of the revenue cap formula.

Mr. André Bellavance: Okay,

The Chair: Thank you.

Mr. Atamanenko, you have seven minutes.

Mr. Alex Atamanenko (British Columbia Southern Interior, NDP): Gentlemen, I'll ask one question. Then I have a couple of points and I'd like your comments.

It would seem to me, if my understanding is correct, that right now when the railways don't deliver, the farmer is penalized. Due to unreliable service, you folks lost something like \$14 million because of everything that has to happen when that car isn't there. It's my understanding that the railways are not penalized if they don't deliver. Is that correct?

Would an immediate answer to part of the problem, then, be a reciprocal agreement, such that if the railway said it would deliver a car at a certain point in time and didn't, it would be penalized? In effect, one would hope that this would spur them to be more efficient. That's my first question.

I have a couple of communiqués from the National Farmers Union. In May of this year, one said that the major railways collect approximately \$1 billion in freight charges from farmers, yet the CTA has announced its approval of a 7% increase in the volume-related composite price index. So they're making this money, they've applied for a 7% increase, and they got it. At the same time, they're not becoming more efficient and you folks are paying out of pocket. I just wanted to comment on that.

The other thing is that it's not only the farmers who are having problems with these folks. I have a letter from the Forest Products Association of Canada. They say that for many years the forest products industry and other commodity shippers have endured poor service and high freight rates while awaiting legislative action to address the lack of competition in Canada's rail freight transportation system.

Then they refer to the panel's interim report, released on October 22, which contains a recommendation that the government delay any legislative or regulatory remedies until after 2013, at which time the government should undertake yet another assessment of the state of rail service in Canada, and after that assessment is complete, only then should any recommendations for regulatory change be considered. I think you alluded to that, Greg or Gordon, in your statement.

I would like some comments on those points, if you wouldn't mind.

Mr. Greg Cherewyk: To your first point on reciprocal penalties, I'll speak for a minute on the view of the Coalition of Rail Shippers. We're a member of that coalition. I'm not representing them today, but I want to tell you about some of the core principles that we put forward to the panel.

One was that there needs to be some form of a standard applied to service. They need to be performing according to a certain standard. If you're going to perform against a standard, you have to be measured against your effectiveness at delivering according to that standard. There's really no point in measuring for measurement's sake. We need to hold each other accountable for actually performing, and that comes through the form of a consequence for non-performance. Finally, we must have an agreed-upon, effective, and inexpensive dispute resolution mechanism.

But the key point was to be held accountable for performing at a level of service, by establishing consequences for non-performance, or what you called a penalty or a reciprocal penalty. This is a core principle that we put forward as a coalition. It's something that we as an industry association built into the concept and the solution that we put forward to the panel—absolutely.

The prop I usually have with me is a CP manual that shows 22 pages of what we call "behaviour modification tools". There's an action that every shipper must take, and if they don't take it, there's a charge associated with it. We're not asking for a reduction or an elimination of those charges; we're simply saying there has to be balance. If you commit to providing 10 cars on Tuesday the week before that Tuesday and you don't, and you don't provide advance notification, what is the consequence for not performing? And yes, there should be a financial consequence for non-performance.

To your second point, we, as well as the panel, have made the point that under current conditions, in an environment that lacks competition, the railways will ultimately focus on asset control or asset utilization and cost control to the detriment of providing good service. That really is the crux of the issue. We are not going to get anywhere until we address this fundamental problem. The panel concluded that the fundamental problem is lack of competition—it's market power—yet it does nothing to address that fundamental problem.

So yes, the panel must recommend and the government must act on that conclusion. If there is a lack of competition and there is no feasible way of increasing competition in rail freight service, we must address it by putting in place a policy framework that compels them to put service on the same plane as cost control and asset utilization.

On your last point about the Forest Products Association's letter to you and the reference to a review in 2013, that is the second part of the panel's conclusions that we take exception to. The first one was that nothing should be done: that they sure hope everybody gets along over the next little while and that at some point in the future someone else should come back and take a look at this. Also, they put forward a fairly ill-defined framework for a review in 2013, which government should look at to try to measure progress towards the objectives that we all have for improvements.

This process bothers us for a couple of reasons. One is that it's a point-in-time review. Anybody in the business community can understand the failures of a point-in-time review of progress. If Gordon told me he was going to appraise my performance next year and that if I did well according to certain criteria, I would never be subject to a performance appraisal again, I can tell you that my performance would suffer the year after. This is the type of thing we're worried about. There's nothing in place that puts forward some certainty for the business community beyond 2013 if you simply measure its ability to improve performance up to that point.

Second, if you're going to establish a review in 2013, it would seem logical that you put in place the system that will measure performance up to that point, yet they've recommended that the railways themselves monitor and measure their own performance and report on it. So we're putting the responsibility for measuring performance into the hands of those who are subjects of the measurement, which is another problem.

● (0945)

Mr. Alex Atamanenko: Do you have any comments, Humphrey?

Mr. Humphrey Banack: I'll make a quick comment.

I believe the western farm organizations are all members of the shippers' coalition—the Wheat Board is for sure—and we do support the rail costing and rail service review being done and the recommendations that are coming forward. We need to move this forward and we need regulation to do it.

Regarding the penalty-reward system being proposed here for the railways for good and bad service, we have to remember very carefully that the CTA, in its revenue cap, states that the revenue cap does not include “amounts paid by railway[s] as a performance penalty”. So if we put charges on the railways for non-performance, the revenue cap will not change; they're still going to get the same kind of money.

In the end, it's western Canadian farmers who will be paying those dollars. Is it just going to go from one pocket to the other? Are we just going to be saying yes, we're getting something back, but...? It's much like the freight rate incentives used to buy multi-car blocks today for dispatch by them.

We have to have regulation and we have to have work on both sides to move this forward properly.

● (0950)

The Chair: Just before we move on, Greg, if I could, I'll get you to enlarge on something.

You were talking about seven days. Let's say you got told on Friday the tenth that there were supposed to be 10 cars there on the

seventeenth. I can agree with and understand the fact that there has to be some kind of accountability and compensation if the railways don't have those cars there, but realistically, would it not be fair to say that they intend to have them there seven days in advance, but they give you maybe 24 hours, at the very least, if there is a problem...? Being a farmer, I know what it's like. Not everything runs on time all of the time, but it needs to run on time most of the time.

Could you comment on that? If you gave them a minimum of 24 hours, so that at noon on the Thursday they let you know, is that workable? Is that something that your two groups are willing to accept?

Mr. Greg Cherewyk: One of things that we put forward in our proposal was that you would provide a commitment to deliver cars on a specific day. There were two measures: the number of cars you committed, and the day. You would be held accountable for providing the cars that you committed to provide on the day you committed to provide them.

We also built in a separate measure that said there's a mean time to inform, so you must provide advance notice for any change to that plan. There would be a scale: if you provide advance notice 72 hours in advance, perhaps no penalty applies; if you provide it within 48 to 71 hours, one credit applies.

There's a sliding scale of consequences as you get closer and closer to the date, because as you get closer and closer, the cost for the shipper—from having grain spotted, from having bin space allocated to a certain crop—goes up, right? So yes, of course there's a way to look at being realistic about the realities of providing rail freight service—predictable rail freight service.

But I want to remind everybody that at the end of the day the contract the shipper has to meet doesn't provide for those kind of allowances. Customers don't get to say, “I understand you had problems with allocation of rail equipment” or “I understand you had a blizzard” or “I understand you had heavy rains”. They don't get to say, “I understand that the railways' transit time is excessively variable and that led to congestion at the port, and geez, I understand that transloaders were embargoed”. No, none of that happens. On the contract, the only thing that you're allowed lenience on is a strike.

The Chair: Okay.

Mr. Greg Cherewyk: So you do have penalties applied for not hitting your contractual window of obligation. Beyond that, the steep discounts that apply after you've exceeded those allowable dates are where the real costs are incurred.

So while I think it's reasonable to make some allowances for change and unanticipated problems, I think we also have to bear in mind that our shippers don't get those kinds of allowances.

The Chair: Thank you.

Mr. Hoback, you have seven minutes.

Mr. Randy Hoback (Prince Albert, CPC): Thank you, Chair.

I want to thank all of you for coming out here this morning.

The argument that I think a lot of people are struggling with is that of cost versus service. When you look at it, they are intertwined. There's no question about that. If you buy something from a discount store, you don't expect proper service or extreme service. Thus, when you pay a premium for a product, you expect premium service.

To try to find that balance depends on the product that you're shipping. If you're shipping a low-dollar, high-volume product, you don't really care about service. You just basically want to see it get to where it needs to get to, because you have so much volume going through the system that it doesn't matter.

But if you're dealing in lentils or something like that, service becomes a huge issue, because you have a key customer you're connected with who's expecting that product. I guess that's where I'm going to go with my questioning here.

Humphrey, you talked about this canola you have on the ground. That's costing you a pile of money when it's sitting on the ground, is it not? You're getting a tremendous amount of loss, I would think, by having that canola on the ground.

Mr. Humphrey Banack: Yes. Our operation has suffered huge losses for this. I mean, the loss is simply a loss on the ground; we're not going to be able to recover all of it.

Mr. Randy Hoback: You won't recover it.

Mr. Humphrey Banack: There are going to be grade and storage losses from it sitting outside instead of being binned properly. And it's time over money: I mean, this canola is contracted and priced on a September delivery. I should have had money in my pocket in September. I'm going to see December before I can see it. So the service is very important.

• (0955)

Mr. Randy Hoback: In that case, then, you'd probably give up 10¢ a bushel to get the service, would you not?

Mr. Humphrey Banack: Yes, sir, there is always that balance. That's where we're looking. It's simple balance, whether it's a cost review or a service fee, wherever we are.

When Greg addressed the thing about—

Mr. Randy Hoback: But regardless, if that canola does not move, it doesn't matter what the price per bushel is, it's gone. If it heats, if it goes on you, it's gone. If you don't have service, it doesn't help you to go to the bank and tell your banker that it's going to move sooner or later. If it heats in the midterm, it's gone. That's why I look at the service side of things as being very, very important. If you get the service right, it can offset a lot of costs.

Again, Greg, the number you used—about \$11 per tonne—is the cost of poor service. When I think about that, if I put that back to my farm, which is roughly 1,000 acres or 1,500 acres, that's roughly—I don't have a calculator—\$12,000 or \$15,000. If you multiply that across the system, that's huge. Now, if you compare it to what the Wheat Board is saying about \$6 a tonne, well, that's a smaller number.

I think when you look at the different products that are in the mix... On Wheat Board grains, you can look at them and say, well, they're lower-priced products. They're not high-value products like

canola, or lentils, or peas. What's more important when we look at the western Canadian industry? Is it to get the lentils, peas, and canola to market? Or the wheat? Because the reality is that wheat has become a byproduct. Farmers are growing wheat basically because of rotation; they're not growing it because it's paying the bills. That's what it's turned into.

So where do you concentrate? Where is the value in our industry as we look forward in the next 10 or 15 years? Is it to get a low-quality-of-service product moved to market or is it to get the high-value goods to market on time and get the premium for being able to deliver them in a proper fashion? That's the question I have.

Mr. Oberg, you talked about having a test—

Mr. Allen Oberg: Can I respond to that?

Mr. Randy Hoback: No, you can't. I only have seven minutes.

You said you did a study to get your \$6.81. In that study, did you look at what cost you are adding to the system by being involved in logistics?

Mr. Allen Oberg: Pardon me?

Mr. Randy Hoback: Did you look at what cost the Wheat Board is adding to the system by being involved in logistics?

Mr. Allen Oberg: We're not adding costs. We're actually saving.

Mr. Randy Hoback: Really? Are you sure? Are you sure you're not tying up cycle times?

Mr. Allen Oberg: No, actually—

Hon. Wayne Easter: Will you let the witness answer?

Could Randy give him time to answer?

Mr. Randy Hoback: Mr. Easter, you had your seven minutes.

Hon. Wayne Easter: You're interrupting the witness. Give him time to answer.

Mr. Randy Hoback: You're interrupting me.

Hon. Wayne Easter: I am. Yes, indeed.

Mr. Randy Hoback: You're always interrupting.

Hon. Wayne Easter: I am indeed.

Mr. Randy Hoback: Let me make my point.

The Chair: Order.

Mr. Brian Storseth: On a point of order, Mr. Chair, with due respect to Parliament and to the witnesses, I would hope that Mr. Easter's intervention doesn't take away from Mr. Hoback's time.

Mr. Randy Hoback: Thank you.

I guess I'm looking at... Mr. Oberg, if we're going to look at the system and we're going to look at how we get our product to market in the most efficient way, the Estey and Kroeger reports said you shouldn't even be involved in logistics.

In fact, they said that if you took possession at port it would severely reduce the costs in the system, actually create a system that would be more demand-driven, and allow the commercial contracts to happen between producers, between the elevator agents, and between the board.... It would take the farmers' risk out of the whole system, would it not?

Mr. Allen Oberg: I can tell you, Mr. Hoback, that the Canadian Wheat Board saves farmers millions of dollars in logistics every year.

Mr. Randy Hoback: Based on what?

Mr. Allen Oberg: By tendering to the grain companies, by our commercial agreements with terminal companies—

Mr. Randy Hoback: Based on what, though? At what cost? You say you're saving us money.

Hon. Wayne Easter: Are you going to let him answer?

Mr. Allen Oberg: In fact, the number last year was \$40.5 million. That's one of the great things about the Wheat Board—

Mr. Randy Hoback: Okay, but—

Mr. Allen Oberg: —that the size of our operation allows the logistics—

Mr. Randy Hoback: —what did it cost the lentil and canola guys for doing your logistics?

Mr. Allen Oberg: Mr. Chairman, do I have the floor or does Mr. Hoback have the floor?

Mr. Randy Hoback: I have the floor. It is my seven minutes.

What are you costing the canola sector and what are you costing the pulse sector, by being involved in logistics? Do you know what that number is?

Mr. Allen Oberg: One comment I'd like to make is that in the whole issue—

Mr. Randy Hoback: Do you know what that number is?

Mr. Allen Oberg: —cost and service—

A voice: I never—

Hon. Wayne Easter: Point of order, Mr. Chair.

Mr. Allen Oberg: —are two separate issues.

Hon. Wayne Easter: Mr. Chair, I have got a point of order. If it were us interrupting, you would interrupt us to say to give the witness time to answer.

Now, are you going to chair this meeting, or are you not?

An hon. member: Wayne—

The Chair: You look after your role here. We didn't interrupt the....

They had their 10 minutes, Mr. Hoback has his seven minutes, and you have your seven minutes however you want to use it—

Hon. Wayne Easter: And I don't interrupt the witnesses.

The Chair: Well, you're not going to interrupt Mr. Hoback either, so—

Hon. Wayne Easter: And you should chair the meeting. You should chair the meeting properly and be fair.

The Chair: We're being fair. It's his seven minutes.

Don't go there, Wayne.

Mr. Allen Oberg: Cost and service are two separate issues. I hear it being suggested—

Mr. Randy Hoback: You're exactly—

Mr. Allen Oberg: Let me finish. Let me have the floor, unless you want to have another question.

Mr. Randy Hoback: That's exactly right, though: cost and service are two separate issues.

Mr. Allen Oberg: That's right—

Mr. Randy Hoback: So you have to nail down the service you want. At what cost? We don't want a Belarus: we want something that's going to provide value.

● (1000)

Mr. Allen Oberg: This whole idea that if you pay higher freight rates you'll get better service is erroneous. We have 10 years of history to prove that. Freight rates have increased in the last 10 years. Has service gotten any better? Absolutely not.

As for this idea you're suggesting that if you have a higher-value product you should have a higher freight rate, I don't think farmers are going to buy that.

Mr. Randy Hoback: Actually, I'm not suggesting it. What I'm suggesting is that the farmers with the higher value product might be willing to pay a higher freight rate because they are more tied to the market and getting a reaction to get that premium. They might say they're willing to pay that 10 cents more a pound because they're going to make more money on that product.

Mr. Allen Oberg: But as history has shown, just because you have higher freight rates doesn't mean you get improved service.

Mr. Randy Hoback: Okay. That's fair.

Do I still have some time?

The Chair: You have half a minute.

Mr. Randy Hoback: I'm going to go back to Mr. Bacon.

When you look at the lentil sector or the pulse sector and stuff like that, what can we do as a committee that would help your industry in regard to rail?

Mr. Gordon Bacon: Well, there are the recommendations that Greg put forward in our presentation.

First of all, I would say that what can be acted on immediately are the measurements of rail performance that are important to shippers. This is not just what our community in pulse and special crops recommends; it's part of what the Coalition of Rail Shippers has said.

There are some important measurements, and I think government could be looking at ensuring we have an objective, fair, independent measure of those. Simply put the measurements out. Business to business will take a look at those and determine whether we're making the movement in the right direction.

That's the first thing that can be done without your even looking at regulations or legislative amendments. That would be my first comment. It's something that could be started right away.

The Chair: Thank you.

Mr. Eyking, for five minutes.

Hon. Mark Eyking: Thank you, Mr. Chair.

Just to start, I have to say that I'm very disappointed sometimes at how the government side, whatever challenges we face out west, always tries to blame them on the Wheat Board. It doesn't matter if it's rail or anything else. They try to make the Wheat Board responsible for anything that goes wrong out there. They probably even blame the bad weather on the Wheat Board.

So it's not surprising what happened here today, but I think we have to stay away from blaming the Wheat Board for everything bad that happens. But my question—

Mr. Brian Storseth: I take great—

The Chair: Make it a point of order.

Mr. Brian Storseth: I'm trying to be polite and wait for Mr. Eyking to finish his rant.

Mr. Chair, I take great umbrage with the fact that Mr. Eyking would insult western Canadian farmers with his comments about the weather and how we're looking to slough off—

Hon. Mark Eyking: No, it's you guys—

Mr. Brian Storseth: —the problems we've had. We've had real problems. We've had drought problems. We've had flood problems. We're having—

Hon. Mark Eyking: That's not a point of order.

Mr. Brian Storseth: —problems in the Peace River country.

You need to show more respect for western Canadian farmers.

The Chair: That's not a point of order, Mr. Storseth.

Go ahead, Mr. Eyking.

Hon. Mark Eyking: Thank you, Mr. Chair.

We have a big country. It's a northern country. We have a small population. With our transportation systems, sometimes it seems as if Air Canada and the rail companies almost have a monopoly.

As Canadians, we sometimes have to give them leeway because of their costs, I guess, but oftentimes, we get less service than our neighbours to the south. They have more competition, as maybe they have the economies of scale, and they get a better price.

What we see in the United States in the rail industry is that there's a lot of investment going into the rail industry there, especially out west. We had Warren Buffett and his investing companies putting a lot of money into rail service in the western United States.

Much of the time, we're trying to protect our ports and we're trying to protect our airports in keeping our east-west links happening. You talked about alternative competition for transportation in the Ukraine, the States, and Australia, which have their water very close.... It's not going to happen here. We have to use rail, which is a given for the foreseeable future.

Are there ways that we as government could encourage going through the U.S. more, for instance, and using their ports if our canola is going to Asia or our wheat is going to the Arab countries? Maybe that would result in more competition. Maybe that would smarten up our rail people. I don't know. I know it doesn't sound very Canadian, but at the end of the day, we have to compete with these other suppliers of grains. If we don't have the best transportation system available....

Are you people open to that? Is it possible to have more north-south shipping so that you would ship your grain through United States ports to get to your markets?

• (1005)

Mr. Allen Oberg: I certainly agree with your statements that western Canadian farmers are captive to rail. The distances are too great for trucking and we don't have access to a river system, so we're dependent on rail. The other factor is that on a percentage basis we export much larger amounts of grain than our American counterparts.

One thing that's happening in western Canada is that a large number of short lines are taking over some of that system. Providing some protection for those short-line operators so they can stay in business is something that government can do.

The other thing government can do is to protect what infrastructure still remains. People think that consolidation of the system is over, but it's still happening. Bit by bit, that precious infrastructure is being lost. Once it's gone, it's gone forever. That's another thing that I think governments can look toward doing.

Hon. Mark Eyking: Can you talk a little more about protecting some of the assets?

Mr. Allen Oberg: Sorry—on what?

Hon. Mark Eyking: You were talking about protecting some of the assets we have in Canada. Are you talking about the rail sidings and the short lines for farmers...?

Mr. Allen Oberg: One thing is that when a piece of rail line is to be abandoned, there's always salvage value that's part of it. One suggestion I've heard is to take the salvage out of the equation. So if that line ceased to operate, that would be fine, but the infrastructure would stay, and at some point in time, it might make economic sense to operate it again, especially with some of the environmental concerns that are becoming more and more present. That's one idea.

Another idea is that because short-line operators have to deal with the major railways for rates, some protections there to allow their viability might also be useful.

Hon. Mark Eyking: Does anybody else have a comment?

Mr. Humphrey Banack: As Allen said, in Alberta in particular, we have a short line running virtually from Calgary to Saskatoon that CN Rail is abandoning right now, the Lyalta to Oyen line. As for the value to those farmers, the farmers are trying to buy that line for \$19.1 million. It's a huge cost for farmers out there to pick up. I last met with them Thursday in Three Hills. The group doesn't know whether they'll be able to do this. This would be a huge amount of infrastructure being lost.

In 2009, CN abandoned 52 sidings in western Canada, and then they removed them. Fifty-two sidings removed: that's infrastructure that's removed from the rail system. We really believe that some of the processes involved with the abandonment of these sidings have to be changed, too. Costing and service are huge, but the loss of the infrastructure has absolutely another huge impact on our industry.

The Chair: Thank you.

Mr. Storseth, you have five minutes.

Mr. Brian Storseth: Thanks very much, Mr. Chair.

I don't have a lot of time, Mr. Banack, but I agree with you. That's not just infrastructure that's lost—that's infrastructure that we as Canadians paid for. But that's a different topic that we'll get on to.

I've done a lot of work on the shippers. As many of you know, I've met with many of you in the past on the shippers' bill of rights. But one of the things we're really losing sight of today is that it wasn't about the level-of-service reviews or costing reviews.

When we first came into it, the first step was legislation. It was Bill C-8 and the shippers' bill of rights that we put in place. The former government, the former parliamentary secretary, didn't even address that in Bill C-25 and Bill C-44 when they were in government. It didn't address half the issues. It didn't identify shipper service issues, disconnects, or railway shipper accountability. It didn't define solutions to address service and accountability issues.

I think we need to at least admit that we already took the first step in the last Parliament. Would you guys agree that Bill C-8 was a good step forward and triggered the level-of-service review?

Mr. Greg Cherewyk: We've been with the coalition since 2006, and Bill C-8 was the priority at the time. I think it's fair to say that the shipping community felt as though it made some compromises and concessions on the provisions that were included in Bill C-8 provided that there would be a rail freight service review, and the government lived up to that promise.

Mr. Brian Storseth: Mr. Banack.

Mr. Humphrey Banack: I would say the same thing. We welcomed Bill C-8. The changes it brought were very welcome in the industry. We're very supportive of the service review. We're waiting to see what the final report says in order to move forward.

•(1010)

Mr. Brian Storseth: As you know, when I was on the transport committee, I fought hand and fist to make sure that the level-of-service review was part of that. I met with dozens of shippers and hundreds of farmers over the course of the 24-page report that I did on this. We all agreed that the next step was a level-of-service review and that, if necessary, it needs to be followed by a costing review,

and that, if necessary, it needs to be followed with legislation. Do you guys agree with that?

I'll start with you, Mr. Cherewyk.

Mr. Greg Cherewyk: Yes, absolutely.

Mr. Brian Storseth: Mr. Banack.

Mr. Humphrey Banack: Yes, as the pulse growers said, maybe we need some legislation in the middle to address the service issues; before we wait for the end of the costing review to bring out one big lump, we should address the issues from the service review immediately.

Mr. Brian Storseth: But we all agree that the legislation kind of needs to be there in the ether if needed, in consultation with you guys. If needed, we can bring it forward. There may not at the end of the day be a need for it, but it certainly has to be there, and it has to be ready to go. Would you guys agree with that?

Mr. Allen Oberg: I think the two issues are separate. I don't think there's any reason why the cost review and the service review—which is nearly completed—couldn't be conducted at the same time, because they are separate issues.

Mr. Brian Storseth: I think that's a fair point, Mr. Oberg; it's just not the point that I heard from dozens of shippers during my review across western Canada and parts of central Ontario. But it is one point of view out there. It's just that within the shipping coalition I found it to be definitively the minority view.

I would like to go to the next point. I have a question on productivity, but I'll leave that for afterwards.

On the level-of-service review, I'll start with Pulse Canada. What's the most defining point that you want to see out of the level of service review? I know we're talking about costing, but level of service is important before we get to costing. What's the most important point that you want to see out of the report that the government moves forward on?

Mr. Greg Cherewyk: From the pulse industry's perspective, it is the fallback provisions included in section 6.4, and this relates back to your previous comment that we could keep legislation for some future point if needed.

I think what we're talking about is immediate drafting and enactment of fallback provisions that are truly fallback provisions. This is no different from CN entering negotiations with its labour union and going through the collective bargaining process, but always knowing that the tool, that back-to-work legislation tool, that fallback provision, exists, in case they don't reach the commercial agreement. That's what we're asking for. We need that in place now, immediately.

Mr. Brian Storseth: And from the Canadian Federation of Agriculture's perspective, Mr. Banack?

Mr. Humphrey Banack: Absolutely: that fallback is huge right now. We need that implemented soon. As for the three-year time period of commercial arrangement that the interim report alludes to, I don't think will work. It hasn't in the past. That immediate fallback to legislation is something that we look forward to the government moving forward with.

Mr. Brian Storseth: Thank you.

Thank you, gentlemen.

I do want to state that this government has shown that, first of all, the railways are Canadians' railways. We built them. They're our infrastructure. Second of all, I think we can move forward on this. This is something that I was originally critical of the government on, and that I stood up to them on, but they amended Bill C-8 in the fashion we wanted.

I'm confident that on the level-of-service review our minister and Minister Strahl will be there for western Canadian farmers and shippers again. I think it's important that we continue to have a good working relationship with the shippers' coalition and with everybody who's affected by this so that we can continue to move forward for farmers and for shippers across the country.

I thank you guys for coming.

The Chair: Thank you.

Mr. Bellavance, you have five minutes.

[*Translation*]

Mr. André Bellavance: Earlier, Marc talked about competition. There is no better remedy to discipline companies on costs than more competition.

However, it is clearly not easy for shippers, for example, to do business with U.S. railways, or to choose another mode of transportation that may well cost more. So that's a solution, but other railways cannot be pulled out of a hat. That is not easy.

As soon as the railways discovered that we would be discussing railway services, they wasted no time sending us a letter. I imagine that colleagues on the committee received the same letter I did. They told me that the sector is fully competitive. I'd like to share some of the points raised by the Railway Association of Canada to convince us that in the end, we don't need a cost review. I am somewhat suspicious when private companies tell me they do not want a cost review. Furthermore, we will not necessarily conclude that costs are too high as a result of the review. Companies don't know that yet. Or perhaps they already know the answer, and that is why they don't want the review to take place. I find it odd that people are opposing a cost review.

The Railway Association of Canada says that the Canadian market for rail rates is very competitive. It is referring, of course, to Canadian railways, but the association is also talking about U.S. railways. Have you had much opportunity to use U.S. railways?

They have also talked about trucking. Can shippers ship by road as easily as by rail?

They have talked about pipelines, but I assume that it must be rather difficult for grain producers to use these pipelines.

They talked about maritime transportation via the Great Lakes. I imagine that in western Canada, that doesn't really help you very much.

I would like to hear your views on how competitive the sector is. My question is for all of you.

Mr. Bacon.

● (1015)

[*English*]

Mr. Gordon Bacon: If you look at it from a shipper's perspective, whether it's someone loading lumber or pulses, you've built a facility along the rail line. That should be your lowest-cost option, because you're built to load out of that facility. I couldn't comment on the railways' comments about their competition, but if you take a look at a shipper that has built along one particular rail line, that's the kind of business-to-business performance and measurements of performance that I think we want to focus on. I think those are the kinds of measurement that we need to be talking about.

I would just come back again to one of the shippers' review findings that talks about how 75% of the orders were met 53% of the time. Is that something you would expect to see in a competitive environment? We have concerns with that. That's what we're really trying to address.

[*Translation*]

Mr. André Bellavance: Are there any other comments?

[*English*]

Mr. Humphrey Banack: When you talk about a competitive environment, I believe I heard at a meeting the other day that of the more than 200 terminals and grain elevators we have in western Canada, only five of them have access to both lines, where you can say there's competition. The vast majority have access to only one rail line.

On the numbers I quoted—that we're 40% behind in shipping at the local terminals—I got them from my terminal on the basis of anonymity. He said that if I stood here and said where I got those numbers his rail shipping would go backwards. It's very hard to have competition in areas like that when you're dealing with one shipper.

Mr. Greg Cherevyk: I want to re-emphasize what Gordon said. This review was about looking at the facts. We were supposed to break away from anecdotal evidence and shipper griping. When you see facts like 100% of the demand being met 49% of the time and 90% of car plans being met 12% to 28% of the time, you have to ask yourself if that is truly somebody who is competing for business.

I'll leave you with a quote from the former CEO and president of CN, who has largely been regarded as the one responsible for the new precision railroading model. This was in his book called *How We Work and Why*. It's an employee manual. He talks about the good old days of railroading here and says:

Their biggest operational constraints were geographic and climatic and in many cases customers were captive because the railroad was the only game in town. You either played by their rules, or you didn't play at all. Pricing of freight service was more a matter of extorting a cut of the customer's revenue than a negotiation of equals. Given the situation of low competition and high profitability, the railroads enjoyed the best of all worlds. Service was something the railroad provided more or less on its own terms.

When those conditions exist today, where the railroad's the only game in town and you either play by their rules or you don't, wouldn't you assume that the same outcomes would apply? That service would be provided "more or less on their own terms" and pricing of freight would be "more a matter of extorting a cut of the customer's revenue than a negotiation of equals"?

• (1020)

The Chair: Thank you.

Now I'll move to Mr. Lemieux for five minutes.

Mr. Pierre Lemieux: Thank you to the witnesses for being here.

This is an excellent discussion and certainly you're raising an excellent point, particularly with respect to service. I mean, even if there were no costs...if there were no service and no costs, it wouldn't make sense either. So definitely, the level of service and the costs are related.

I do agree with some of the comments that the service has to be guaranteed, has to be improved, and has to be more reliable, and then the costs figured out from that. There has to be a basic expectation that service will be delivered to our western farmers.

Now, there are two questions I want to ask. The first is on service.

I want to know, particularly from Greg, what specific recommendations you have about service and guaranteeing service. It's easy to say that we should have service legislation or a service model, but practically, I'd like to know what you think about that. Let's say the rail company says they're going to have 100 cars there, and they don't. Do you see that as, okay, we're just going to penalize them financially and therefore the farmer gets a better deal on his transportation rates? Or do you have something else to suggest to alleviate that problem with service? I'd like to know what your thoughts are on this solution-wise.

Mr. Greg Cherewyk: I've said that I've supported the fallback provisions of the panel, and their fallback provisions include our recommendation, so I'll speak to both of them at the same time.

The panel recommended in its fallback provisions that the railways provide advance notification of service changes. That was the first recommendation: that they would provide advance notification of changes to service that are affecting anybody, any of their stakeholders. The second was to enter service agreements with their customers. This was the recommendation we put forward.

Now, just to build on that and to give you some idea of what we're recommending, a service agreement is basically an agreement that defines the roles and responsibilities of both parties. It's a balanced agreement that says "these are the standards we both agree to adhere to". It says how they agree to measure their performance—their service effectiveness—against those standards; what their agreed-upon terms are and what the terms are of the consequences for non-performance; what they agree to do in order to communicate with

each other to manage problems; and what is their agreed-upon dispute resolution mechanism.

It's a service level agreement. Government has service level agreements. Microsoft has service level agreements. International and multinational logistics companies have them. They define the responsibilities of both parties. It's a contract, in effect, but it deals with service. This is what we're talking about.

In our case, for the pulse industry's service level agreement, we're not saying that you must meet 100% of my demand 100% of the time. What we're saying is this: you understand the constraints on your pipeline, you understand the seasonality of flows of coal and lumber, and you understand what's causing congestion at Vancouver at any given point in time.

We're saying, "I'm ordering 25 cars for next Thursday and you tell me what you can deliver". Based on that commitment, we will measure your performance. So the Friday before, when you issue your final service plan and it says that you will get 20 cars on Thursday, we'll hold you accountable for 20 cars—and on Thursday. That's the first measure we'll look at. Of course, there are still 22 pages of things that hold the shipper accountable for doing all kinds of good things that make the railways efficient.

We're saying that they will provide a commitment and we'll measure their performance against it. Second, if they're going to change that plan, and we know that it'll change, we are telling them what the standard is for informing us of that change and, again, what the consequences are for not informing us. Then, once we load and release the cars, we're telling them to provide us with an estimated time of arrival. This notion that we're not going to measure the effectiveness of our ETAs and that the computer logic will be faulty is unacceptable: improve the estimated times of arrival so that our members can plan and operate efficiently and their supply-chain stakeholders can also plan and operate efficiently. These are the types of things—

Mr. Pierre Lemieux: It's basically the same model. You're talking about, first of all, the responsibilities being balanced, and then there are performance measurements, and you want to measure from an agreed-to parameter.

• (1025)

Mr. Greg Cherewyk: At the facility level, we do, yes.

Mr. Pierre Lemieux: Right—it would be at a facility level. There's a dispute resolution process and there's advance notice. Those would be the key elements. Is there anything else that you would...?

Mr. Greg Cherewyk: Yes, well, these are the core elements of the service level agreement.

Continuing with what the panel has recommended, the third one is a dispute resolution process. We're wholly supportive of the dispute resolution process that the Canadian Fertilizer Institute has worked hard on since 2006, in negotiation with the railways, and in discussions with the government. We support a regulated dispute resolution process as recommended by the panel.

Mr. Pierre Lemieux: That would be dispute resolution between the farmer and the railway.

Mr. Greg Cherewyk: It would be between the shipper and the railway. It would be a regulated dispute resolution process.

Finally, there would be ongoing performance measurement, which, again, Gordon has stressed a number of times. This is where we deviate a bit from the panel. As a coalition, we've put forward an enhanced level of performance measurement, which would put it in the hands of an independent entity, not the railways, and ensure that performance measurement is done on an aggregate level across the nation.

Mr. Pierre Lemieux: Thanks.

The Chair: Thank you.

We'll go to Mr. Valeriote.

Mr. Francis Valeriote (Guelph, Lib.): Go ahead, Wayne.

Hon. Wayne Easter: I have one question first, Humphrey. You made the point earlier that if penalties were applied for non-compliance—let's say that the railways pay penalties for not having cars in place in time—the railways would in effect be protected by the railway cap, because it would only be trading dollars from within and that kind of thing. You also tied that to 50- or 100-car spots.

Can you expand on that? I think that is a critical question, because if penalties are applied, they should be penalties; they should not just get the money back in another way under the railway cap.

Mr. Humphrey Banack: Absolutely. I mean, what Greg said, his recommendations out of the service review...they're all recommendations followed I think across the grain industry in western Canada. The fact of the matter is that any charges to the railway for performance quality are not included under the railway cap, so there is no true financial loss to the railways; you can still hit that cap to move that grain. That would be very important to have. If it's going to be part of the legislation, we have to make sure that's coming out of the revenue cap. That's ultimately important.

Mr. Francis Valeriote: Allen and Humphrey, thank you for coming this morning.

I'm curious. You wrote a letter to the Prime Minister on June 30, 2010, that I think you referred to. I apologize for not being here at the beginning. I'm just wondering: who is part of the coalition and how many farmers do they represent who are calling for this cost review now?

Mr. Humphrey Banack: I can't say. I know there are three western farm organizations that represent farmers across western Canada, and then—

Mr. Francis Valeriote: Maybe Allen has an answer?

Mr. Humphrey Banack: —the National Farmers Union. They're all part of that coalition. We represent the same producers that the pulse group represents. We're both represented. I am a pulse producer and—

Mr. Francis Valeriote: But we don't know exact numbers?

Mr. Humphrey Banack: For exact numbers? I can't put a number right on that, no.

Mr. Francis Valeriote: Okay.

Greg, I'm just wondering. As you know, last year about this time we had the railway people up here, and I think everyone around this

table was somewhat discouraged with their responses. They closed down sites....comparing them, frankly, to a hamburger stand: they weren't making money, so shut 'em down. We were talking specifically about producer loading sites and the 50-odd sites they were planning to shut down. We even heard stories from people about how the cars are broken, they're losing grain, and the rail line takes no responsibility for it whatsoever.

You just gave a scathing indictment, Greg, in that quote about what the railways do to extort money from farmers who are price-takers now. I'm just curious: are you not kind of subscribing to them? Are you not letting them off the hook by you not demanding right now that there be a cost review? Why aren't you joining the others in demanding this cost review?

Mr. Greg Cherewyk: First of all, we're not saying that there doesn't need to be a costing review—that there's no merit in a costing review—

Mr. Francis Valeriote: Why not now?

Mr. Greg Cherewyk: It's simply an order of priorities. As I said earlier—I'm not sure if you were here—we have great expectations with respect to improved levels of service. We have huge expectations. We've just been through two years of the most exhaustive review ever conducted in this country on rail freight service. We have telephone books' worth of reports full of data that has undeniable and irrefutable evidence with respect to the level of service that's currently being provided.

It all points to one thing: put in place the policy framework that will ensure that service improves and that it meets the expectations of shippers. Get that done. Get that done first and then let's assess what the appropriate cost is for getting that done.

As I showed you, the costs of unreliable service are huge. They're enormous.

• (1030)

Mr. Francis Valeriote: Will you be joining those who are demanding a cost review if this level of performance isn't forthcoming? Within what period of time do you expect this level of astounding performance to arrive? You sound so optimistic. None of us on this side of the table, nor those to your right, are nearly as optimistic.

Mr. Gordon Bacon: Our organization has said from the beginning that we have to define the service expectation. We're well below what our members feel is reasonable. You have to define the level of service that railways are going to deliver. You cost that service. You measure it. So you cannot, in our view, take a look at costing a service that's underperforming. We need to define the performance level, and then the costs have to be appropriate, given the kind of structure we have with railways. It's in that order.

As Greg pointed out, this is not a difference of opinion. We all agree that we have to enhance the profitability. What we're talking about is the strategy to get there. We're saying to define service and then you can look at the costs to consistently deliver that level of service you've committed to.

The Chair: Thank you very much.

Mr. Richards, you have the last five minutes.

Mr. Blake Richards (Wild Rose, CPC): Thank you, Mr. Chair.

I just have one question. If I have any time remaining, I'm going to let Mr. Shipley ask a question or two as well.

Obviously there are a lot of challenges that farmers face, particularly new farmers who are trying to get into the industry now. If you really want to boil down the main challenge that farmers face nowadays—and I think we have all heard this, because I know I've heard it many times from farmers—it's simply a matter that the costs to do business have increased at rates that are a lot higher over the last, say, 30 or 40 years, than the prices that the farmers have been getting for their product. I guess that's what it really boils down to. When the cost goes up and the price doesn't, it obviously becomes harder and harder to do business.

We're talking about one of those issues here today. Rail costs are certainly one of the issues that farmers face, but I guess what I want to do is ask you to compare it to other issues. Certainly when we look at something like fertilizer costs, it's much the same kind of thing: you have a limited number of places where some of the inputs into fertilizer come from. Similarly with railways, when there's a lack of competition, costs can be driven up, and it's an issue that farmers have to deal with.

We can look at all kinds of issues. Costs for machinery and equipment and the cost of fuel, whatever it might be, have all increased at higher rates. Then, of course, when we're talking about our grain farmers in western Canada, particularly wheat and barley farmers, there is the fact that we have the Canadian Wheat Board monopoly, which also contributes being unable to get a higher price for the products when there are less customers available to them than there might be if they had the opportunity to choose freely. These are all things that I guess we'll call irritants, things that cause issues, whether it be the cost side or the price side that can affect a farmer's bottom line.

I think we all recognize that there's an issue here. We all recognize that there's an issue, whether it be service or costing. I want to get a sense from you where you feel that ranks, for lack of a better way of putting it, in terms of comparing it to some of the other issues, like fertilizer or the lack of competition, when we're talking about wheat and barley. Where does it sit in terms of a ranking, I guess, for lack of a better way of saying it, compared to some of the other issues you face?

• (1035)

Mr. Gordon Bacon: For our members, the number one issue is transportation, Number two is market access. These are the very visible issues that are creating cost inefficiencies and uncertainty. We're trying to create an environment in which we can be competitive on a global scale. Our members have said that those are the number one and number two issues.

Mr. Allen Oberg: For many farmers, the highest single cost they have would be rail transportation. Second to that, as you identified,

would be input costs. It's something that certainly needs to be addressed.

Let me talk just a bit about the acceptance of this issue. This is an issue among farmers—the need for a costing review—that spans political lines. You mentioned the Canadian Wheat Board in your comments. Farmers have different views on the board, but on a rail costing review, they're pretty much agreed. We survey producers every year. In our last survey, 92% of all farmers supported a costing review. This is something that has broad consensus.

Mr. Blake Richards: That's what I expected to hear: that railway issues are obviously right near the top or at the top.

Is there time? I'll give it to my colleague.

The Chair: You have about 20 seconds, Mr. Shipley.

Mr. Bev Shipley (Lambton—Kent—Middlesex, CPC): I have just a quick question. I thank my colleague.

First of all, Bill C-8 has been a huge step. In May 2006, it came in. This whole service and costing issue, I'm assuming, has been around for a long time, not just since then.

First of all, in any business, you can't determine costs without knowing the level of service. You just can't do that. So the process is right: you can't build your cost on bad service when you're talking about having a service report that's going to raise it. We're there to help you to do that.

Can you tell me, though, how long this servicing issue has been around? Greg?

Mr. Greg Cherewyk: Well, in our industry, when we go back to the beginnings of the pulse and special crops industry... You have to understand that it's 25 years old, really, and we went from bit player to big player. I think it's fair to say that in our industry within the last decade... When I look back on the minutes of the trade association's discussions on transportation, it has been a priority for at least a decade or more and it's gotten to the point where transportation committees have been struck. It's really since the kind of privatization era of CN that you start to see issues with respect to service.

Mr. Bev Shipley: Okay. Thanks, folks, for coming out.

The Chair: Thank you.

The time has expired. I'd like to again thank you gentlemen for coming in today.

We do have some business here that we have to go in camera for, so I'd ask people to please clear the room.

But before we do that, I'll say thanks again and wish all of you a very merry Christmas and all the best in 2011.

[Proceedings continue in camera]

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