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# **Standing Committee on Agriculture and Agri- Food**

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**EVIDENCE**

**Wednesday, April 2, 2014**

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**Chair**

**Mr. Bev Shipley**



## Standing Committee on Agriculture and Agri-Food

Wednesday, April 2, 2014

• (1530)

[English]

**The Chair (Mr. Bev Shipley (Lambton—Kent—Middlesex, CPC)):** I'd like to call the meeting to order.

We have witnesses before us.

It appears that the bells may go for half an hour at some point in time. If they do, we unfortunately will have to stop, do our voting, and then come back.

I want to welcome the witnesses as we continue to look at C-30, an act to amend the Canada Grain Act and the Canada Transportation Act and to provide for other measures.

We've just had a change. Apparently there will not be a vote, so we're good to go, I hope.

We have from the Canada Grains Council Mr. Richard Phillips, president; from the Canadian Federation of Agriculture Humphrey Banack, vice-president, and Garnet Etsell, executive of the British Columbia Agricultural Council; then, as an individual—I believe via video conference—we have Mr. Richard Gray of the University of Saskatchewan's bioresource policy, business, and economics department.

I want to welcome each of you.

We will start off with the Canadian Federation of Agriculture.

Mr. Banack, if you would, start for eight minutes, please.

**Mr. Humphrey Banack (Vice-President, Canadian Federation of Agriculture):** Thank you, Mr. Chair, and committee members.

The issue with the bells here is much like shipping grain in western Canada: it's on; it's off; you never really know what it's going to be doing right through the whole system. We start our trucks; we're going to deliver grain Monday. No, we're not; we're going to deliver it Tuesday. No, we're not....

It's wonderful to know that we are not the only people across this country who get our chains yanked on a regular basis.

My name is Humphrey Banack. I am the first vice-president of the Canadian Federation of Agriculture. With my wife, I operate a 4,500-acre third-generation grain farm in the Round Hill area of Alberta and crop about 3,800 acres of pulses, oilseeds, and coarse grains. The balance is leased to local beef producers.

I am pleased to be here today to speak on Bill C-30. I will be splitting my time with Garnet Etsell, a B.C. director of the Canadian

Federation of Agriculture, who will speak to you about the issues facing livestock producers who rely on our prairie grain to feed their livestock.

The Canadian Federation of Agriculture has created a crop transportation and logistics committee composed of crop producers and shippers in western Canada that will develop recommendations addressing not only the short-term transportation issues facing our farmers, but also lasting solutions that will strengthen the entire logistics chain. My presentation today reflects the views of that committee.

We have attended most of the committee hearings on this bill over the past several days, so there is no need for us to repeat what many of the witnesses who have appeared before the committee have already stated about the problems of inadequate rail service this winter for prairie crop farmers.

Also, for the record, the CFA fully endorses each recommendation made by the previous shipper and farmer representatives appearing before the committee on Bill C-30, especially those pertaining to service level agreements.

Instead, I'll bring the committee's attention to two areas that we feel need further discussion.

The first area is the extent of market power the railways exert on the crop supply chain. As the committee will recall, the government's Rail Service Review Panel stated:

There is no doubt that effective competition exists in some markets. However, based on a broad range of considerations, the Panel does not believe that the degree of *effective* competition is as extensive as the railways indicate.

Further, the panel states:

Based on the considerations discussed above, the Panel concludes that railways continue to have market power over some of their customers and that there are sectors and regions where competitive alternatives are limited or lacking altogether. This railway market power results in an imbalance in the commercial relationships between the railways and other stakeholders.

I raise this issue as it pertains to service level agreements between shippers and railways. Although the Fair Rail Freight Service Act enacted last year provides for shippers and railways to enter into service level contracts, given the market power railways enjoy there is little incentive for them to negotiate terms and service levels that fully meet the needs of shippers. The only recourse for shippers is a time-consuming and costly arbitration process through the Canadian Transportation Agency.

Despite the desire of both government and industry for a crop supply chain driven by commercial and competitive considerations, one is not possible, given the current market power exerted by railways in western grain transportation.

To remedy this situation, the Canadian Federation of Agriculture recommends that Bill C-30 contain provisions that compel railways and grain companies to enter into service level contracts that contain terms and performance measures that would reflect those that would be included in a truly competitive marketplace. We understand that the bill has accounted for this provision through establishment of future regulations. The CFA would be pleased to work with the committee and the government to develop regulations that meet the needs of the entire supply chain.

The second area I would like to address is producer car needs.

Producer cars are quite essential to the grain transportation system in Canada and provide farmers some good options to deliver their grain. The producer car gives farmers access to rail transport, but it also acts as a competitive cap on the basis levels that elevator companies can charge. The record number of producer car orders in 2013 demonstrates the importance of this avenue for prairie farmers.

However, the grain backlog has caused disruption in the system for producer cars as well. We feel that if Bill C-30 does not carry sufficient teeth to keep producer cars available and make the railways accountable for spotting of producer cars, they will be forgotten.

•(1535)

Bill C-30 also outlines the minimum weekly amount of grain CN and CP must move for the 2013-14 crop year, and the Canadian Transportation Agency, after consultation with railways and grain handlers, will recommend the minimum amounts of grain the railways must move thereafter. To ensure that the needs of the producer car users are met, the bill should be amended to ensure that producer car users are also consulted by the CTA before it makes its recommendations to the minister.

Over the past 20 years, to maintain their profitability, CN and CP have closed half the sidings where producers load cars, but at the expense of farmers. The events of this winter and spring demonstrate that the grain transportation infrastructure in western Canada is nearing or at capacity, and therefore producer car sites are ever more important. The government must place a moratorium on CN's and CP's ability to delist or close producer car sites, or western Canadian grain farmers' competitive situation will continue to worsen. In order to further increase capacity, the government must also designate sidings that are currently used for loading other commodities as eligible producer car loading sites.

I will now turn our presentation over to Garnet, and he will fill us in on—

**The Chair:** May I interrupt? We've had a change again. I see the lights are flashing, and so....

Actually, we can change our rules quicker than you can with moving grain, I think. We are a little ways away, and I know that you still have four and a half minutes.

Is it the wish of the committee to let Mr. Etsell finish, and then go?

Mr. Etsell, please.

**Mr. Garnet Etsell (Executive, British Columbia Agricultural Council, Canadian Federation of Agriculture):** My name is Garnet Etsell. Our family operates a turkey farm in the Fraser Valley of B.C. For 13 years I was also the chief financial officer of a group of agribusinesses in the Fraser Valley. The core company of that group was a feed mill serving the dairy and poultry industries.

It is indeed a pleasure to be able to present to you today. I want to echo Humphrey and applaud the government for taking a bold move to remedy the grain backlog situation we face. However, this move has brought unintended consequences.

I noted with some comfort that both Ministers Ritz and Raitt, when presenting to the committee on Monday, indicated that there would be no negative impacts on the government's initiative on other commodities. I have grave concerns with these statements. Minister Raitt acknowledged that the railways' best performance to date, prior to the introduction of the order in council, was 9,800 cars—last night we heard it was 9,500 cars—and 11,000 cars per week is the target contained in the order.

My concern is that the difference in cars will come at the expense of other commodities. All the discussion to date has focused on moving the grain backlog to export positions. What about the value-added livestock and milling sectors that need that grain to feed their animals and process grain through their mills? We have a \$2-billion livestock sector in B.C.'s Lower Mainland that is dependent upon prairie grain. Our volume demand is a constant 100 cars per week, 52 weeks of the year.

The livestock sector is currently dependent upon producer cars and shipments from smaller independent terminals, both of which have experienced challenges in getting adequate rail service. The big four grain companies are not currently taking any orders for domestic delivery, and with the order in council and now with Bill C-30, virtually all the effort on the part of the rail company is being focused on getting the grain to export positions.

To make up for this shortfall, it has been suggested that B.C. just truck the grain in. Firstly, it is questionable whether there is the trucking capacity to make up this shortfall. Secondly, trucking costs are \$40 to \$70 per tonne higher than shipping by rail. If B.C. started to resort to trucking its feed grain requirements, and if—and it's a big if—we could truck it all, it would cost the livestock sector an additional \$18 to \$34 million on an annual basis. On my farm alone, I would be paying \$114,000 more just for transportation costs. Clearly this is not tenable.

To quote Bob Dornan, who is secretary treasurer of the B.C. Animal Nutrition Association, the association all of the feed mills belong to, we need to:

expedite and facilitate a resolution to the issue of reliable rail service to the Fraser Valley before we find ourselves in an emergency situation where lack of...grain supply causes animal health and welfare issues, notwithstanding serious supply chain impacts at all levels.

In summary, ladies and gentlemen, it must be recognized that the Canadian domestic livestock sectors and milling sectors are facing a crisis as well, as we depend on reliable transportation of prairie grain. Therefore, it is our recommendation that Bill C-30 contain provisions that ensure that priority is given to Canadian feed grain and other value-added Canadian markets to ensure our continued viability.

Thank you.

• (1540)

**The Chair:** Thank you very much for your presentations.

I'm going to ask Mr. Phillips and Mr. Gray to stay around. We will be back after half an hour. We may need to have some discussion on how we're going to go forward tonight so that we can still get in as many presentations as possible.

With that, I will ask for a recess. We will be back as soon as we can.

• (1540)

\_\_\_\_\_ (Pause) \_\_\_\_\_

• (1710)

**The Chair:** I'd like to call the committee back to order after our break for votes.

Obviously we've had a significant change in some of our timetable. I want to thank all our witnesses. I know some have adjusted their schedules and their times so they could continue to participate on the panels, and I very much appreciate that.

And I know some have stayed. Mr. Richard Phillips is staying and some others have stepped out and are going to come back at 8:30. I think it indicates the significance of this bill and the desire for input. So you have a bit of an idea, it is now ten after five. I would like to run through this session. We brought our video group all together now so we will have four at this table. I would like to take it until twenty after six, that will give us time to switch over so we can get started with the next group close to 6:30.

So with that I'm going to go to our video first of all. I did introduce Dr. Richard Gray earlier and thank you, Dr. Gray, for sticking around. Also by video conference from Calgary, the Alberta Wheat Commission, we have Kevin Bender, the director; and from the Inland Terminal Association of Canada, Kevin Hursh, executive director.

So with that, I'm going to ask Dr. Gray if you would start off, please, sir. You have eight minutes.

**Mr. Richard Gray (Professor , University of Saskatchewan, Bioresource Policy, Business and Economics, As an Individual):** Thank you very much, Mr. Chairman, for the opportunity to speak to this group.

As for my background, I'm a professor of agricultural economics from the University of Saskatchewan; I've been there since 1990. Prior to that, I was a crop market analyst with the Saskatchewan Department of Agriculture. I remain involved in the family farm at

Indian Head, Saskatchewan, and on March 26, I helped host a grain handling and transportation summit in Saskatoon.

We find ourselves in a very difficult situation in western Canada. After a record crop of all grains in Canada of 90 million tons, we see farm stocks remaining high, we see cash prices are depressed relative to export values, and I think we're losing some of our reputation for being an international supplier of grains. It's very costly for the industry as a whole.

Moves to increase the level of service are vitally important for the industry. One of the things that we see in this, in terms of prices, is a dramatic increase in the difference between the west coast prices and prices in Saskatchewan. Right now there's a basis from Saskatchewan points to Portland of over \$200 a ton, which is about \$130 a ton more than what you would call regular tariff charges. Similarly, if you look at canola basis, including the crush margins, we see levels about \$160 higher than normal.

Unfortunately, it doesn't look like the situation is going to get better any time soon. With the large crop this year, we're going to have large ending stocks going into and adding to the next crop year. If it's a normal crop next year, it'll still leave us with abundant supplies a year later and so on. If we have above normal crops, this could persist for some time to come.

The increase in the basis between port prices and western Canada has created some rents. Some of those rents are going to producers that were fortunate enough to contract forward. Some of them are going to grain companies and processors and some of them are being paid into merge. It's having a profound impact on price levels and in particular, producer incomes for those who were either unable to or did not contract their prices ahead of time.

The one thing I wanted to add to the discussion was the need to address west coast capacity in the long run. If rail movement increases, the west coast capacity quickly becomes the bottleneck. The west coast is by far the cheapest route to the Pacific markets from all areas of western Canada, and from Brandon west it's also the cheapest route to Europe—excluding Churchill, which is small.

The west coast movement, unfortunately, hasn't exceeded 23 million tons historically, and there's a limited capacity to move west even though we have some demand. This demand for west coast capacity is going to increase in the future. Production has been trending up in western Canada because of the reduction in summer fallow, improvement in technologies, and improvement in soil quality because of the zero tillage. At the same time, we've seen a shift in the Pacific versus the Atlantic markets. We've seen a growth in the competition in the Atlantic coming from the Black Sea exporters and from South America. At the same time, we've seen it grow with an Asian demand. Our markets are west and if we can't ship west, we have to ship east all the way through to Panama or at least into a market where prices are depressed and that creates a real cost for western Canadian producers.

These are just back of the envelope calculations, but my calculations are that if we could provide sufficient west coast capacity, we could have about \$800 million in transport savings if we include all the basis all the way to the Atlantic and around, which is a lot and would have a profound long-term impact on reducing that basis. There are large potential benefits worth exploring.

In terms of policy to increase capacity, thinking about both of those issues, in terms of the revenue cap, I think it's important to improve it if we can.

• (1715)

One would be to do a costing review, which I think has been called for for a while.

Second, I would like to propose the notion of using a premium in the revenue cap during the three winter months. These are the months when the railways face higher costs, and to me it makes sense that the railways would in fact get, if you like, some degree of premium during those months within the formula to reflect those higher marginal costs. We need effective rail service requirements within that revenue cap and a mechanism to do that.

There's some need to re-establish some form of a grain transport authority, I believe—a book order or order-book process. If sellers want to place orders and they're filled, that works well when we don't have a capacity constraint, but once the system becomes backed up—several weeks in the case of this year—it becomes very difficult as to which orders are going to be filled first, and it becomes arbitrary decisions and not very well managed within the current mechanics. We need someone to sort that out.

I also think that we need some mechanism to share information across companies. They're probably not willing to share it with each other, but they might be able to share that with third parties so we make sure the shipments that have the highest priorities or are the most important are actually made, rather than just some arbitrary rules.

Third, we need much better information planning and logistics. I think we need a much better public forecasting system in western Canada. We should have bi-weekly forecasts by professional agrologists throughout the summer into the harvest period so we don't miss the mark by tens of millions of tonnes in the end.

I worry a little bit in Bill C-30 about setting the transport service levels at July 1. I think this is far too soon. At that point, we don't know whether we're going to have a devastating frost or we're going to above-average yields. It's just simply too early in the crop year, and having firm rules or a firm date fixed in the legislation could be a problem for planning. I think we need more flexibility and responsiveness instead of an early date.

I think we need better price reporting, and I would also argue that a west gate coast grain exchange would be very useful in providing more information. Part of it is to increase the physical capacity in the system at key bottlenecks. That includes existing terminals, new terminals, containerized systems, enhancing the rail, and obviously, some system-wide planning incentives and public incentives would help do that.

We need to increase competition in the system from end to end of the supply chain. This includes increased competition at the port terminals. That means perhaps new facilities and new players. I would also argue a “for sale” at Prince Rupert to a single buyer would inherently put another player in the system and make that facility more fully utilized.

On rail, I think the increased interswitching provisions are welcome. I'm not sure how they work in the legislation, but they're certainly welcome. I think the idea of a greater use of short lines is important as well. I think short lines have more surge capacity.

Finally, in terms of elevation and rail capacity, we need more refinements there, but maintaining producer cars may be important for the competition.

• (1720)

**The Chair:** I'm going to ask you to wrap up.

**Mr. Richard Gray:** Yes. Okay, just one last one.

Without long-run planning and action, basis levels will remain high, stifling farm income and national economic growth.

Thank you.

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

We'll now move to the Alberta Wheat Commission, Mr. Kevin Bender. You have eight minutes, Mr. Bender.

**Mr. Kevin Bender (Director, Alberta Wheat Commission):** Thank you, Mr. Chairman.

I'd like to thank the committee for inviting me to present on behalf of the Alberta Wheat Commission and the wheat farmers this commission represents.

Also here with me today are Jeff Jackson and Erin Gowriluk. Jeff is our marketing manager and interim operations manager, and Erin is our policy analyst.

I am also a director on the Cereals Canada board and at the Western Canadian Wheat Growers Association. As you can see, I like wheat.

I'm a director on this commission. I farm in the area around Bentley, Alberta, in west-central Alberta.

This year's transportation backlog has affected all commodities and has threatened Canada's brand and reputation as a consistent and reliable supplier. Bill C-30 is an important first step on the path to the long-term solutions required to build a sustainable and reliable rail transportation system in Canada.

We thank you for your actions so far and for this opportunity to speak to the regulations that will be developed as a result of the proposed legislation.

We join our shipping partners in seeking a more specific definition of “adequate and suitable” so that railway service obligations meet the transportation needs of the shipper within the context of the Canada Transportation Act. Adjustments are required to remove the ambiguity of these terms, and the definition should be adjusted to ensure that the transportation needs of the shipper are met.

Bill C-30 will build on the temporary provisions put in place as part of the order in council announced on March 7. One of these provisions is that if the railways are failing to perform, the Government of Canada may impose minimum volume requirements and fines of \$100,000 per day for failure to meet these obligations. However, this is just a prerequisite to move prairie grain and does not specify where that grain needs to go. More recently, we witnessed the rail companies’ refusal to provide service for shipments destined for the U.S., in order to move more grain to west coast port terminals.

In addition to international markets, the western Canadian wheat producers also rely on the domestic feed industry. The Animal Nutrition Association of Canada has expressed concerns over the shortage of railcars allocated to the movement of western grain to the B.C. Lower Mainland. All corridors are important, and a lost customer in the U.S. is just as costly as a lost customer in Asia, so in addition to the overall shipping requirement as specified in Bill C-30, there need to be corridor-specific guidelines as well. The input of the supply chain should be considered when setting corridor minimums.

Further to this point, we ask that the government consider increasing the daily penalties if movement does not improve and direct that revenue to programs that support shipping infrastructure, such as the Building Canada fund.

We also seek increased accountability through the inclusion of reciprocal penalties as a mandatory component of service level agreements. Currently, there are no service level agreements in place. The key reason for this is the railways’ refusal to include penalties if they fail to deliver on their contractual obligations. Without these penalties in place, there is no reason for a shipper to attempt to conclude a service level agreement. Railway tariffs impose set penalties on shippers if they fail to meet their contractual obligations; for example, loading and unloading cars within a specific timeframe. The regulatory package that follows Bill C-30 must ensure that penalties are also in place for railway non-performance.

For these reasons, we see this bill as an important step forward and we thank all parties for their willingness to expedite this legislation. The regulatory package that follows also needs rapid attention and we stand ready to be a constructive part of that discussion.

We emphasize the need for the Canadian Transportation Agency to immediately begin the capacity planning exercise for the 2014–15 shipping season and include shippers, carriers, and commodity groups in this process. In addition, it is very important to begin the review of the Canada Transportation Act as soon as possible. Long-term change is needed in this system that encourages an increase in capacity for all corridors.

Bill C-30 would require the Canadian Transportation Agency to become directly involved in grain logistics capacity planning. A key element of this role will be the dissemination of information on the supply of, and demand for, transportation services.

The Alberta Wheat Commission supports this new role for the agency. We emphasize the need for the Canadian Transportation Agency to immediately begin a capacity planning exercise for the 2014–15 shipping season. This planning process must include shippers, carriers, and commodity groups. We note that sales are being made into this time period and it is critical that shippers have an understanding of the capacity that might be available.

• (1725)

The Alberta Wheat Commission also wants to emphasize the need to gain certainty past 2016 when the provisions under Bill C-30 may sunset. This planning horizon for producers and shippers extends beyond a few months, and all participants in the value chain need to know what regulatory environment they will be functioning in at least a year in advance, if not more.

We commend the government for their recent efforts to grow the international marketplace for Canadian agriculture, more recently in the development of free trade agreements with the European Union and South Korea. Western Canadian producers are poised to meet the growing demands for their products, but we require an efficient transportation system to ensure that we can fulfill the demand and grow the Canadian economy. Canada's reputation as a consistent and reliable supplier of quality products requires an efficient and effective rail system that's committed to on-time deliveries to our valued customers across this country and around the world.

Canada is a country built on railways. In 1867 Canada was united by the promise of a transcontinental railway. Our growing infrastructure needs can be attributed to the growing demand for our quality products. Our international reputation was built over time and has required significant investment from a variety of stakeholders. We need to work together to protect that investment and respond to the growing demand for Canadian products.

Thank you.

**The Chair:** Thank you very much for your presentation, Mr. Bender.

Now I'll move to Mr. Kevin Hursh, from the Inland Terminal Association of Canada.

Mr. Hursh, you have eight minutes. Welcome.

**Mr. Kevin Hursh (Executive Director, Inland Terminal Association of Canada):** Thanks very much.

We really appreciate the opportunity to present the views of farmer-owned inland terminals.

ITAC, the Inland Terminal Association of Canada, represents the interests of seven grain terminal companies in Saskatchewan and Alberta, companies that are at least 50% farmer owned. The terminals typically handle 2.5 million tonnes per year of grains, oilseeds, and specialty crops and also have cleaning and drying capacity.

The seven ITAC members are: the South West Terminal near Gull Lake; the Gardiner Dam Terminal near Strongfield; the CMI Terminal near Naicam; the Prairie West Terminal in the Dodsland-Plenty area; the North West Terminal at Unity; the Great Sandhills Terminal near Leader; and Providence Grain Solutions, based in Fort Saskatchewan, Alberta.

We believe that farmer-owned terminals provide competitive choice for grain producers, both shareholders and non-shareholders.

On the proposed amendments to the Canada Grain Act, first I'd like to comment on the amendments to establish authorities in the Canadian Grain Commission to enable the regulation of mandatory grain contract provisions and regulate compensation paid by a grain company to a farmer if delivery date timelines are not honoured.

As details of these amendments are finalized, it's important to note that grain companies have extremely limited options for honouring delivery obligations when transportation logistics fail.

There have been complaints about the high basis deductions being charged by grain companies. Widening the basis and thereby dropping the price paid to producers for their grain is the traditional tool for discouraging deliveries when sales or logistics become limiting factors.

In the extreme circumstances encountered this crop year, producers still wanted to make sales despite record high basis deductions. Many companies had to resort to withdrawing bids altogether because they couldn't commit to more grain at any price.

Grain companies take no pleasure in wide basis levels, just as they take no pleasure in turning away business. While grain companies have faced unprecedented demurrages on waiting ships, as well as contract cancellation charges, most grain companies have not been as adversely affected financially as farmers. That's a function of grain companies being a margin-based business. Still, grain companies would much rather compete for grain instead of rationing throughput.

We ask that any mandatory contract provisions be fair and reasonable for grain companies as well as farmers, and that the lack of railway predictability is also taken into account. It's very difficult to be accountable to farmer customers when you have no idea of your future capacity.

Now, on the proposed measures for the Canada Transportation Act, we welcome the proposed continuation of minimum volume requirements for CN and CP Rail. However, that broad approach may have unintended negative consequences.

More cars are now arriving at Vancouver terminals, and that's a good thing, but cars are arriving out of sequence as the railways concentrate on low-hanging fruit—in other words, movement from the closest and easiest locations. This lack of coordination could make the west coast the next bottleneck in the system.

West coast movement is being prioritized at the expense of movement through southern and eastern corridors. The logistics system does not work very well when it's the railways deciding car movement based on meeting an overall target. Although we are unsure of the best solution, the system suffers terribly from a lack of communication and a lack of coordination.

ITAC members have serious concerns over the allocation of railcars to elevators. The railways have reverted to percentages of historical movement as a way to allocate railcars to grain companies. There is no transparency in the system, and as independent shippers there is no way to know whether we're getting our fair share of the railcar supply.

The extension of the interswitching distance from 30 kilometres to 160 kilometres seems like a good measure in theory. It will take some time to fully test its practical applications.

Grain shippers have been reluctant to open negotiations with railways on service level agreements. We welcome proposed amendments that would give the Canadian Transportation Agency the authority to regulate prescribed elements in arbitrated service level agreements, but we'd like to know specifically what those prescribed elements entail.

- (1730)

Some ITAC members are taking a serious look at service level agreements, but shippers across the country, both grain and other shippers, remain concerned by the lack of teeth in Bill C-52. There's no way to implement reciprocal penalties within the agreement if the railways refuse those measures.

As well, any fines that might conceivably be imposed against the railways by the Canadian Transportation Agency are payable to the Receiver General. If fines were paid instead to the aggrieved grain company suffering the lack of service, that could facilitate possible payments to farmer customers who may not have been able to deliver their grain within contractual timelines.

Attaining a service level agreement appears to be an adversarial process that will require a great deal of time and energy with a significant level of cost. In the end, will the benefits outweigh what will likely be a damaged business relationship? ITAC members also believe that after an SLA is established, there will be a need for an effective dispute settlement component that should include access to an appointed arbitrator.

Regarding additional measures, we welcome the commitment to collect more data from the railways and from all the other players in the logistics chain. This is vital to system improvements. Data needs to be as current as possible and it should be publicly accessible.

The accelerated review of the Canada Transportation Act is also welcomed.



In conclusion, it is ITAC's view that while immediate improvements in the grain transportation system are vital, it's also very important to make the changes that will move the industry along the path to sustainable, long-term solutions.

Thank you very much.

• (1735)

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

I will now move to Mr. Phillips from the Canada Grains Council, who's been very patient to wait for a couple of hours actually.

Mr. Phillips, you have eight minutes.

**Mr. Richard Phillips (President, Canada Grains Council):** Thank you.

I was actually asked if I could move it to 8:30 tonight, but my wife bought tickets to the play *Seeds* tonight and if I missed yet one more event with my wife, I don't want to have to send the bill for what that's going to cost me in jewellery and everything else back to this committee.

**Voices:** Oh, oh!

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

**Mr. Richard Phillips:** Thank you very much and thanks to my colleagues who spoke so well before I did.

The Canada Grains Council is made up of a number of councils. It's the Canola Council of Canada, the Flax Council of Canada, those commodity associations. It's also made up of general farm organizations: the Canadian Federation of Agriculture, with all of its provincial associations like Keystone Agricultural Producers in Manitoba, APAS in Saskatchewan, a broad range of them.

We also have farmer commodity associations. We have the Fédération des producteurs de cultures commerciales du Québec, which is the grain growers of Quebec. We have the Grain Farmers of Ontario, we have wheat commissions, wheat growers; we have barley commissions, barley growers. It's a really broad cross-section. We have the Canadian Seed Growers' Association. All the major grain companies in Canada belong to us. The entire flour milling industry and the entire Canadian baking industry belong to us. The canola crushing industry belongs to us, and we have all those exporters. Ports and railways belong to our membership. When I come here to speak for the Canada Grains Council, I'm speaking for the value chain from top to bottom.

Other members and other witnesses have provided many details on the shipping and other challenges they're facing out there. I want to focus on where we need to go for the future. We simply must have better forecasting and planning going forward, not just each spring for what the fall movement might look like, not just in the middle of July as to how the crop looks, and not just weekly or monthly forecasts.

We need to plan where are we going to be five years from today. Where are we going to be in agriculture 10 years from today? When we look in the west particularly, there's a huge change in the crop mix. We're seeing corn starting to come in across the prairies and there's going to be more of that. We're seeing more soybeans coming. When these crops come in, does that mean more volume or less

volume going out through Vancouver or south to other directions? Just the canola people alone: there are about 16 to 18 million tonnes of canola today; they're forecasting 26 million tonnes, an increase of almost 10 million tonnes within 10 years. That's seed and also processed canola for export. That's just canola.

On wheat, right now we produce 28 or 29 million tonnes. Where will we be in 10 years in tonnage on wheat? Barley, 8 to 9 million tonnes, where will that be in 10 years? Oats, 3 million tonnes; flax, half a million tonnes; soybeans, 5 million tonnes: how much more volume in each of these crops are we going to be producing in five or ten years from today, and just as importantly, what corridors are we going to ship on? Is this all going to go to Vancouver? Will some go to Prince Rupert? How much will be going to the United States? How much more could go out to Thunder Bay or to the Lower St. Lawrence, for example?

If we were to make those accurate projections just in agriculture—not the other commodities like lumber or coal—what bottlenecks will we face? Is it going to be the number of passing tracks we have in place? Is it going to be capacity on bridges? Is it going to be downtown Vancouver, for example? Will the grain terminals get backed up? Can they handle this extra 10, 20, or 30 million tonnes of grain that we might have out there? What about the car spots at the elevators? When I was with the United Grain Growers, we thought building a 25-car spot was pretty big business. Then we moved to 50-car spots. Then we went to 100-car spots. We wondered how we would ever do this. Now the railways are hauling up to 134 cars. In five or ten years from today is it going to be 134, 150, or 200 cars? Can we load these at the grain elevators and get them to ports? Can ports handle long-unit trains like that? This is the sort of stuff that we need to look out for five or ten years from today, and we have to start planning now as we go down that road.

We recognize that not all the grain can move at once. As Dr. Gray asked, what could we do to move more grain off-peak? There's a huge demand for four months of the year. What kind of incentives could be in place to move grain either before or after that peak season? How can we level those humps?

What role should government play as we look ahead on all of this? What can you do as government to help all of us? The reality is you can't regulate everything, and I think you're finding that right now. Every time you say we should regulate more grain to move down corridors, it's which corridor? Are we talking Minneapolis or Chicago? Each time you move into more regulation in the private sector, you find more and more that your fingers get snapped more and more too, even from the people who like you.

•(1740)

I think we as industry actually have to show more leadership, and I'm speaking on behalf of the grain sector here. At the Canada Grains Council, we have all these people at the table and I have to say we have not done a good job ourselves of sitting down and even working on this five- or ten-year forecast. It's taken this big wake-up call for us to start seriously thinking about what we could do rather than relying on government for everything. We have all those players there. We need to have that frank discussion. How much more grain do we need to move? Where is it going to move? How can we together increase that overall capacity in our system?

What government could do.... If the grain industry could show leadership and do that as a group and say, here's our forecast for flax, for wheat, for barley, for soybeans, for corn, for canola. If we can do all of that I think what needs to be done is... Where will the lumber be in five to ten years? What does the coal industry see five to ten years out? What are the mining and manufacturing industries going to be in five to ten years? I think government could maybe play a role in having all of us together then, not just the grain people, so we look at what the overall system capacity is, not just the grain, which has been problematic.

If everybody is planning on growing by five to ten million tonnes then we need a much bigger number than just grain in terms of looking at the bottlenecks. I think government could play a role in helping us sort that out as the overall shipping community.

At the end of the day we want Canada to be internationally competitive in the grain sector, and that means the right crop at the right time in the right place. This has all been a really big wake-up call. I think we're prepared to show a lot of leadership as the Canada Grains Council in trying to make these five- and ten-year plans. I know I've talked to both of the railways before I came here and I said, guys, you need to be at the table too.

I think the underpinning of the penalty system will help get people to the table, so I commend the government for the work and the direction they're going in, because we need that incentive to get people all at the table working with open hearts and open minds.

Thank you very much. I look forward to the questions.

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

Thank you very much, Mr. Phillips.

I appreciated everyone being fairly concise.

I'm going to also ask for our panel members in their questioning to stay fairly close. We've had some disruptions.

With that I will start with Mr. Allen from the NDP.

Five minutes, please.

**Mr. Malcolm Allen (Welland, NDP):** Thank you, Chair.

Thank you for your patience, all of you.

Perhaps, Professor Gray, I'll start with you because you went through a number of things and you have just come out of a week where you studied this issue with a group of other folks in Saskatchewan last Wednesday.

You called for a number of different things about capacity building, but it seems to me that this becomes a longer-term vision, and we're not about to get a port terminal built in time for the next crop year. I absolutely agree with you, if we have a regular crop we've still got somewhere between 20 and 25 million tonnes to carry out, which makes it actually an above-average crop if you get an average crop the next crop year, and perhaps even for the next two, depending on circumstances.

In the short term is there anything we can do, through either this legislation or some other methods, that actually helps us move this thing along?

Yes, Mr. Phillips is right, there are other players in the system that are looking for commodities to be moved. It's not just grain, but in this particular case it's grain that seems to have the biggest problem.

To you, sir, is there anything you see that we haven't looked at and we ought to be looking at?

•(1745)

**Mr. Richard Gray:** In the short run there isn't a lot that can be done other than making sure there is enough, if you like, rolling stock, etc., that the railways are making an effort with the resources they have. Other than increasing their incentives, there's not a lot we can do.

Basis levels could be made perhaps smaller. The less pain or the less pressure producers have to deliver, the smaller the basis will be, and you can reduce some of the pressure by better cash advantage, which I think has already been proposed, as well as perhaps some incentives maybe to store some of this grain; that would take some of the pressure off basis. Frankly, other than a short crop, there are not a lot of short-run solutions other than using the resources we have now the best we can, but I don't see a lot of magic fixes or silver bullets in the next six months.

**Mr. Malcolm Allen:** Perhaps, Mr. Hursh, I'll ask you the same thing in a sense.

Do you see it in the short run, from your perspective, because what I heard you say, if I'm correct—and if I didn't hear you correctly you can correct it for me—is that you were afraid the coordination was going to be such that we could literally jam up the port points if the railroaders decided to move the stuff at the wrong time, the wrong place, and we end up with a parking lot of ships that seemed as if we need a parking lot jockey to move them around. But the problem is it's \$10,000 every time you raise an anchor, and that's a heck of a lot of money for a car jockey who's moving ships.

Is there anything in that process you see that we could help you with the coordination? Because that's an immediate problem it seems to me.

**Mr. Kevin Hursh:** I'm hesitant to speak for the entire group but I think there is probably some place for a coordinating agency for railcar allocation and for movement.

At Richard's conference earlier this week, Perry Pellerin, who handles logistics for a number of the farmer-owned inland terminals, talked about a situation where there had been four ships at a port owned by a number of inland terminals and some private grain companies, Alliance Grain, that were only partially loaded, having had to move back out to anchor and then move back in because the railways weren't moving all of the cars in a timely manner.

He also talked about dwell times. After the railways finally spot cars, you've got a day to fill them up or you don't get your rail incentive. And then they sit there. In some cases they have sat at grain terminals for 300 hours before moving along to the west coast, and then maybe they don't all get there. Maybe that entire 100-car train doesn't get there. Half of it stops at Edmonton and they tack on something else, and when cars are arriving out of sequence and the grain is arriving out of sequence, it creates many problems and many bottlenecks in the system.

I wish I had solutions but it's a severe lack of coordination. I think that's something we can do without a lot of investment...the coordination of what we've already got in the system for resources, but beyond that, I think that the railways just didn't have enough resources dedicated to grain movement early on in the piece. Certainly they were hit with cold weather and a much larger crop but if you don't have the railcars allocated, if you don't have the locomotives in place, if you don't have the human resources in place, you're behind the eight ball. Why isn't there a system whereby the railways have to indicate how many resources they have committed to grain movement at any given point so that we can judge whether or not they've got adequate resources allocated?

Those are just a few ideas.

• (1750)

**The Chair:** We're going to go on. Thank you very much, Mr. Allen.

Next we will go to Mr. Lemieux for five minutes.

**Mr. Pierre Lemieux (Glengarry—Prescott—Russell, CPC):** Thank you very much, Chair.

And thank you to our witnesses for changing their schedules in order to accommodate these meetings.

I guess I'll echo a comment I made yesterday.

What I'm hearing generally from witnesses is that they support this legislation, Bill C-30, and what it sets out to accomplish. What I'm also hearing is that there is anticipation, hopeful anticipation, for a review of the act itself and of it being accelerated because there are a number of other issues that need to be tackled when that review actually happens.

I believe that's what I'm hearing from most of our witnesses, though I am also hearing about the idea of corridors, which has come up again. I want to echo a point I made last night, and that is that government legislative intervention in a matter like this is done on an urgent basis and we have to find that balance, right? That balance between setting targets that are achievable and that are measurable without getting into the details, because I think what Mr. Phillips said is absolutely right... The further down you go, the more

complicated it gets—it does not get clearer—and the unhappier people are.

I do want to pick up on a comment by Mr. Phillips about teamwork because I think that is the solution in a very great sense. What I'm hearing from witnesses is that they're anticipating that they will get almost no service while another grain commodity will get almost all the service, and then what will they do? But each commodity is saying the same thing, when in fact the reality is somewhere in between. Yes, grain will move. A lot of grain will move at 1 million metric tonnes a week, but we also have to allow the players and the system to work cooperatively to be able to respond to priorities. I did want to pick up on that because I thought that was a really key point, whereby the stakeholders work together to also manage the system because there is a sense of teamwork to it.

So let me just ask that question about corridors. I'm trying to remember exactly who mentioned it.

Were you in dead earnest when you wanted the government to legislate corridors and cars or tonnage per corridor, or were you just worried that your commodity might be underserved by having a global target of 1 million metric tonnes?

Kevin, was that you who brought that up?

**Mr. Kevin Hursh:** I think it was touched on by everybody involved but I do agree with other presenters that it's hard to regulate every detail on every corridor and you go further and further down into a hole of trying to regulate everything. But maybe having some broad outlines would be good. If it's a million tonnes of wheat that's all going to move to Vancouver in an uncoordinated fashion, that's not going to serve the system really well, so perhaps there's a place for a few subsets, some nod to the fact that not all of our grain goes west. We have domestic people who need grain. We have U.S. customers who need product. We've got oats that are \$3 a bushel more valuable in the U.S. than they are in Canada because we can't get them there.

There's a number of problems with setting just a broad overall target. I wish I had better solutions. I would think that it might be useful to try to set the targets for corridors rather than just setting an overall movement target. I think there might be some advantage in that.

**Mr. Pierre Lemieux:** All right, Mr. Phillips, you represent, like you said, a large spectrum of stakeholders, so perhaps you might comment on that?

**Mr. Richard Phillips:** I think what Kevin's getting at is that we do have customers everywhere and whether the broad target...the railways will work within that. I think if you've got the penalties underpinning all of this, which is what you're putting in place, I'm optimistic that the grain will move where it needs to go and there will be increased coordination.

I would say that before you brought in the legislation, I think Kevin is right, you probably had no negotiating power. I think shippers are feeling that with this legislation, they will have a little bit more power now to try to negotiate where the grain goes.

I don't know how much further you want to go than that, but I think we've got the basis here to level the negotiating field somewhat better.

**Mr. Pierre Lemieux:** All right, thank you, Chair.

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

Now we will go to Mr. Eyking, five minutes please.

• (1755)

**Hon. Mark Eyking (Sydney—Victoria, Lib.):** Thank you, Chair and guests.

As Liberals, we only have five minutes and I have four guests here. I have a few questions, so if you can keep the answers really short. I'd like to just touch on this corridor issue because we heard from the British Columbia farmers in Fraser Valley. I think it's a billion-dollar industry there. They say they're within a day's supply of grain.

I think to you, Mr. Bender, you were talking about the corridor solution. Should the farmers have some say in this—the farmers receiving grain who are not getting enough grain—in this mechanism of somehow having an input to make sure the corridor works well for them?

**Mr. Kevin Bender:** I agree in that I think all players need to be participants in that. Mr. Phillips already mentioned it. Those who are affected, they should have a say in that. I mentioned ANAC, the Animal Nutrition Association. I believe that we ship about 800,00 tonnes of feed grains to them every year. So that's a key market for us, but as well, if they don't get the feed, their animals go hungry. So it's a big issue: as big an issue or bigger for them than it is for us. So I agree that everybody's got to be participating in that discussion.

**Hon. Mark Eyking:** Thank you very much.

I'm going to move over to you, Mr. Gray. You mentioned a couple of very interesting things on long-term vision. You said it's very important that we do a costing review and the other thing you alluded to is that we need some sort of grain transport authority, kind of a watchdog overall. Looking at the big picture for the long run, can you kind of add to that what your comments were on both those issues?

**Mr. Richard Gray:** Yes, in terms of a grain transport authority, it's not that we need to have government saying how to move grain all of the time. But I do think when we get a backlog like the current situation, there are no longer any contractual instruments that work very well. We've got a bunch of contracts that are now overdue and it's really up to the railways as to who ships grain where. That's not working very well. We can't identify the buyers who need it the most or the sellers who need to make that contract: there's a bunch of information that's missing out of that equation.

I basically see a grain transport authority being able to step into those situations and help put together the grain with the highest demand to actually make it work, but I wouldn't see them operating on it. When there is enough capacity and the grain is moving well, I think it would probably work just fine without them, but at least having that information to step in would be really important.

Sorry, what was the second part?

**Hon. Mark Eyking:** You mentioned how important a costing review would be right now.

**Mr. Richard Gray:** It's been a long time since there has been a costing review with the regulation within the revenue cap. Going

forward to make sure the right elements are costed correctly, it would make sense to actually do a costing review to make sure the incentives are there, the railways get fairly compensated for what they move, and that over time the technological improvements are reflected in the cost, because it's important to be competitive in the long run.

**Hon. Mark Eyking:** Thank you.

My next question is for Mr. Phillips. You mentioned quite a few times looking at the long term. This bill is really kind of a band-aid and it's only short term. So what do you think we should be doing more with this bill to make it long term? Whatever it's going to do in the next year and a half, should this committee and the present government be looking at what's down the road 10 to 20 years as soon as this bill is done?

**Mr. Richard Phillips:** I think we have to take responsibility in our industry to do that long-term look. I think we're the ones who need to sit down as an industry with each of those commodity councils: the Canola Council, the Flax Council, the Barley Council, the wheat council, the corn council, and the soybean council. I think we need to sit down and ask what are the realistic tonnages that we anticipate growing. Yields are going up in all of these crops, so where are we going to be in five years? Where are we going to be in 10 years?

Then, realistically, with the grain companies and the exporters, we need to ask them where they are going to sell this grain. Is it to the United States? What are they going to do with all this corn that we grow in the Prairies? Is it actually going to be exported? Are they—

**Hon. Mark Eyking:** On that, how can government help facilitate where you think your industry should be going?

**Mr. Richard Phillips:** We actually have a group called the Grains Roundtable, just like there's a beef round table. That's actually in place. I think that we have just woken up and we just need to get working as an industry. This has been a big wake-up call for us. I think we can start on that.

Just leave the hand open and say, "If you guys need help from us, come and ask." Right now, I don't have any specific asks of you. I think the ball's in our court to get working on this right now.

• (1800)

**Hon. Mark Eyking:** Do I have any more time there, Chair?

**The Chair:** You are.... Thank you for reminding me. You're out of time.

**Voices:** Oh, oh!

**The Chair:** Your questions were so good that I was writing down the answers, Mark.

I will now be going to Mr. Zimmer for five minutes.

**Mr. Bob Zimmer (Prince George—Peace River, CPC):** I had better use my time wisely.

I want to talk specifically to Kevin Hursh. We had CN and Mr. Claude Mongeau here last night. In part of his comments, he chided us a little bit on our regulations and the fines we're imposing to increase his level of service. He blamed.... He said that it's not just a rail problem, it's a terminal problem, and he said that very soon terminals would be at maximum capacity anyway and this was really unnecessary.

Is this true? Can you confirm that you're almost at maximum capacity now?

**Mr. Kevin Hursh:** I'm not sure whether Mr. Mongeau was talking about elevator capacity in the country or port terminal capacity. I would see the next bottleneck potentially being port terminal capacity, particularly in Vancouver.

I think we need to know where that capacity is. We need to push the railways to get product there so we can see where we're at with port terminal capacity and then decide whether in the longer term we need to do some improvements. But as I mentioned, we need grain there in a coordinated fashion to give that a fair chance.

**Mr. Bob Zimmer:** Yes, Kevin, but can I just specify? It is port terminal capacity, but I'm also asking you specifically: are you at maximum capacity now or do you still have more capacity available?

**Mr. Kevin Hursh:** There is one port that is owned or partially owned by Inland Terminals. That's Alliance Grain. I think they feel, as I believe, that considerably more capacity of grain can come forward in a coordinated fashion.

**Mr. Bob Zimmer:** Do you have a quantity, a number?

**Mr. Kevin Hursh:** I'm sorry. No, I don't.

**Mr. Bob Zimmer:** Mr. Mongeau said that 11,000 would likely be the capacity of our ports. I just wanted to check to see if he was accurate in that number, if that was the maximum capacity.

**Mr. Kevin Hursh:** Well, he had better not be. If that's the maximum capacity, we're in serious trouble, especially if we're looking at all the ports and Thunder Bay opening soon, and we should be getting southern movement going as well.

I think there is more capacity than that. We heard from grain handlers and the grain handlers union at Richard's conference earlier in the week. He seemed to indicate that there was considerably more capacity that could be utilized with longer shifts and better coordination.

**Mr. Bob Zimmer:** Thank you.

My next question is for Richard Phillips.

I liked what you said when you said that this isn't just about what government can do and that you want to fix this yourselves. That's refreshing for us to hear. That's a very Conservative mindset. We support you in that. We also agree with you in that we think a penalty was necessary to cause rail to come to the table to provide a fix. We think that was the necessary stick, as they call it, to make that happen.

But we also see this—or I see this—as a longer-term problem in logistical issues across Canada. Our minister has said we are doing a study to see what the long-term issue is with logistics. I guess it's a big answer. What do you see as the future, as the plan five and ten

years out? In your mind, what should it be for our rail logistics issues in Canada? That encompasses all commodities, right? It's a bigger issue than just grain, as you know. Could you comment?

**Mr. Richard Phillips:** Well, I think that on the grain side we will get organized. We will pull ourselves together. We will make our five-to-ten-year targets.

I'm not sure if all the other commodity shippers will do the same thing without some encouragement. I think that's a role for government. It's to make sure that the mining industry.... Whether you pull together a national round table of all the shippers or whatever mechanism you use, I think we need to get everybody doing that. On the grain side, I'm actually fairly confident that we will get everybody at the table saying, "Okay, where are you going to be in five years and where are you going to be in ten years?"

From that—because it's not just the volumes—we'll then ask what the actual bottlenecks are. Is it the car spots at the grain elevators? Is it that passing tracks aren't going to be long enough if they keep making trains longer? Where's that all going to happen? Is it all in the Vancouver terminals? Is it somewhere else? That's where we need to go with this. We need to know what those tonnages are and what mix of grains is going so that we can then ask, "Where will the problems be?"

**Mr. Bob Zimmer:** Right.

Let me speak to all of you, and whoever has the answer can respond. We've heard over and over that coordination is necessary, but I guess what we need to wrap our heads around is how to do it. Who is going to be responsible for that coordination?

Give me some ideas on how you see that happening. We all talk about it, but somebody eventually has to be the chair and push this thing to get it done. So just give some suggestions. Please speak out, if you have an answer.

● (1805)

**Mr. Richard Phillips:** I'll go first, and then I see Richard Gray also reaching for the microphone.

We in the Canada Grains Council have everybody in the tent already. I think our organization needs to show a lot of leadership. There is one suggestion. Maybe the others have other thoughts on who else could do it.

I'm not sure that creating yet another round table is the answer. I think we need to try tackling this internally by ourselves first. That's not just a conservative view. It's a good socialism kind of thing—

**Some hon. members:** Oh, oh!

**Mr. Richard Phillips:** —that feeling of getting together and working as a group.

**Mr. Bob Zimmer:** Don't say that. That was good, until then.

Go ahead.

**Mr. Richard Gray:** When it comes to logistics, I think it's important to have a third party with which information can be safely shared. Whether that institution reports to government or reports to industry or producers is somehow, I think, a different issue. But it has to be a third party that basically can keep what Glencore's sales are separate from Cargill's sales, but still be aware what the requirements are to put together a plan.

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

Now we'll go to Madam Brousseau for five minutes, please.

**Ms. Ruth Ellen Brousseau (Berthier—Maskinongé, NDP):** Thank you, Mr. Chair.

I'd like to once again thank the witnesses for being here and for being so understanding of the restraints and changes we've had here at the last minute.

Some issues and points have been brought up that have been reoccurring with our witnesses. Some of the things we have asked for are increased fines, mechanisms for actually compensating farmers, increasing the grain that must be shipped, providing clear and concise timelines for implementing these measures, joint running rights, and mandatory price reporting for more transparency.

We support this bill, but we have some concerns about it. It's the timing of these regulatory changes, and also the fact that there is no compensation. I'm hoping we can all work together to make this the best piece of legislation it could be.

So I wonder whether we could do a quick round with all of our witnesses so that they could comment on what they would like to see in the bill, on whether there is anything missing, and indicate whether they have any amendments, perhaps on the regulatory side, or something they want to see legislated in this bill.

**The Chair:** We'll start off with Mr. Bender, then go to Mr. Gray, then Mr. Hursh, and then we'll go to Mr. Phillips.

**Mr. Kevin Bender:** Thank you, Ms. Brousseau.

Going to the points I outlined earlier, we want the corridor-specific requirement—we don't want anybody left out—so that there is no preference given to an alleyway that's easier to deliver to.

Again, we want a reference to the penalty for lack of service or non-performance. It's our desire, I guess, that this penalty not actually be used, but that it be a deterrent, so that the service would be there. As Mr. Phillips pointed out, it would mainly be just an underpinning, so the penalty would be in place to encourage the railways to provide the service. We hope it wouldn't have to get to that, but it would be there if needed.

I'll defer to one of my colleagues. I don't have all of my points right at the top of my head.

**The Chair:** Mr. Gray.

**Mr. Richard Gray:** If I were going to just add one, it would be that better forecasting is absolutely essential. Forecasts have been dismal the last two years. I think we have to do a lot better job at that. It's quite easy to commit just a few resources and do a very good job of it publicly.

**The Chair:** Mr. Hursh.

**Mr. Kevin Hursh:** Picking up on Richard's last point, it's pretty easy to forecast what 2014-15 is going to look like, with 20 million to 25 million tonnes of carry-out, even given an average crop. So unless we have a huge drought evident, in June we're going to know that we're going to have a hell of a pile of grain to move. I think it would be reasonable to ask the railways how many resources they have dedicated to doing this and what their plan is.

And I think that within commercial arrangements we need reciprocal penalties. Right now there are penalties for the grain handlers and shippers if they can't fill railcars within a day, but there are no reciprocal penalties the other way, and that's what service level agreements are meant to sort out. There will be some trouble getting there with the service level agreements, unfortunately.

• (1810)

**The Chair:** Mr. Phillips.

**Mr. Richard Phillips:** Just following up on the forecasting part, I would say it's very true about the forecasting even within that current year. Maybe one thing we should look at is who will do this forecasting and get this data? Is there a bigger role for Statistics Canada to play, for example, in getting some of that data, or are we just relying on the private grain companies to supply this data publicly, which actually will be more challenging to get?

I think we need to look at where we can get that data from on a timely basis. Maybe StatsCan or some other body could provide some of that.

**Ms. Ruth Ellen Brousseau:** Thank you.

**The Chair:** You can ask another quick question.

**Ms. Ruth Ellen Brousseau:** I'm okay. Thanks.

**The Chair:** Thank you.

Mr. Dreeshen, you have five minutes, please.

**Mr. Earl Dreeshen (Red Deer, CPC):** Thank you very much, Mr. Chair.

There are just a couple of things I want to go through. One part has to do with the car allocations per corridor. Of course when we had CN and CP here, one of the things they were saying was that there's a concern about some of the other shippers and whether or not we'll be able to deliver with them. But of course the numbers they came up with, the 11,000, were their numbers, and it's what they said they could manage. They also said it's going to take six months' lead time in order to be able to meet any other forecasts.

So I think it's important they have the six months. They have a chance to take a look at what other shippers will need. I think we shouldn't get ourselves caught up in that, because I think that's important.

This also looks at the terminal capacity. I believe they've also talked about what they are going to ship down each of these corridors. It isn't a case of them just picking numbers up. I think some people were fearing that what was going to happen was that they were just going to plug one of the ports, but that isn't what they said they were going to do. I think if any of you start to see that something like that is happening, certainly whoever it is looking at the logistics side of things has to take that into consideration.

The second point I want to talk about is the analysis of the delivery contracts. A lot has been said about the issues that take place and about the losses that are there. Most of what we have of course are now late deliveries on contracts that were perhaps made in November but they're not being looked at until February.

There are these great increased and spread-out bases we're looking at. However, the only people who are being caught up with those are the ones who are being forced to sell at this point in time. I can't remember who mentioned it, but certainly the advance program is something that's critical. We've finished off the fall advance now, and we're just looking at the spring advance to kind of make sure that if we're concerned about the cash flow that is associated with it, at least there is that option to buy in and to make contracts at different times. That doesn't change the fact that you need to make sure things are moving properly.

To finally get around to the question, I believe, Kevin Bender, you talked about the definitions of "adequate" and "suitable" and all of these types of things. I wonder if you could give us some thoughts on this. I know you wanted to see more specificity as far as those terms were concerned.

Perhaps we could start with that, and then maybe we could get some thoughts from others, if there's time, on some of these other issues I've brought up.

**Mr. Kevin Bender:** The terms "adequate" and "suitable" we just felt were far too vague. They're too open to interpretation. We're asking for those to be made more specific so that there's more definition applied to those, to make them specific to what the needs are for meeting the shippers.

**Mr. Earl Dreeshen:** Perhaps we could just go on to another issue that's been talked about, and that's interswitching.

Perhaps Inland Terminals could talk a little bit about how interswitching might affect your system.

**Mr. Kevin Hursh:** I think there's still a great deal of a learning curve to know how and whether interswitching will make a big difference. I think there probably would be some occasions where there's an interswitching point that will allow southern movement into the U.S. that might not have otherwise been as possible. There might be an applicability.

I did talk specifically to South West Terminal at Gull Lake about this. They noted that Moose Jaw was their interswitching point to go south, and it's 175 kilometres away rather than 160, so they wondered whether they'd be able to access it.

Another concern I have personally is that now you're trying to coordinate two railways when you have difficulty enough trying to coordinate one railway. How exactly is that going to work? Plus the interswitching charges I believe are yet to be determined, and that will play into the equation as well.

So in theory, good; in practice, it may have much more limited application.

•(1815)

**Mr. Earl Dreeshen:** Richard, perhaps you could weigh in on some of these. Again, you're the one who is with groups and

organizations that have to put all these metrics together, so I'm just wondering if you could add to that.

Of course, Quorum is going to be taking a look at some of the issues there.

Could you perhaps put that together for us?

**Mr. Richard Phillips:** Yes, to make good decisions, you need good information. Pulse Canada has a contract to do a bunch of that research to determine the metrics and measure things. I think that sort of work is absolutely key, and the government has funded a project for that. That is very welcome because without that, we're all just speculating on what we're going to be.

I do know that the Americans are always watching us closely too, and they actually report far more information as to what's going on in their ports than what we do in Canada, and they're always asking why we are so secretive. So there may be a role for government to get into that overall piece that Richard Gray talked about, where there has to be a neutral place for that information to go, because individual companies will not disclose their sales on a basis like that. It would have to go through some neutral body.

Good information equals good decisions.

**The Chair:** Thank you very much. We appreciate that.

We'll move now to Mr. Allen for five minutes.

**Mr. Malcolm Allen:** Thank you, Chair.

Professor Gray, you actually were looking to make another comment toward the end of my colleague Ruth Ellen's comments. At least I thought you were indicating that you were trying to make another comment, so I'm actually just going back to you.

**Mr. Richard Gray:** Okay, that's good.

I actually have to leave pretty quickly. They need the equipment for a class.

I just wanted to mention with respect to forecasting that often forecasting is a collective opinion of farmers gazing at their crops. We actually need professional agrologists who know what they are doing when it comes to estimating crops, and they need to do it systematically. I don't think what we've spent now is adequate.

That's all I was going to say. We actually need to hire perhaps agrologists to spend two days a week every second week or something like that, across different regions of the Prairies, to go out and fully inspect those crops and make some really informed decisions, rather than windshield surveys.

I have to go now. I'm sorry about that.

**The Chair:** Thank you very much, Mr. Gray. I appreciate your time and your being a witness.

Mr. Allen.

**Mr. Malcolm Allen:** Thank you. I understand students have to use the equipment.

Perhaps I'll move to Mr. Phillips. At the end of the conversation with Mr. Dreeshen you just touched on more transparency and looking at the U.S. model. I happen to have a copy of some of their latest statistics.

Anyway, as you flip through this thing...their quarterly costs of transporting soybeans from the U.S. and Brazil to Hamburg, Germany, by truck—how many trucks are moving?—barges, by ocean, total transport, farm value, landed cost, and transport percentage of loaded cost. If you excuse the reference to school-age, it looks like we're in junior kindergarten when it comes to this sort of stuff. I don't want to overplay that hand, but where do you see us in comparison to this transparency?

Clearly, if you want a logistics system to work, you actually need to know what the heck it is and what we have out there. And to be blunt, Mr. Watson and I both came out of the auto sector, and they can tell you where the part is and what truck it is and which exit on the 401 it's coming off, and it seems to us, coming out of that sector where we trace everything so tightly, that we have no idea where some of this stuff is half the time. People say, "Well, there are cars over there somewhere. I passed them when I drove in this morning. I think they're empty, but I don't really know." Maybe they were supposed to be spotted; maybe they were not supposed to be spotted. Whose fault is that?

I keep hearing over and over again from the players that there is this lack of data. It seems to me there's a lot of data out there. Nobody coordinates it. Is that true? Or have I somehow missed something along the way?

**Mr. Richard Phillips:** I just wonder if Kevin could also comment on this as an actual shipper, and then I'll speak right after Kevin.

**Mr. Malcolm Allen:** Yes, whoever wants to jump in.... Listen, this is about gleaning as much information from you as we can.

• (1820)

**Mr. Kevin Hursh:** The information piece has a number of components. Statistics Canada does estimates of total crop production by province with an extensive survey of producers, but I'm not sure whether I agree with Richard that the problem is they're surveying producers. They have a long lag time between when they do the survey and when that information is released, and part of the problem is that the information isn't current when it finally comes out.

There probably needs to be some education of producers that these kinds of surveys are actually useful to the entire industry, because they view them with a fair bit of skepticism. As for information, we need more of it. On what you say of information available to other nations, I believe that's correct, but I really believe that the railways don't have a really good handle within their own internal systems. We can trace a ladder and know exactly where it is in the system. They seem to have the ability to not know where entire 100-car trains are at any given point in time.

If they have better information flow and services and logistics than that, they should be proving it because there seems to be precious little evidence of it at this point. In this day and age, technology should be brought to bear and we should know where every railcar is, loaded with what, at any given time.

**Mr. Richard Phillips:** I'll just touch on that. The government did fund the study that Pulse Canada is leading, and those are the metrics: how many cars are being spotted every week, how many are being unloaded every week, how many are in transit, and where the problems are. Is it at the terminals? Is it the grain companies backing

stuff up and not unloading things on a timely basis? It may not always be the railways, when we get into all of the metrics of this thing.

I think that's just starting and so, hopefully, when we come back one year from today, we will have much more transparency in the information that's been provided. That's my hope, Mr. Allen.

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

We'll slip to Mr. Payne for five minutes, please.

**Mr. LaVar Payne (Medicine Hat, CPC):** Thank you, Mr. Chair.

I thank the witnesses for coming today.

There have been some really interesting comments. Professor Gray touched on revenue cap and premium winter months. Mr. Phillips, you talked about that as well in your comments, levelling off the humps, in winter months in particular.

I found that quite an interesting concept. Do you have any further thoughts on how that kind of premium might work? I have some concern whether some of that would be held off in order to get some of the premium, in terms of the railways.

**Mr. Richard Phillips:** I think Kevin might want to jump in on this one as well. In the States, for example, you can trade whole trains. For example, if one of Kevin's members really needed 100 cars and he just couldn't get the cars here, he would go to another company and say, "Look, why don't I give you \$3 or \$4 per tonne and I'll take your train that's almost in Vancouver and just send it over to my terminal?"

You can see a lot more of that sort of stuff happening in the American system, where you can buy and sell that as more of a commodity. We don't see that in Canada. Again, we're regulated in such a way that doesn't happen. I think that's one possible suggestion of what could be done.

The other one would be that maybe there's a financial incentive where instead of the railways offering \$4 per tonne for loading a unit train, they'd offer \$5 per tonne if you could wait an extra three weeks when we're not as busy with our engines and crews. I think financial incentives are always a better way to go than a stick, if at all possible, to help level off the humps. There are several things that we haven't looked at, even in Canada, to help do that.

Kevin, would you add to that?

**Mr. Kevin Hursh:** I think we'd prefer a system where the economy dictated the flow of things, and the pull and push of the market forces would dictate how everything would work. Unfortunately, that's not the system we have. The railways really do not have the same competitive forces as other industries. In the U.S., they do have a bid car system. But certainly there's little appetite up here to go to a bid car system, where you bid for the extra cars you need, and then the railways would have a good reason to always be short on cars and always looking for bid cars.



I'm really pleased that no one is talking about doing away with the revenue cap so that market forces can come into play. The feeling is that if the revenue cap were removed, the cost would go up but service may not go up, and many other sectors are also complaining about railway service. That said, there are some perverse incentives within the revenue cap system where the railways, when it's more expensive to move grain, really have no incentive to go out there and put in place the extra rolling stock or the extra locomotives in cold weather.

At Richard Gray's conference, if I could speak for him, he said that we shouldn't necessarily raise the revenue cap overall or the maximum revenue entitlement—which is really what it is because it is a volume-related entitlement. Maybe they're being very well paid when we do our costing review; let's find out about that, but maybe we should provide more of that to them during cold weather, high-cost movement months, and a little less during other parts of the year so that they have the proper incentives to move the grain when it's needed.

• (1825)

**Mr. LaVar Payne:** Yes, I also understand that they can obviously increase their own revenue by hauling more cars, even with that revenue cap. Could you confirm that? I'm seeing nodding heads—

**Mr. Kevin Hursh:** It's volume-related and it's the extra cost of inflation.

**Mr. LaVar Payne:** Okay, that's great. I've heard you talk about corridors and so on.

Richard, you've talked about having this large group of organizations in your grain council, and you also talked about the other bulk products. It seems to me that as we're going along, we really have to look at the whole transportation system, whether for other bulk products or for grain.

Certainly as we're going through this whole thing, the port facilities seem to be a much bigger picture and we need to really look at it carefully. Could I have your comments on that?

**Mr. Richard Phillips:** I think this is really all about grain, what we're talking about, but at the end of the day it can't be all about grain because there are a lot of trains hauling other commodities. There are manufactured goods, commercial goods, the mining industry, the coal industry, the forest industry, the automobile industry. There are a lot of other people using those tracks, so if we're talking growth, if we just limit it to the grain people only that we look at five years or ten years out from today, we might be in the same situation, where there are too many cars.

There's even more demand to haul oil for example, or the potash mines doubled in Saskatchewan, and there are no cars left for grain. So we need to look at everybody together so you get the whole picture. Where does the overall capacity have to be for all of that, not just grain?

**Mr. LaVar Payne:** Right.

**The Chair:** We're a little over so I am going to say thank you.

Thank you, Mr. Payne.

I want to say thank you to our witnesses Mr. Hursh and Mr. Bender for taking the time and holding you up a little bit off schedule on your teleconference, but also to Mr. Phillips. Thank you very much for staying around. We really do support families so we're glad that you're able to get away and keep your family happy.

Thank you very much.

We're going to take a minimum of ten minutes folks. We need that just to switch everything and then we'll be back and I'd like to start at 6:35 p.m. please.

Thank you.

The meeting is adjourned.

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