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Chair

Mr. Pat Finnigan

Standing Committee on Agriculture and Agri-Food

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• (1530)

[English]

The Chair (Mr. Pat Finnigan (Miramichi—Grand Lake, Lib.)): I call the meeting to order.

Welcome, everyone, to our Standing Committee on Agriculture and Agri-Food meeting. Pursuant to Standing Order 108(2) and the motion adopted by the committee on Wednesday, March 7, 2018, the committee commences its study of the grain transportation backlog.

I would like to welcome, from the Canadian National Railway Company, Michael Cory, Chief Operating Officer and Executive Vice-President, and also Mr. Sean Finn, Executive Vice-President, Corporate Services and Chief Legal Officer. From the Canadian Pacific Railway, we have Jeffrey Ellis, Chief Legal Officer and Corporate Secretary, and Mr. James Clements, Vice-President, Strategic Planning and Transportation Services.

I welcome all the members of the committee. We shall start with an opening statement.

We're going to start with you, Mr. Finn, if you wish, for up to seven minutes for your organization.

[Translation]

Mr. Sean Finn (Executive Vice-President, Corporate Services and Chief Legal Officer, Canadian National Railway Company): Thank you.

[English]

Thank you very much, Mr. Chair and members of the committee, for the invitation to appear before you today.

Our colleague and newly appointed CEO Jean-Jacques Ruest has asked Michael Cory and me to be here to talk about CN and our current challenges in western Canada when it comes to moving the grain.

My colleague Michael Cory is the Chief Operating Officer at CN, and he runs a railway across North America. Mike is a Winnipeg native. He joined the railway 37 years ago, so he's seen a lot of winters across those 37 years at CN. He ran the western operations for many years and is extremely knowledgeable about the challenges of moving grain. Mike will deliver the balance of our statement.

[Translation]

I will of course be very pleased to answer your questions when the time comes.

[English]

Mike, the floor is yours.

Mr. Michael Cory (Chief Operating Officer and Executive Vice-President, Canadian National Railway Company): Good afternoon, everyone.

I'm only going to spend a brief part of my time discussing the circumstances that put us in this position. I believe it's more useful to focus on what we have done and are doing to recover and ensure that our service is back at the levels that you and our customers have come to expect as quickly as possible.

At the outset, let me point out that the situation has not been taken lightly by CN. On March 5, the CN board of directors took unprecedented, decisive action. You're probably aware that we have a new CEO, J-J Ruest, and within two days of taking up the position, J-J acknowledged our service issues, apologized to our customers, and pledged to do better on behalf of all of us at CN.

The challenges we have been facing are not specific to grain. All areas of our business have been impacted. CN has been facing a capacity and resiliency challenge over the winter.

After six consecutive quarters of flat to negative growth, we underestimated the level of growth that was about to come at us. We're not alone in this; the Bank of Canada and many of our customers also greatly underestimated the strength of the Canadian economy. This has left us seriously stretched, with little resiliency in some corridors.

Frac sand and intermodal traffic are both up very significantly. Forest products, coal, potash, and virtually everything we move saw an increase in volume. Grain volumes were not a surprise and the grain car fleet is sufficient to handle the volume; however, locomotive power and crews have presented a serious challenge, along with winter resiliency that wasn't there this year. We simply did not have enough locomotive power or crews to deal with the rapid increase in business. Hiring and training operating personnel takes a minimum of six to nine months, and there is also a long lead time for acquiring new locomotives and for building capacity.

The increased business also led to bottlenecks at a number of locations on the network. Through the fall and early winter, we were getting by and providing fair service, but we did suffer setbacks in the late fall owing to mainline incidents, including a severe windstorm that blew a train off a bridge in Alberta, shutting down the main line until the bridge could be repaired.

However, as our CEO recently said, we had a horrible February. When the extreme cold hit us in February, forcing us to shorten our trains and requiring even more locomotives, crews, and network capacity, our service deteriorated badly to levels that were clearly unacceptable to our customers and to every one of the hard-working, dedicated CN employees who take great pride in their work.

While our grain service prior to February did not match last year's record numbers, in every month from September to January we moved the third-highest volume of grain in CN's history. This clearly was not sufficient, but not so weak that we cannot recover over the balance of the crop year.

I am pleased to say that we are already making good progress in turning things around in moving the backlog that accumulated in February. In week 31 we spotted 5,349 grain cars, including 772 customer cars, at Prairie elevators; in week 32, we spotted 5,953 cars, including 905 customer cars, and in the week that just ended, we spotted 5,742 cars, including 647 customer cars.

As a reference, we view 4,000 CN cars per week as the normal sustainable capacity of the system in a normal winter operating condition, and 5,500 CN cars as being the sustainable capacity outside of winter and when the port of Thunder Bay is open.

We are confident that we can maintain this pace through the spring. We are committed to catching up, as we are with all of our customer traffic. Our car placement numbers to the week for grain are not yet in line with where they need to be, but there has been significant improvement.

To begin turning things around, the first thing we needed to do was relieve network congestion, particularly in the very busy Edmonton-Winnipeg corridor. We undertook a number of measures to temporarily restrict traffic in this corridor to gain fluidity and velocity in our network. Only by reducing congestion could we create more capacity and resiliency.

We had to make some tough decisions to restrict and regulate the flow of cars into this congested part of our network. For example, we implemented a system controlling the flow of both incremental frac sand and crude cars.

We have also established a 24-7 situation room of cross-functional representatives at our network operations centre in Edmonton to review critical customer issues and to prioritize their movements.

Turning to other actions we have taken to add capacity to our system, in the short and medium term we added 250 qualified conductors in the fourth quarter of 2017, and an additional 400 will have completed their training and be in place by March 31. We will be adding a further 375 conductors in the second quarter. That said, we are still hiring, and there remains a challenge to find new labour at some remote locations. Our national training centre in Winnipeg will remain at full capacity.

With regard to locomotives, CN added 34 new high-horsepower locomotives in Q4 of 2017, and that was all we could get from the manufacturer. We also leased 130 locomotives, some of which required upgrading, but almost all of which are now online. For the longer term, we have placed an order for over 200 new locomotives and will begin to receive the first 60 in the second half of this year.

●(1535)

CN has a strong record of investing in our network. Even in the years with weaker growth, we maintained a very robust capital spending program. Earlier this year, our board of directors approved an increase in our capital expenditures from \$2.7 billion to a record \$3.2 billion. Over \$250 million of this increase will be spent this spring and summer on projects in our western region to increase both track and yard capacity and to create fluidity that will build a base of capacity and resiliency before next winter.

If there is one thing that has become clear from this year's challenges, it's the need for better sharing of data among the supply chain stakeholders. Bill C-49 will require railways to provide even more data than at present, and we accept that. We are, however, only one link in the supply chain, and we are concerned with the lack of data provided by some of the other supply chain participants. For all of us, transparency with all partners in the supply chain is in our interests, and it ultimately benefits the Canadian economy.

Recent actions by our board of directors and all of us at CN have shown how seriously we take these service issues that have adversely affected our customers. Our capacity challenges will not go away overnight, but we have acted aggressively to address them, and I am confident that our service will continue to improve for the grain sector and all parts of our business going forward.

Thank you.

The Chair: Thank you very much, Mr. Cory. You're right on time.

Mr. Clements or Mr. Ellis, you have up to seven minutes.

Mr. Jeffrey Ellis (Chief Legal Officer and Corporate Secretary, Canadian Pacific Railway): Thank you, Mr. Chair. I'll begin and then pass it over to my colleague James.

I'm Jeff Ellis, Chief Legal Officer at Canadian Pacific. I'm joined by James Clements, our Vice-President of Strategic Planning and Transportation Services.

Thank you for the opportunity to discuss CP's grain service and the recent challenges the grain supply chain has been experiencing. We acknowledge that as a supply chain we need to do better.

First, however, let us begin with some context.

Although the grain supply chain has had to manage significant operating challenges in recent weeks, including a recovery from extreme weather conditions this winter, CP's crop year-to-date grain shipments through week 32, which is March 4 through March 10, have increased by 3%, or approximately 450,000 metric tons, the equivalent to roughly 22,000 truckloads of grain. In other words, we've moved more grain this crop year, even while the entire grain supply chain copes with difficult operating conditions.

Extreme weather has been a challenge for CP this year, especially in February. Although we plan extensively for winter each year, this winter was unusually harsh. Compared to last year, conditions across our network were on average significantly colder, and for longer periods of time. We've also experienced unusually large snowfalls along much of our network, causing some significant outages. When temperatures reach below -25°C, trains must be shortened and moved at slower speeds to ensure safety, which is critical to our operations. These difficult conditions caused a reduction in our network velocity and overall system capacity.

CP is also experiencing significant and largely unexpected demand, especially in western Canada, part of which is coming from dual rail-served territories in the northern catchment areas of our network.

CP strategically plans each year for the upcoming grain crop. This year the crop was originally forecast at approximately 65 million metric tons, but came in at closer to 71 million metric tons. This variation represents a difference of 6 million metric tons, with much of the additional production occurring in the northern catchment area of the Canadian prairies because of dry conditions in the south. Notwithstanding the challenging operating environment, our shipments have increased by 30% in this crop year to date.

It's also important to note that we are facing significant demand across numerous lines of business.

All of that said, we can and will do better. My colleague, James Clements, is going to speak to that more specifically.

● (1540)

Mr. James Clements (Vice-President, Strategic Planning and Transportation Services, Canadian Pacific Railway): Thanks, Jeff.

Honourable members, we are pleased to report that our rail network performance is improving. The grain supply chain is on the road to recovery

Our operations team has been focused on moving grain and working extremely hard to rebound from the weather challenges in February. The data and evidence provide encouraging signs that a recovery has taken hold.

Week 32—March 4 through March 10—saw grain shipments increase by 22% compared to the previous week, totalling 484,000 metric tons of grain. This is the highest weekly volume we have moved since mid-December.

Our daily network throughput has increased by 8% compared to last week, and is up by more than 16% overall since mid-February.

We placed 10% more empty railcars in the country in week 32 compared to the week prior, a further sign of incremental gains being achieved. I am happy to report that we are up another 5% in week 33. Our network velocity is also improving, with train speeds up approximately 13% this past week versus mid-February.

As weather conditions moderate, we expect the positive trend to continue through March, with a further lift as the port of Thunder Bay reopens. Until Thunder Bay is available, we expect heavy demand for railcars out of Manitoba to ship all the way into the Vancouver corridor.

CP continues to add both crews and locomotives to support a strong recovery. We are adding more than 700 new employees, who are currently in various stages of training, and we are adding 100 locomotives, which will start being integrated into the fleet through the summer.

We have also deployed a “SWAT team” of retirees and CP managers to provide additional crew capacity, which is helping ensure the system recovers as quickly as possible.

As we move into spring, we are taking strong precautionary measures to avoid operational constraints caused by adverse environmental conditions, such as the heavy snowfall melting and the resulting runoff, as well as avalanches.

CP's avalanche monitoring and control program continues to work closely with all stakeholders through B.C.'s mountainous transportation corridor, including Parks Canada and the B.C. highways ministry, to constantly monitor present and forecasted weather conditions that could adversely affect the corridor.

We have also commenced our spring thaw surveillance program, which has strong protocols in place to monitor conditions and respond effectively in the event of high water conditions across our network. Early indications across most of CP's network east of the Rockies are pointing to an average to below average threat for spring flooding. Although we remain optimistic the snow will melt slowly, all precautions are being taken with respect to potential avalanche and spring flooding disruptions.

We continue working closely with our customers to deliver on the commitments of CP's grain products and services to meet their needs. Beyond these measures, we have earmarked between \$1.35 and \$1.5 billion for capital improvements this year to help strengthen the capacity and fluidity of the supply chain.

Capacity-enhancing infrastructure investments are critical to realizing long-term gains to the overall performance of the grain supply chain. This is particularly true in regard to the market's preference for Vancouver as the primary and growing outlet for grain. CP is hopeful the Government of Canada will prioritize investments under the national trade corridors fund for projects that will enhance supply chain capacity in this corridor.

In closing, as we have said previously, CP strongly encourages the swift passage of Bill C-49 by the Senate. Although imperfect, this legislation will provide additional certainty for the grain supply chain, particularly with respect to the potential new hopper car investments.

Again, thank you for the opportunity to be here today. We would reiterate that in spite of the difficult operating conditions this winter, CP is committed to improvement and is still moving more grain than we did last year, and we are well positioned to have a strong year overall.

Thank you.

● (1545)

The Chair: Thank you, Mr. Clements and Mr. Ellis, for that presentation. Now we shall start our question round. To start we have Mr. Berthold and Mr. Barlow, who will split their time.

You have six minutes, Mr. Berthold.

[*Translation*]

Mr. Luc Berthold (Mégantic—L'Érable, CPC): Thank you very much, Mr. Chair.

Many thanks to the officials from the two railway companies who are with us today.

[*English*]

We called for an urgent emergency meeting two weeks ago to catalyze action for our producers, who don't get paid when grain doesn't move. Unfortunately, the Liberals didn't think it was urgent. The minister didn't even think it was serious at one time. They didn't want to listen to farmers earlier. We asked to have this meeting last week, but we were refused. Signs were there in the fall that we were facing another impending grain backlog crisis.

Farmers are in a cash crunch, and our international reputation is eroding. The railways have a responsibility to Canadians, in my opinion, to honour their contracts and to move commodities. That is their mandate.

[*Translation*]

There are just two main railways that serve all of Canada, and we rely on them for our exports and our economy to run smoothly.

As to the matter before us, grain transportation, we had a big problem and we failed. You said that grain shipments were up by 16%, but if you compare that to a slow week, you cannot say that those are good results. When you say that the rate has improved by 16% since mid-February, when the results were poor, I do not consider those good results.

There is still a lot of work to be done. As soon as the crisis became evident, we should have asked the ministers to intervene and force the rail companies to play the role that all Canadians expect of them.

My first question is for the CP officials.

Further to our request for an emergency meeting, the minister sent a letter that clearly called on you to publish your plan on your website by March 15. I was not able to find that plan, however. Can you tell me where it is?

[*English*]

Mr. James Clements: We have made the letter available on our website. We did so by the 15th. I can get the link for the committee so that you can find where we posted it. We made that available, along with a white paper on the current—

Mr. Jeffrey Ellis: We sent it directly to the minister as well.

Mr. Luc Berthold: There was a request that all people could easily find it. I didn't find it. I think most of—

Mr. Jeffrey Ellis: My apologies. We will rectify that.

Mr. Luc Berthold: Thank you.

Next, is it only weather? I just heard from you about weather. I think that in Canada we have had this kind of weather for 100 years and more. Can you explain why it's different this year?

Mr. Michael Cory: I can explain that for CN, it wasn't just weather; it was an unprecedented volume increase. We had a view of a much lower volume increase coming into the system, roughly 3%. It ended up growing to be 11% in a variety of commodities. On top of that, the weather was more severe for us than in the last two years, which definitely compounded the fact that we weren't prepared for that volume increase.

● (1550)

Mr. James Clements: On our side, we would agree that it was more than just weather. There was volume. As we mentioned, we're seeing in some specific parts of our network a very focused increase in demand. We're performing in the northern parts of our operating territory at 30% more grain volume than traditionally is moved. This is where the crop is. This is where the crop wants to come from. That creates some challenges. Then you throw what was worse than a normal winter on top of that.

Yes, we've had winter for 100 years, but the weather we've seen is on the extreme end of what you experience within those 100 years. I think one of the statistics was that the cold snap we had in December and January was the coldest and the earliest since 1886. It's more than 100 years since we've seen an event like that. It was worse than normal.

Mr. Jeffrey Ellis: To follow up briefly on that, when you get to below -25°C, it's not a question so much of preparation as it is of physics. Metal becomes brittle. You're at risk of derailments. Rubber hoses crack and leak. You have to operate more slowly in order to operate safely. That's just one of the conditions. It's like driving more slowly on the highway during a snowstorm. It's a safety consideration.

Mr. Luc Berthold: Okay. John, did you have a question?

Mr. John Barlow (Foothills, CPC): Thank you very much, Luc.

I appreciate everyone being here to explain some of the situations and some of the steps you're taking to address them. I'm happy to see that you're not just blaming the winter weather, because that was certainly a very popular excuse out there, not necessarily from the rail lines.

Even if it wasn't from weather—you're saying there are other things—we started talking about this issue back in October. We certainly saw it from our stakeholder groups and the phone calls that we were getting, and you yourselves have said that you saw this as being a much larger harvest than what was anticipated.

You can never predict what the weather is going to do, but you announced last week the steps you're going to take. Why did you not start taking some of these steps in October or even January, when we saw these numbers falling below 50%? We've been through this before. You knew some of the steps that you could take.

There was also an article last week that stated that the United States National Grain and Feed Association has also called out CN and CP for very aggressive layoffs and service reductions, which are also impacting your services south of the border.

You saw some of the issues that you were facing. Why didn't you take some of the steps that you've announced you're going to take now much earlier in this process?

The Chair: Unfortunately, Mr. Barlow, we're out of time, so I'll have to move on.

Mr. Longfield, you have six minutes.

Mr. Lloyd Longfield (Guelph, Lib.): Thank you, Mr. Chair.

Thank you to all the witnesses today. This is a serious problem that we know you're working on collaboratively with the government. We've seen evidence of the actions that you've committed to taking and that you are taking. Moving forward, hopefully we'll see Bill C-49 get through the Senate so that we can make further gains in investments.

Starting with CP and Mr. Ellis, could you describe what the delay in Bill C-49 means to your capital investment programs?

Mr. Jeffrey Ellis: Certainly.

Again, we don't think of Bill C-49 as a perfect bill. We think it's a compromise, and an appropriate one.

From our perspective, we are eager to go forward and make a capital investment in hopper cars, which is going to increase capacity in the network for grain for the foreseeable future. We stand ready to deploy anywhere from \$1.3 billion to \$1.5 billion over 2018, as soon

as we can get the certainty we need that the bifurcation that is presently within Bill C-49 will come into play.

Mr. Lloyd Longfield: In terms of bifurcation, we're talking about sharing the benefit of the capital investment with the other rail lines —

Mr. Jeffrey Ellis: Precisely.

Mr. Lloyd Longfield: —versus having the return go to your shareholders.

Mr. Jeffrey Ellis: That's correct.

Mr. Lloyd Longfield: Okay. CN, go ahead please.

Mr. Sean Finn: If I may, obviously with Bill C-49 being in the Senate, CN's position is very clear: pass it as soon as possible. The benefits are probably twofold.

First of all, it will provide additional tools to our customers to hold the railways more accountable, which is not a bad thing in and of itself. I think we're all here today because we recognize that we have to be a lot more accountable to both Parliament and our customers.

Second, when talking about investment, there's no doubt that this will allow us to better prepare, to Mr. Barlow's question. A lot of provisions in Bill C-49 require that we provide additional information, but Transport Canada can help us, obviously, to better forecast and better plan our demands—not alone, but with them.

I think the investments are required. Therefore, as we better understand the weaknesses in the supply chain, we as a railway can help invest in the parts we have to invest in and, more importantly, realize that we're only as strong as our weakest link. Obviously, there are weak links in the supply chain. We can't just hide behind them. We must address them together for the benefit of farmers and Canadian markets.

• (1555)

Mr. Lloyd Longfield: Thanks, Mr. Finn.

To compare to the solution last time, the previous government was putting in place an order in council, with threats of fines and punishment for not meeting service requirements. What effect did that have on the overall volumes?

Mr. Sean Finn: In 2014, as we had the order in council, CN committed under the order in council to move x tonnes of grain on a weekly basis. Obviously, when it came into effect in March of 2014, the weather broke two weeks later, and all the grain was moved before the end of the crop year. We use this argument at CN: press releases don't move grain; people and our locomotives do.

Mr. Lloyd Longfield: Right.

Mr. Sean Finn: I guess the same idea would be that orders in council don't move grain; doing that requires that the railways face the issues up front and do so in a very organized fashion.

Obviously, in 2014—you can debate whether it was required or not—as soon as the weather broke, both railways started moving their grain. We didn't stop until the grain crop was over at the end of July. That's probably a good example of it not being the order in council that provoked us to move more grain; it was the fact that the weather broke and we could make longer trains to serve the farmers and customers in a better fashion.

Mr. Lloyd Longfield: I'm originally from Winnipeg. I did some work on hydraulics and pneumatics in the western yards, in the Symington Yard, and I worked in the Transcona yards. There are ways of getting compressed air through brake lines when it gets cold, but there are constraints on contraction between tracks and wheels and equipment.

Could you speak to what might have been done in terms of putting intermediate compressors within the car system, things that you might have tried in order to solve the technical part of cold temperature operation?

Mr. Michael Cory: Do you want me to go first, James?

Mr. James Clements: Go ahead.

Mr. Michael Cory: We have been investing in mid-train remote distributive locomotives for the last many years, as have my friends at CP. The ability to place that air compressor in the middle of a train allows you to continue to run the same length you run all year round.

On top of that, what we've built in-house over the last few years are air compressor boxcars, and we're going to increase that fleet by 50%. Incrementally over the last few years, we've really focused on ways to reduce the number of issues we have due to air compaction, as you say.

Mr. Lloyd Longfield: This is unique to Canada, you could almost say, and maybe parts of Russia. Are there any comments on how Canada is leading in innovation in this area?

Mr. Michael Cory: We're not doing it well enough, but yes, absolutely.

Mr. Lloyd Longfield: Further investments are required.

Mr. Michael Cory: Yes. We fully understand that three to four months a year we have to deal with this issue, and we will not be sitting back at any given time and not taking the necessary action—and not just necessary action, but trying to innovate and trying to use whatever technological means we can to reduce the amount of not just complexity, but the effect that severe winters have on the nature of the railroad itself.

Mr. Lloyd Longfield: Very quickly, Mr. Clements, maybe we could bridge into.... We have a motion on the floor and we're going to begin a study on getting to \$75 billion in exports and needing new technology. Rail will be a part of that. Do you have any quick comments?

Mr. James Clements: Yes, I have a couple of quick comments. We made the call for the national trade corridors fund, and I think you have to look at Vancouver and what the opportunities are to continue to enhance the capacity at that end of the supply chain. That's going to be one of the most critical components, so as we said

in our remarks, we would encourage looking at investments that will reduce that bottleneck.

For CP, one challenge we have to think about is that we have West Coast Express, a commuter rail operation that shares our line between Port Coquitlam and the waterfront. It's very valuable capacity, both for the passengers who utilize that service and for rail. How do we enhance the capacity in that corridor?

The Chair: Thank you, Mr. Clements.

Thank you, Mr. Longfield.

Mr. MacGregor, you have six minutes, please.

Mr. Alistair MacGregor (Cowichan—Malahat—Langford, NDP): Thank you, Chair.

Thank you all for appearing today.

Four years ago, over the winter of 2013-14, we had a similar situation. I believe you appeared before the committee then. I just want to know what lessons you learned from that incident. If you did learn them, why are we here again asking you similar questions?

Mr. James Clements: I can start.

One of the biggest challenges we had was how we work with our customers and communicate in terms of creating expectations and an understanding of capacity. We had what we called an open-request system for car orders back then, and the numbers that people brought to this committee, I think, showed we were 120,000 orders behind. We felt that was a very ineffective way to express what was going on with our network, and it also didn't align with stakeholder interests.

Today 80% of our grain volume moves in what we call the dedicated train program. We feel that's very innovative in that it aligns our interests with the customers' interests. They actually control the cars that are in that train, so if they can get a car unloaded more quickly, it's back at an elevator more quickly. Then obviously we also have a component in there that we have to deliver.

That innovative contract also does have reciprocal performance penalties in it: we've made commitments to our customers about what we're going to do with that train set and they've made commitments about how they're going to fill and use that set as well. That is a major change in the system, and we feel it gives the participants in the supply chain a better understanding of how we work.

● (1600)

Mr. Alistair MacGregor: Is there anything from CN?

Mr. Michael Cory: We're exactly the same, in that 90% of our grain business is contracted. To James's point, reciprocal penalties are in place. The idea is to make the best use of the capacity in the fleet.

The one thing that we continue to learn is how to understand our capacity and resiliency better, and again I go back to the unprecedented volume increase, which really focused our attention on having a much more robust forecasting capacity model. That's what we're working on right now.

Mr. Alistair MacGregor: Thank you.

Both of your companies have stated that you're in the process of hiring new crews and leasing or buying new locomotives. Since the last grain crisis, what has been the net trend for both of your companies in terms of the number of locomotives you've operated and the crews you've retained? Have we seen dips? Now that you're reacting to this again and having to rehire, I'd like to know the net trend over the last four years.

Mr. James Clements: I don't know the absolute net trend from 2012 until now. CP went through an unprecedented change in our operating model, with precision schedule railroading. You can't compare how CP was operating back then to how we're operating now. We've made vast improvements in our efficiency and effectiveness. In the last couple of years we had a period of declining demand, and as it has been rebounding, we have been adding back locomotives in a fairly significant way over the last couple of years.

Mr. Michael Cory: We're not a lot different. We had six quarters of either flat or decreasing volume demand. I can't really give you information on retention; however, our focus is to be ahead of that curve and to not get caught as short as we have been.

Mr. Alistair MacGregor: I represent a riding on the coast of British Columbia, and this issue is going all the way to the coast. All around my riding in the Gulf Islands, we have tankers at anchorages that are very rarely used. If you look at English Bay in Vancouver, you see it's chockablock full, so this issue is going all the way down to the west coast.

You've been saying that if Bill C-49 is passed, you pledge to do better and you're investing in this. It seems to be very reactive to the situation at hand. I'm wondering if we'll be in this situation in another four years and we'll have to ask you to come again before the committee.

Yes, you know that at -25° you have to reduce your speeds and decrease the length of the train, but anyone who lives in Canada in the winter knows that we have this weather on a regular basis. You know the long-term trends of what our country is hoping to do, which is that we're hoping to increase our exports, but we're still operating in that same environment. I want to be assured that we won't revisit this situation in another four years. I hope that instead of being reactive to the situation at hand, you'll be very much proactive so that in 2023 we don't have to repeat this same exercise.

Mr. Sean Finn: If I may, we have taken very concrete steps since 2014. As an example, CN's annual capital investment last year was \$2.7 billion. This year it will be \$3.2 billion, an increase of \$500 million. We set a big number for capital. It's a great network that we're investing in, but clearly it's where you invest the capital that

makes a difference for resilience and fluidity, so under the leadership of Mike Cory and Jean-Jacques, we've looked at our capital constraints and where the bottlenecks are that we can address very quickly.

You're going to see, as of this spring, reactions being made. It is true that it's somewhat reactive from what happened this fall, but the big difference this fall was this unforeseen surge in traffic that we had to address as we went along here as winter hit. It's important to realize that this year, the \$3.2 billion is way more than 20% of our gross revenues, which is probably a rule of thumb for some of the railways in North America. We're investing more capital to ensure that we can address the bottleneck issues. We're hiring employees at a rate we haven't seen for many years. We are hiring for what should be many years to come.

I think the big difference compared with 2014 is that in 2014 we had an increase in volumes and all of a sudden a dip. Obviously, we didn't react quickly enough. I think this time the railroaders in the room have probably learned a lesson that we have to reinvest early on and see the trends coming earlier. Part of Bill C-49 will be this exchange of information between us, Transport Canada, and our customers to try to get a better feel for logistics planning. If we do have an increase in volume, how do we address it?

I think the best answer to your question is that the railways must invest in the network at a point to avoid the bottlenecks so we can face the surge in traffic as it comes along.

•(1605)

The Chair: Thank you, Mr. Finn and Mr. MacGregor.

Mr. Peschisolido, you have six minutes.

Mr. Joe Peschisolido (Steveston—Richmond East, Lib.): Thank you, Mr. Chair.

I'd like to thank our guests for being here today.

I'd like to begin by following up on the approach of Mr. Barlow and Mr. MacGregor. We've seen this movie before. I'm kind of struck by the fact that we actually have to be here. I understand that there's a bill coming out and that the Senate should act, but we have two major companies that have dealt with this issue before, and we needed a minister to come out and say, "Hey, guys, we need an actual plan out here. Get it done."

I think the main concern is that farmers and Canadians want assurance. We have a backlog, so let's get rid of the backlog and make sure it doesn't happen again.

I appreciate the minutiae, but my question is to both lines: how can you assure farmers in a plan that you're going to get rid of the backlog and that we're not going to be here again in two or three years with other surges?

Mr. Michael Cory: I'll speak on our behalf. We have made considerable strides in the last three weeks since the bottoming out in February. As James mentioned earlier, everything we're doing right now—having retired employees come back, delaying vacations, hiring, leasing locomotives—is to clear the backlog.

Longer term, I'll go back to my counterpart Sean's comments about the exchange of information and how crucial it is so that we do have a better planning horizon and we can actually continue to invest in the right places. That's our commitment. We will and we are. This year, to Sean's point, is the biggest capital program we've had. Much of it is in those locations in western Canada that felt more than 11% volume growth. In some areas, it was 20% to 25% volume growth.

Therefore our focus is pinpointed, but having the right information at the right time allows us to plan better for the future. I can assure that you we will clear the backlog. Our focus is on that. We won't stop until it's done.

Mr. James Clements: On our side, I'd make the same comments. We look forward and continue to plan, and the more information and the more visibility and understanding of what the changes are... We're what I'd call capitalists out here. We want to make money. Not moving demand isn't in the interests of our shareholders. We're going to go through a process to ensure that we can understand that demand and rise to the challenge and move that demand for our customers and for the economy of Canada.

Mr. Joe Peschisolido: I'm blessed to represent a riding called Steveston—Richmond East, right underneath Vancouver. We had Minister Garneau in the area to announce a review of ports and Port Metro Vancouver. I spent a good chunk of the past two weeks calling and speaking with farmers in the east part of Richmond and in Steveston talking about issues relating to farming in Port Metro Vancouver. I was struck that they were talking about the movement of grain. They are concerned about what can happen to grain farmers/. It worries them.

The group of folks that I have the most trouble getting a meeting with are farmers, because they're always working. They work really hard. The farming population in Steveston—Richmond East isn't that large—geographically it's large, but it's just a few thousand farmers.

How can we as a government be helpful to you in making sure that this never happens again?

Mr. Sean Finn: Obviously passing Bill C-49 through the House of Commons would possibly be a good step in the right direction, first of all.

Second, I think that part of that bill will require that the railways exchange information. We realize today that this impacts not just farmers and the farming community but also Canada's reputation abroad. In the end, we have to realize that when we do this, we don't just impact our local customers but our reputation around the world, and it's important that the railways and the supply chain realize that customers around the world have choices. Canada is a great place to

enter North America and to have access to two great railways, but if we can't deliver the goods, we have an issue going forward. I think there was an acknowledgement on the part of the CN board of directors, which made a very decisive step two weeks ago in changing the leadership and then within two days coming out and saying, "We realize that it's part of our DNA to move Canada's goods to the market." This is as much as saying, "We have a role to play to ensure Canada's reputation abroad is what it should be."

You can't just have talk. You have to make sure you deliver.

My answer to your question is that you have a commitment on the part of CN to ensure that's always in the back of our minds. All 22,000 railroaders at CN realize it's not just about serving customers; it's about serving all of Canada.

•(1610)

Mr. James Clements: In terms of what the government can do, first I'd say that we have 12,000 railroaders, men and women, who are out there tirelessly working to move all the commodities that are produced in Canada and across this country, not just grain.

In terms of how we move forward, there are some initiatives around supply chain visibility. It's not just about measuring the railways; it's creating visibility to the health of the entire chain and understanding what's going on so that everybody can make decisions that optimize the utilization of the resources that are out there, rather than just focusing on an individual rail's performance.

Mr. Joe Peschisolido: Mr. Chair, thank you.

The Chair: Thank you.

[Translation]

Ms. Nassif, you have six minutes.

Mrs. Eva Nassif (Vimy, Lib.): Thank you, Mr. Chair.

I want to thank the witnesses for being here in response to our request last week.

My question is for Mr. Finn and Mr. Cory.

You delivered roughly 6,000 cars of grain per week in the past two weeks. Is that your maximum capacity?

Mr. Sean Finn: In February, we provided grain producers an average of 3,400 cars during the worst part of the winter. We were able to increase that to 4,500 cars three weeks ago, and to 5,000 cars two weeks ago.

We clearly indicated that the capacity of the network and of the supply chain was about 4,000 cars per week in the worst winter conditions. We can see that the harsh winter is finally letting up, maybe not here in Ottawa or in eastern Canada, but in some regions. Now that the weather is not as bad, we think we will be able to systematically provide over 5,000 cars per week.

You have to consider the process. We have to provide the rail cars, then pull them and get them moving. It is not enough to put them on an elevator and hope they will be filled. Clearly, it will take a lot of work for Michael Cory's team and all our railroaders to meet the objective of delivering 5,000 cars per week in the coming weeks. If there is an incident or bad weather, that figure could be a bit lower, but we think we can do it.

During the worst part of the winter, we usually aim for 4,000 cars. In February, our average was 3,400 cars, so we did not reach our own objective in February and we will work harder to get there. We have a commitment to the market. We hope to be able to deliver 5,000 cars per week so the producers can unload their grain.

Mrs. Eva Nassif: I have another question that is also for the CP officials.

You had your most disappointing performance this winter. What is the reason for that? Of course you had winter weather conditions to contend with, but how did they differ from those during the crisis in 2013-14?

[English]

Mr. James Clements: You asked about the performance that challenged us the most, and the first thing I'd say is that we had a period of about 10 days or so in which we had a series of derailments in western Canada. That was the most challenging period of time that we had. If you look at the statistics, you'll see we really experienced a sharp drop and then a continuous sort of rebound as we recovered from the backlogs that were created there. In that period it was cold, it was snowy, and then we had multiple incidents across the network occurring in close proximity. That was really the challenge. We would have said it was episodic.

In 2013-14, I would have said we were still moving record amounts of grain. We had never moved as much grain as we did that winter in any previous period prior to that. We've subsequently done better than that, so we weren't disappointed. It was just that there was an intense focus of demand in a small period of time. Back then, we got off to a start when there wasn't demand in August. The focus of demand was different in terms of the time period that grain wanted to move, whereas this year we had an episodic event on our railway that created a backlog that we now have to work forward from.

• (1615)

[Translation]

Mrs. Eva Nassif: Thank you.

Mr. Cory, you said earlier that you were disappointed by the lack of people in the supply chain. Could you elaborate on that please?

[English]

Mr. Michael Cory: Absolutely. We're just disappointed that we're not meeting the expectations of not just the supply chain but of our customers specifically. As James mentioned, we had a pretty tough

run from late October in the fall. Again, we had unprecedented volumes that were moving, but then we ran into a series of incidents that took us into some very cold weather in December and effectively shut us down around Christmastime. Around Christmastime the railways generally only shut down for 24 hours, but because of the extreme cold, we were unable to get our railway back up and going for a good 10 days, until we saw some better weather in January. Then in January, we knew we had high volumes, so we took as much action as we could, because there are lead times involved in bringing on crews and bringing on locomotives. Some of the action we took in the previous month started to come through, and then in February we had a good 18 days of extreme cold and snow, to the point where.... That was my biggest disappointment, what we did in the Prairies, because that's where the grain originates. The very northern climes are where the grain originates, and we did not have the resiliency in our network to withstand what the cold was doing, which was slowing our trains down. That's our focus, going forward.

[Translation]

Mrs. Eva Nassif: My next question is for the officials from CN and CP.

What are you doing to get the Senate to pass Bill C-49 as quickly as possible?

Mr. Sean Finn: I would like to clarify something. We are not blaming it on the winter. Nonetheless, when winter arrived, we were not as well prepared as we should have been, and we admit that. So that is why we announced specific measures. In particular, we increased the number of locomotives available right now and increased the number of staff. The people we hire will be with us for years to come. So I would say that the problem is not the winter itself, but rather the fact that we were not well prepared.

We have been very active in the House, including in the Standing Committee on Transport, Infrastructure and Communities. We have drafted briefs and talked to various MPs. Right now, we are working with the Senate on an ongoing basis. The Senate is clearly a different environment than it used to be, and we have to talk to various senators. At CN, we have spent a lot of time meeting with senators and explaining the issues in the rail industry, and the importance of a balanced bill for all of us. We do think it is a balanced bill. While the rail companies clearly do not like additional regulations, we have to admit that certain provisions of the bill will among other things speed up the investments that we need to meet our challenges.

Michael Cory and I have 37 and 25 years of experience in the industry respectively, so we can say that if we had the missing information, the information that is not shared, we could be better prepared.

Mrs. Eva Nassif: Thank you.

The Chair: Thank you, Mr. Finn.

Thank you, Ms. Nassif.

Mr. Berthold and Mr. Barlow now have the floor.

Mr. Luc Berthold: Thank you very much, Mr. Chair.

Let me just mention something quickly. The letter in question is actually not on the CP site in French. I looked for it for a long time, but it simply does not exist. It is on the site in English, however. Perhaps that could be checked, please.

I will now give the floor to Mr. Barlow.

[English]

Mr. John Barlow: I just want to give the group a chance to answer my initial question.

Mr. Cory, you touched on it yourself when you said it takes six months to train a train crew. When we saw these numbers in October, why did CN and CP not act on this issue sooner, rather than doing these things now?

Mr. Michael Cory: We did. We acted on it before October, and it's not just the train crew, but locomotives as well. Then on top of that, the lead time for track capacity can be upwards of 12 to 18 months. We did everything possible we could to inject the resources, actually starting back in the late summer or early fall. Again, we were able to withstand the volume that came at us, but then once winter hit, the resources that we brought in weren't nearly as productive as they would have been if we had had them in the summer.

For us, the key is to build track capacity and resiliency, as well as to have locomotives and people, and that's what we're doing.

Mr. John Barlow: Thanks.

Mr. James Clements: Similar to what Mike said, we started hiring crews in the fall for the training process. It is six to nine months before they're productive operators on our trains. We started in the fall, and we also started bringing on locomotives. We did have a forecast in terms of demand, but, as I think we said in our remarks, the volumes were bigger.

The other thing that happened—I would call it an event—was the failure of the Keystone pipeline, which, when it restarted, had to operate at 80% capacity. That 20% loss created a sudden spike in demand because of a change in the pricing of crude oil. That was unforeseen. We also then reacted as a result of the changes in demand that this event created.

• (1620)

Mr. John Barlow: Okay, thanks.

The changes you announced on Friday could take months and weeks to come into effect, if you're talking about October.

I want to give the rest of my time to my colleague Mr. Dreeshen.

Mr. Earl Dreeshen (Red Deer—Mountain View, CPC): Thank you very much. I appreciate your being here.

As was mentioned earlier, trade is such a critical component. We've known since 2013 that things were going to get turned around, and things are going in the right direction, but it doesn't

seem as though some of the logistics in CN and CP have kept up with that.

You spoke to transparency between the company, Transport Canada, and the customers. As a farmer, I have both CN and CP going right beside me, and there are issues. Elevator agents are concerned. Producers are concerned. We even have municipalities that are concerned when you start taking lines out and all that shipment then ends up being on trucks rather than on railcars.

The other issue is that they're again starting to look at moving trains intermodally. As soon as that happens, we find out that CP has raised the cost of intermodal transport by 10%—at least, that's what we were told, so the question might be whether or not that is true.

Just to comment on the demurrage issues that we have, that cost is going to the farmer. We've talked to elevator agents who are given four or five different times that the train is going to come. They're the ones who are going to call the farmers and say, "Well, here's when you're going to have to be able to deliver your loads and have this opportunity." That's where the frustration comes from. We can talk about how it has to do with weather and it has to do with other issues, but it doesn't seem as though that plan is getting down to where it has to go.

Therefore, my basic question is this. We know that it's so important, and we have lumber, fertilizer, and oil products, and just a moment ago the concerns about not having pipelines were mentioned. You can't run lumber down a pipeline, and you can't put barley down a pipeline. How are you going to bring all of these aspects together so that the person who is ultimately really depending on this—not the shipper, but the farmer—is going to be looked after?

Mr. James Clements: You know, the big focus that we have—and I mentioned a precision-scheduled railroad—is delivering to that first promised delivery time of the train. That's something we're focused on. We measure internally all the time what we call "trip plan performance". We recognize that we have to deliver what we promise, and we're focused on improving on where we are today on that delivery time.

Mr. Michael Cory: I'll say it one more time. We apologize, seriously, for not meeting the expectations of all the supply chains we're in, and we take it extremely seriously. The capital investment that we're making, which we'll continue to make, and our belief that we need to have integrated information views so that we can stay ahead are really at the backbone of what we're trying to do.

Please understand that for the entire CN team, this is about recovery, and then taking all necessary steps for this not to happen again.

Mr. Earl Dreeshen: I have just a moment.

Both of you have expressed concern with the expected demand and so on, and we talked about the steps you're going to take to adequately forecast and plan for bumper crops in the future. Who is doing your analysis right now? They haven't really gotten it straight. I'm curious about where it's going to be in the future.

Mr. Michael Cory: This isn't just about grain; this is intermodal. As James mentioned earlier, this is the energy market. Every one of these markets hits records for us. This is more than just one commodity.

We run a network. Whether it's shared assets of tracks or shared assets of locomotives or people, this is more encompassing than just one commodity. Our view is that having more information from the supply chains—reciprocal and shared—and building integrated models so that we can see it better and not be taken by surprise, as we were this year, is really the way to the future.

The Chair: Thank you, Mr. Cory. Thank you, Mr. Dreeshen.

[*Translation*]

Mr. Drouin, you have the floor for six minutes.

[*English*]

Mr. Francis Drouin (Glengarry—Prescott—Russell, Lib.): Thank you, Mr. Chair.

A few years ago I was at the Chateau Laurier listening to your former former CEO, Claude Mongeau, advocating for fewer regulations. Now, if I'm hearing correctly, we want more regulations. We want Bill C-49 passed in order for us to invest.

What is the uncertainty in Bill C-49 and why do you believe it may not pass? Why are you waiting until it does pass to make those investments?

• (1625)

Mr. Sean Finn: We're not waiting for Bill C-49 to pass. We're going to invest \$250 million in the network, following our announcement two weeks ago of \$3.2 billion for the year. We're not waiting for Bill C-49 to pass.

Bill C-49 comes out of a consultation by the minister and David Emerson over an almost two-year period about how the environment is working today. Clearly, we came out publicly saying we don't like to have regulation and we don't think regulation moves more product, but we're saying that there are provisions in Bill C-49 that, for example, will increase the amount of information to be exchanged with the business supply chain, allowing Transport Canada, us, and our customers to have contingency plans to face issues that come up.

Bill C-49 is a balanced bill. We don't like all of it, and that's normal, but there are provisions. My good friend Claude Mongeau has said to you that regulation is not bad, but ultimately you want commercial relations between the railways and the grain companies and between the railways and the farmers to dictate in an open market how we make sure that we serve our customers. Ultimately, we'll serve the customers because it's in our best interest to do so, and as I said to you before, Canada's reputation depends on it.

However, I think there are provisions in Bill C-49 that allow our customers to take measures to make us more accountable, which is not a bad thing. We're not looking for regulations for the whole industry, but there are areas where we think we can improve the exchange of information between the railways and our customers.

Mr. Jeffrey Ellis: In the regulated grain space, already an area where there is regulation, we're prevented from recouping our

investment in grain cars. In economics, it's a free rider problem. We can't recoup our direct investment. That's what we want to have corrected by Bill C-49 on the discrete issue of investing in hopper cars.

That said, since 2012 we've invested close to \$7 billion generally in our infrastructure and other items that James referred to around investment in people and the network. Those investments are ongoing. I think Canada benefits from the fact that the rail industry, rather than relying on taxes, makes this significant commercial investment annually in the network.

Mr. Francis Drouin: I've heard a lot of you talk about weaknesses in the supply chain. Can you elaborate on those weaknesses in the supply chain? I've heard data sharing is one of them, but where exactly in the supply chain does that problem lie?

Mr. James Clements: The biggest challenge in the Lower Mainland is that there are a number of bottlenecks and other constraints that affect the fluidity of the traffic in and out of that area, and in and out of various facilities.

Enhancing the road-rail interface by grade separations is an example. For us on the south shore, one of the projects that's been suggested is improving the alignment of rail and road infrastructure on what we call the waterfront, the area by the intermodal terminals and the grain elevators, so that we can move trains more efficiently. These are multi-stakeholder investments that will need to take place to de-bottleneck the operations in that area.

Mr. Francis Drouin: Do you believe that over the next year or two or three years those investments will be made?

Mr. James Clements: At this point they are multi-stakeholder investments. There are a number of national trade corridor fund requests that have identified significant investments that would help remove the bottlenecks. There hasn't been an announcement or a decision yet around which projects are going to proceed.

Mr. Francis Drouin: Mr. Cory, do you have anything else to add?

Mr. Michael Cory: It's the same thing; we operate in the same areas in Vancouver.

When I talk about the sharing of information, it's that integrated view of what the future holds for the commodity. We need that. We're very capital-intensive.

It's not that we aren't going to invest, but we want to make sure we make pinpointed investments to get the most return for not just us but the stakeholders, shareholders, and supply chain groups that we work with. We play a big part in the investment part. It's information.

Mr. Francis Drouin: If I heard you correctly, the lack of cars or the lack of companies being able to supply the current demand is not specific to only the grain sector, right? It impacted all sectors of your business.

Mr. Michael Cory: Yes, that's correct.

Mr. Francis Drouin: Then the oil sector's been impacted.

Mr. Michael Cory: Absolutely.

Mr. Francis Drouin: Are they suggesting other solutions? What are your other customers saying in order to fix that situation?

• (1630)

Mr. Michael Cory: They're unhappy also, whether it's high port dwell with containers in Vancouver, ships in the Burrard Inlet, or lumber sitting on the ground that needs to be moved. This is a capacity and resiliency issue. If you get the right number of locomotives, people, and cars, then the faster you go and the more reliably you go, and that's where we've fallen down.

Mr. Francis Drouin: Mr. Chair, I'm done. Thank you.

The Chair: Thank you.

This will wrap up our first round of questioning. I certainly want to thank CN and CP for coming over and giving us an update as to where it is with the shippers, the rails. I want to thank you for coming on such a short notice. Hopefully the weather and the shipping will start going better from here on. Thank you so much.

We will break and come back right away. We want to move on with our other panel.

• _____ (Pause) _____

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• (1635)

The Chair: Welcome to our second hour.

Just before we move on, as most of you know, we have an upcoming vote. I think we have to leave at 6:15. We will suspend, and then we'll be back after the vote. That's just to give you a heads-up on that.

Also, we will move the Agricultural Producers Association of Saskatchewan from the last hour to the third hour, which will balance our panels better.

If everybody's okay, we'll get going.

In our second hour we have Mr. Rick White, Chief Executive Officer of the Canadian Canola Growers Association. Welcome, Mr. White.

From the Canadian Federation of Agriculture, we have Mr. Ron Bonnett, who needs no introduction. Thank you for being here, Ron.

We also have Mr. Mark Dyck, Senior Director of Logistics at G3 Canada Limited, and from the Western Grain Elevator Association, we have Mr. Tyler Bjornson, a consultant. Welcome to you both.

We shall start with Mr. White.

If you wish, you have up to seven minutes each for introductions.

Mr. Rick White (Chief Executive Officer, Canadian Canola Growers Association): Thank you and good afternoon, Mr. Chair and members of this committee. My name is Rick White. I'm the CEO of the Canadian Canola Growers Association. Thank you for inviting me here today to contribute to your committee's investigation into the current grain transportation backlog.

The Canadian Canola Growers Association is a national association governed by a board of farmer-directors that represents the voice of Canada's 43,000 canola farmers from Ontario west to British Columbia. In crop year 2017-18, Canadian farmers harvested an estimated 21.3 million tonnes of canola, and that is an all-time record.

Canada is the world's largest exporter of this highly valued oil seed, and we grow a truly global crop. In any given year, over 90% of Canadian canola, in the form of the raw seed or the processed products of canola oil or canola meal, is ultimately destined for export markets in more than 50 countries around the world.

Canola farmers critically rely on rail transportation to move our products to customers and keep those products price competitive within the global oilseed market. We have no alternative. The competitiveness and reliability of the canola industry, which currently contributes over \$26 billion annually to the Canadian economy, is highly dependent on the supply chain providing timely, efficient, and reliable service.

Last year, Canada's railways transported over 50.7 million tonnes of grain originating in western Canada. It is a complex system, but we need to make it work to the benefit of all parties and the broader national economy as a whole. Farmers occupy a unique position in the grain supply chain, and this is what fundamentally differentiates this supply chain from that of other commodities. Farmers are not the legal shippers, but we bear the cost of transport, as it is reflected in the price we are offered for our products from the buyers of our grains and oilseeds, who are the shippers.

Simply put, farmers do not book the train or boat, but they ultimately pay for it. Transportation and logistics costs, whatever they may be at a point in time, are passed back and paid for by the farmer. Transportation of grain is one of several commercial elements that directly affect the price offered to farmers across western Canada. When issues arise in the supply chain, the price farmers receive for their grain can drop, even at times when commodity prices may be high in the global marketplace.

Another transportation-related issue for farmers is that until their grain is delivered to the buyer, they are not paid. Cash flow depends on grain delivery, regardless of the terms or dates that may be specified on a contract.

When transportation issues disrupt the typical commercial flow out of a bulk elevator or process facility, it affects the ability of the buyer to accept the contracted grain in the agreed-upon window, as there may be no physical space available. When this becomes highly unpredictable or there is a sustained lack of rail service, weeks or months in length, the reverberations extend back directly to the farm gate. It also extends forward to final purchasers in export markets, as grains do not arrive when planned, damaging the reputation of Canada as a solid and dependable source.

This is a primary reason that western Canadian farmers have such an interest in transportation: it directly affects personal farmer income.

Beyond that, farmers critically rely on the service of Canada's railways to move grain to export position. The last several years of reasonably good overall total movement and relative fluidity of the supply chain should not lessen our focus on seeking to improve and do better, as a sector and a nation, as fundamental issues continue to exist.

The current transportation predicament can essentially be grouped into three related but separate issues. The first is that the current rail service issues have created a backlog of grain. The second is the need for immediate government action, and third is the linkage to Bill C-49.

Starting with rail service, one of Canada's class I railways has incurred what we can politely characterize as a system-wide sustained operational failure on its network. As it has conceded, this was largely a problem of its own internal business forecasting and planning, which then was exacerbated by the effects of annual winter operations and various other disruptions.

The other has had better performance overall this year, but at times still at unacceptable levels. The dismal service level sends signals to elevators to not accept grain and in turn to producers to not ship grain. Producers who need to pay bills and purchase inputs for seeding cannot do so, at no fault of their own, and there are no options. Poor rail service causes disruptions in the market for producers, for shippers, and for our export customers. The level of service seen over the past period has been simply unacceptable.

● (1640)

In terms of the second issue, the role for government starts with a recognition that Canada is served by two major railways that operate in essentially monopoly positions. There are no alternatives to move our large volumes of grain. Governments need to play a role in balancing the power of these railways. We were pleased that Minister MacAulay and Minister Garneau have directly communicated with the railways and demanded an action plan, but this should not be needed. Rail should move regularly and predictably on a permanent basis. Bill C-49 can help in that regard.

For farmers impacted by the poor rail service, cash flow can be a problem. A proactive policy measure available to government could be to increase the maximum limit available under the well-established federal advance payments program. The increase would expand farmers' access to competitive financing while the backlog clears the system, maintain flexibility in grain marketing and farm management, and be at no cost and low risk to the government.

The program maximum is currently set at \$400,000. Aside from the transportation challenges being discussed today, a compelling business case for an increase already exists. Since the limit was last set in 2006, farm size and demographics have evolved, farm expenses have grown, inflation has increased, and the grain marketing environment has become more volatile. A limit increase would work to ensure that the program remains relevant and continues to help farmers finance their operating requirements, especially in times like these. Increasing the limit would provide an additional tool for farmers to manage cash flow and finalize 2018 production plans, with spring seeding close on the horizon.

The railways have committed to take steps to improve service, with action plans already set in motion to obtain resourcing. With winter almost over, we expect to begin seeing service improvements in the coming weeks, but an increase to the limit under the APP could offer a tool to help farmers who have been directly affected by the current backlog.

The Chair: Mr. White, I'm going to have to ask you to please complete your presentation.

Mr. Rick White: Lastly, looking forward, Canada must continue to find ways to address the fundamental problem of railway market power and the resulting lack of competitive forces in the rail freight marketplace.

Bill C-49 appears to make progress towards this goal in several areas and does reflect a consideration of what the Canadian rail shippers and the grain industry have been telling successive governments for years about the core of the imbalanced relationship. Bill C-49 is designed to balance two competing interests, that of the shipper and that of the rail service provider. The true measure of success will likely take years to fully gauge. The reliability of our transportation system affects buyer confidence in the global Canadian brand. We know that, because we directly hear about it.

The CCG encourages the Senate and government to work together to ensure Bill C-49 passes and becomes law as soon as possible. This is the long-term fix to the problems we have today. We need it passed, and we need it passed before this session is over.

Thank you.

• (1645)

The Chair: Thank you so much, Mr. White.

Go ahead, Mr. Bonnett, for seven minutes.

Mr. Ron Bonnett (President, Canadian Federation of Agriculture): Thank you, Mr. Chair and the committee, for inviting me to talk about rail transportation and how Bill C-49 can help to prevent the same chaotic situation from happening again.

Right now demurrage costs for vessels waiting at port are escalating, farmers are experiencing significant disruption in their cash flow, and international markets are yet again facing volatile delivery dates. You'll hear more about this in later presentations.

We are here today because a mere four years after an unprecedented breakdown in rail transportation amounting to billions of dollars of losses to the Canadian agricultural economy, we are on the verge of exactly the same disaster. The Canadian Transportation Agency, the CTA, held a review, and three years ago the agricultural industry submitted 10 recommendations to this review that if implemented in their entirety would most certainly have helped prevent this near repeat of the 2013-14 disaster.

Incidentally, recommendation 1, which was to give the CTA own-motion authority, which I will address in more detail shortly, would have prevented the current disastrous scenario, because everyone, including the CTA, was aware of a pending crisis as early as last October. The railways were either unaware or didn't care, knowing that the grain would wait. For the short term, and to solve the current crisis, we ask the minister to look at all options available. If that means mandating volume, we simply ask that it be done strategically to ensure that all geographic areas and commodities are equally well serviced.

Second, FCC and several banks have already announced various mitigation programs. The CFA would support Rick's comments about the advance payments program to address any cash flow issues farmers may be experiencing, and would support the expansion and higher levels as recommended.

For the long term, the needs have changed. At first it was thought that just an immediate implementation of Bill C-49 would serve us well and perhaps even prevent a repeat of 2013-14, and there was an urgent push to pass legislation quickly, even at the expense of several important amendments. Not everyone believes that this is the key thing right now. We have to ensure that Bill C-49 has the tools to prevent the current crisis from happening again. As it is currently written, it does not, as confirmed by many industry players, including CN, which at the CFA annual meeting said that the passage of Bill C-49 would not have avoided the current crisis. They went on to say that only end-to-end data collection, analysis, and fact-based decision-making could solve the problem. This sounds like a ringing endorsement to give CTA own-motion authority, since for the data to have any value, someone must have the authority to investigate and mandate solutions before a problem has started.

Honourable members, the Canadian Federation of Agriculture recommends the following with some urgency.

First, Bill C-49 should be amended to give the CTA investigative authority and the authority to act on its findings by mandating solutions. This would be, for example, investigative authority to be able to request information and data relevant and robust enough to provide a clear picture of transportation logistics, and own-motion authority to proactively mandate solutions. The second is to expedite passage of the bill after the inclusion of industry-submitted amendments.

Allow me to quote the Canada Transportation Act review. It recommended "amending the Canada Transportation Act to confer upon the Agency investigative powers, and the authority to act on the Agency's own motion and on an *ex parte* basis, as well as to address issues on a systemic basis and to issue general orders." The agency itself has requested own-motion powers in its most recent annual report, highlighting it as a major weakness in its ability to discharge regulatory responsibility. Shippers from across all sectors broadly support that request. This amendment will ensure that the regulator has the authority to proactively monitor the system, identify and investigate problems before they become a crisis, and take necessary action.

Own-motion authorities are not exceptional powers in Canadian economic regulation. Other expert quasi-judicial tribunals and regulators often have broader own-motion authorities. The agency's predecessor, the National Transportation Agency, had broad powers to address problems without a formal complaint. The National Energy Board and the Canadian Radio-television and Telecommunications Commission also have the power to act without complaint to address issues within their jurisdiction.

• (1650)

To reiterate, an extension of the agency's own-motion authority would allow for proactive solutions and inquiries when there are reasonable grounds for believing a problem might exist. Such grounds could include statistical evidence, a pattern of complaints, or consistent and credible media reports regarding a transportation service provider's financial difficulties or service failings.

We further support amendments suggested by various industry players, including the long-haul interswitch provision, and the inclusion of pulse crops in the MRE, which would help make our own grain transportation network more competitive and more capable of serving our growing international markets.

The CFA dismisses the argument that amendments will delay the passage of the bill. Members know that this does not have to be the case. Amendments suggested to date have been made by knowledgeable industry players striving to build an effective competitive transportation network and to provide the confidence we need as we continue to grow our international markets.

In conclusion, the excuses of winter weather and unexpected yields don't pass the smell test. The real reason, cutting costs to increase shareholder value rather than focusing on customer service, is much clearer. Information that included higher-than-expected yields, inventory, and grain movement requirements compared to previous years was well known by industry players as early as last October. The fact is that we can no longer depend on railways to get it right without significant regulatory and legislative guidance and authority.

The Chair: Thank you for your presentation, Mr. Bonnett.

We'll have Mr. Dyck now, for seven minutes.

Mr. Mark Dyck (Senior Director of Logistics, G3 Canada Limited): Thank you very much for the invitation to be here today to speak about the grain backlog. My name is Mark Dyck. I am the senior director of logistics for G3 Canada Limited.

G3 Canada Limited was formed through the combination of the former CWB and Bunge Canada's grain assets, funded by two strategic shareholders, Bunge and SALIC, with the long-term vision of establishing a state-of-the-art grain handling company in Canada and a new competitor for Canadian grain farmers.

The G3 transportation model was developed well in advance of the formation of G3 in 2015. G3's strategy was formed on the heels of the bumper crop in 2013-14, when the Canadian grain handling system's fundamental weaknesses were highlighted through shipping and rail backlogs. The government of the time intervened with Bill C-30 to further regulate the Canadian grain handling system with minimum volume requirements to address the short-term issue.

There were some unintended consequences. Service levels did increase; however, they may have at any rate, as that coincided with warmer weather and the reopening of the port of Thunder Bay. We believe the regulation never solved the fundamental problems in the industry.

Western Canada is blessed with an abundance of natural resources. The markets for those resources rely largely on Pacific export corridors, and grain must compete with other commodities for a scarce resource: rail capacity. G3 is making investments to address some of these issues to ensure grain handling remains competitive with other industries in Canada.

We believe the fundamental issues are as follows.

Insufficient improvements have been made in the grain industry to invest in efficiency improvements. The last major port terminal construction was in the early 1980s. Much of the port terminal

infrastructure dates to the mid-1950s or earlier, when the industry was still moving grain in boxcars. They have been upgraded since, but not to the same standard as for other resources, such as coal and potash.

Inland primary elevators are of a newer vintage, with most dating from the mid-1990s to the early 2000s, but many small shippers still exist. The logistical technology that is incorporated at these elevators has failed to keep pace with other industries and is relying on ladder tracks and breaking trains apart. This slows the loading process for grain, which is exacerbated in the cold Canadian winters when it is difficult to air up the train when it is being reassembled.

The supply of grain does not enter the grain handling system in a steady state. Market conditions are such that demand for rail capacity is generally higher in the fall and winter months. The surge capacity required to effectively conduct these exports, particularly off the west coast, does not exist today. Terminals are generally operating at or near capacity, and this problem will continue to grow as the production level in Canada continues to increase.

Early this crop year we saw that farmers were tight holders of grain during what has historically been a very busy season immediately following harvest. The volumes started to shake loose at the same time that western Canada entered winter. The railroads did not have the capacity to service such a spike, following a slower than expected delivery in the early fall period.

If these are the fundamental issues, what are the solutions?

First, it's important to recognize that the situation is not as dire as it was in 2013-14. Production in western Canada in 2017 was 70.9 million metric tons, down about 1% from last year but about 3% above the five-year average. According to Quorum Corporation, the federally appointed grain monitor, total metric tons unloaded at the Vancouver, Prince Rupert, and Thunder Bay ports, which is where the vast majority of western Canadian grain is shipped, is 6% behind last year but on par with the five-year average.

In comparison to 2013-14, Quorum shows that the railways moved 25% more grain hopper cars—that's about 40,000 cars—to Vancouver, Prince Rupert, and Thunder Bay in 2017-18 versus 2013-14. That is from August through January. The February date is not yet available. While rail performance has not met industry's expectations this year, the situation is not as bad as it was in 2013-14. That said, the long-term issues need to be addressed with long-term solutions.

G3's long-term strategy was born out of discussions with industry experts, the railroads, and farmers alike. G3 is investing significant money in a new type of grain handling system featuring loop tracks, a feature not uncommon in the coal and potash industries. We load grain faster and more efficiently than ever before. In addition, we are constructing a new state-of-the-art grain terminal in Vancouver, with loop tracks that will be able to accommodate three fully loaded grain trains intact on the property. G3 is making investments that industry has not experienced in decades, investments that will create surge export capacity, rail efficiency, and velocity.

• (1655)

In periods when demand spikes and conditions become challenging, companies such as G3 will still be able to function at levels not seen anywhere else in the industry. We are able to load a full, 134-car unit train even in extreme cold weather by keeping the trains intact, with the railway locomotives on the train. When locomotive power is not left on the train, the railroads are forced to shorten train lengths to ensure they can properly air out the train for their braking systems. Our model creates a win for us as the grain handler, as well as for the railroads and for farmers.

G3's position is that its investments in efficiency will allow Canadian farmers to effectively reach world markets, allow railroads to function, and allow those grain handlers willing to make the investments to thrive in the long term. Competing exporters around the world—in the U.S., Latin America, the Black Sea, and Australia—have been investing in efficiency for decades. It is time that Canada does the same. We are leading by example in this regard.

The railroads have the responsibility to provide sufficient rail service to the grain handling system. Overall, we are supportive of Bill C-49, which introduces reciprocal penalties, as each party in the supply chain needs to be held accountable. We believe this will provide the motivation required for the railways to be adequately resourced to handle surges in rail demand and winter operating conditions. Further, Bill C-49 introduces the incentive for railways to invest in newer hopper cars, allowing for more grain to move on the same unit train. New, shorter cars will bring additional efficiency to the supply chain and allow companies such as G3 to load 150 cars on our loop tracks, where today we can only load 134. In addition, each car will be able to load about 2.5% more product. This represents a total increase of 16% for each train that arrives at one of our elevators. We would like to see Bill C-49 pass as soon as possible.

We are also supportive of the national trade corridor fund and hope to see some of this fund applied to projects that will further increase railway efficiency, specifically around the port of Vancouver.

In conclusion, I would like to thank you for the opportunity to share G3's unique perspective on the issues and potential solutions pertaining to grain handling in Canada.

Thank you.

The Chair: Thank you, Mr. Dyck.

Now we have Mr. Tyler Bjornson, for seven minutes.

Mr. Tyler Bjornson (Consultant, Western Grain Elevator Association): Thank you, Mr. Chair and members of the committee.

I'm presenting to you today on behalf of my client, the Western Grain Elevator Association. We're pleased to have the opportunity to contribute to your study of the grain transportation backlog.

The WGEA represents Canada's six major grain handling companies, with inland and port facilities from Quebec to British Columbia. Collectively, these companies handle in excess of 90% of western Canada's bulk grain movements. Working alongside grain producers and other rail-reliant industry sectors, the WGEA has been committed to finding long-term solutions to chronic capacity and performance deficiencies in our rail freight system.

The growing backlog of rail shipments in western Canada continues to have a significant negative impact on shippers and the farmers they serve. As you will hear from numerous witnesses over the course of this study, declining rail service over the winter months has created the worst backlog we have experienced since 2013-14.

According to the Ag Transport Coalition, the total railcar shortfall is currently at almost 28,000 railcars. This represents over two and a half million tonnes of grain that companies have submitted orders for that have not been filled in the week they were ordered.

Overall performance over the course of this shipping season has been steadily deteriorating, with car order fulfillment below 50% on average in most weeks. One railway in particular has brought the average down, hitting an all-time low in the week of February 12, when just 17% of cars ordered were filled for that order week.

For grain shippers, that translates into serious costs in the form of not just lost sales but penalties due to vessels waiting at port. It also means a hit to Canada's reputation as a reliable supplier, a reputation that has not yet recovered from the 2013-14 grain crisis. As members of the committee will know, in a highly competitive market like ours, once business is lost to a competing supplier, it is very difficult to win that business back. These are the immeasurable costs that hurt us not only in the immediate term but also for years to come.

In this context of challenging service, we would like to thank Minister MacAulay and Minister Garneau for their interaction with the railways and for working to find ways to see an immediate improvement in rail service, not only for grain but also for the many sectors that are experiencing problems.

As most of you will know, the WGEA has been singularly focused on fixing rail issues in a permanent way. While this current backlog is shining much-needed light on the systemic problems that plague Canada's rail logistics system, the issues are of a much more chronic nature.

The WGEA is of the view that the measures contained within Bill C-49 represent a big step in the right direction toward arriving at permanent legislative solutions. The ability to negotiate reciprocal penalties into our service level agreements, for example, is in our view one of the most important provisions contained within the bill.

Consider what has likely precipitated the current rail backlog. Would the railways have planned differently this fall had there been the legitimate threat of penalties for not moving grain and other bulk commodities? We believe the railways would have taken different decisions if credible reciprocal penalties had been in place. Unfortunately, with the provisions of Bill C-30 expired and the passage of Bill C-49 uncertain, grain companies and farmers are effectively left in this no man's land with no tools or remedies for poor service.

It is to that end that the WGEA has joined with farmers and the entire grain sector in asking that Bill C-49 be passed without delay. The bill, as you know, is currently before the Senate committee on transport and communications. We are grateful to the senators of that committee, who are taking the time to ensure the bill achieves its intended goal of better performance by rail.

It will be well known to members that the WGEA is of the view that the bill needs to be improved in a key area with respect to the long-haul interswitching mechanism, the LHI mechanism. The LHI provision is not only more bureaucratic and difficult to use than the extended interswitching mechanism we saw in Bill C-30; we are also concerned that the grain sector will not be able to leverage its use properly if two small targeted amendments are not made.

As the bill is current written, if an elevator is dual-served—meaning it already has access to two competing rail lines on site—or if it's located within 30 kilometres of an existing interchange, the facility will be excluded from applying for an LHI order. Now, if those two rail lines are both headed in the relatively wrong direction—for example, east-west when the traffic's final destination is the southwestern U.S.—that elevator for all intents and purposes is still captive. The LHI is useless to them.

We have done an analysis on this point and have determined that 75% of all Canada's value-added grain processing facilities would be prohibited from using LHI because of this restriction. In terms of creating competition, we believe this was not the intent the government had when it drafted this provision.

The grain sector submitted an amendment to the House of Commons transport committee study to address this situation, but unfortunately it was ultimately rejected by the House.

● (1700)

It is our hope that now, during these final hours of consideration and in the context of the current grain handling situation, the Senate committee will take this opportunity to include these important targeted amendments in their report.

I want to take these final seconds to address you, the members of this agriculture committee, to ask for your help to ensure that once the bill is brought back to the House, you will work with your colleagues to do whatever is necessary to get the bill passed.

The WGEA, grain farmers, and our sector as a whole have waited too long to see this bill made law. We implore you to work across party lines in the interest of this sector to get the job done.

Members of the committee, the reality is that we've already lost too much in this shipping season. Let's not lose the next one as well.

Thank you for your time. I look forward to your questions.

● (1705)

The Chair: Thank you very much, Mr. Bjornson.

Now we'll start our question round. We'll start with Mr. Berthold and Mr. Barlow.

[*Translation*]

Mr. Luc Berthold: Before I begin, Mr. Chair, I want to commend our interpreters on their outstanding work. Everyone here can attest to the work they do. Part of the presentation was very tough to interpret. Mr. Bjornson spoke very quickly and the interpreter did an outstanding job. My congratulations and thanks to him.

Voices: Hear, hear!

Mr. Luc Berthold: For the last little while, you have been calling for Bill C-49 to be passed as quickly as possible. Do you have an opinion on the Canadian passenger bill of rights, though? Do you have an opinion on the public participation of foreigners in the funding and shareholding of Air Canada? That is the problem with Bill C-49.

The problems with Bill C-49 can be traced primarily to the fact that the Liberals refused last June to divide up the bill so as to speed up the adoption of certain measures. The two opposition parties wanted to proceed very quickly in order to avoid the black hole of August, given that the special measures established in Bill C-30 were about to expire and become void. That is the truth.

The government does not want us to be partisan, but it behaved in a partisan way itself by putting forward Bill C-49, which is full of things that have nothing to do with each other. Now, it is using us to get this bill passed as quickly as possible, but you have nothing to do with the passenger bill of rights.

What we want is for the grain to be shipped. What we want is for you to sell it on the market. What we want is for the system to work. Unfortunately, what the government wants is to pass an omnibus bill that is full of things that have nothing to do with grain shipment. That is the problem.

If the bill had been divided up and we had been able to pass these measures last June, would we be in the same situation today?

[English]

Mr. Rick White: Our interest is on the rail side of the bill and on how it handles grain and grain products. We have no interest in, or at least our organization has no comment on, the passenger bill of rights side of things, or marine aspects or those types of things. We are very focused on the rail side of the bill. The government structured it as the government structured it, and that's for the government's debate.

Mr. Ron Bonnett: I think our issue is very similar. We know we have a problem with grain transportation. Frankly, it's not our job to fix it; it's the government's role to figure out the best way to fix it. I think what you've heard from the presentations is the urgency that's required, and I think what we have to focus on now is that urgency.

This is about the Senate, this committee, and the minister working together to figure out how to make sure that we can get Bill C-49 passed and how to make sure it has the teeth that are necessary to make it work.

Mr. Tyler Bjornson: I will just add quickly that no one is telling us to say "get this passed quickly". We've been saying that for a very long time, and three of the five key things that we were asking for during the review under the previous government are now in this bill.

It's not perfect. It scares me a little bit that I have the same line as the railways: that although it's not a perfect bill, it's a good bill. There are several things in there that are critical, including reciprocal penalties. We didn't get extended interswitching, but long-haul interswitching we're willing to work with, so long as these important amendments are made to make it legitimately credible for us to be able to use it.

We're now stuck in the situation of having to implore all sides of the floor to please work together. If it were our way, we would have liked to have had this done months and months ago.

[Translation]

Mr. Luc Berthold: We could have worked together to solve this crisis nearly a year ago.

I will give the floor to my colleague, Mr. Barlow.

[English]

Mr. John Barlow: Thanks again, Luc. You're exactly right.

Tyler, you touched on it. I remember speaking in the House about this last September and October; we did want to work across the floor. We adamantly supported splitting the rail transportation off of Bill C-49. We would move it through. I think if that had been the case, we would have caught some of these proposed amendments that you're bringing forward, like the long-haul interswitching and those types of things. If it had been a separate bill, we could have addressed some of these points then, but because it's such a huge bill, it's now stuck in the Senate on something that has nothing to do with what we are talking about right now. That's the frustrating part of this entire discussion.

I like to think that when we went through this in 2013-2014 as the government, we knew what we were facing. Bill C-30 would have

addressed some of these issues in good faith. We said, "We're warning you that this is going to happen, so let's try to address it." It is frustrating for us, but it's more frustrating for you as producers and stakeholders that you're having to go through this again when there was opportunity to try to fix this situation.

Rick, you brought up an interesting point that I think we missed out on, and it's a fact that Tyler brought up too: we're missing markets that we may have had. We're not getting a premium for our product, because on the international trade market when we're talking about our producers and we want agriculture to have a \$75-billion trade business, which is fantastic, we're taking away every possible tool for our producers to be able to reach those types of goals.

Can you touch on the fact that we are not getting a premium for our product because we are no longer a reliable trading partner because we cannot meet our sales deadlines because we can not get our product to market?

• (1710)

Mr. Rick White: Our biggest premiums in the market globally are October, November, and December shipping. That is the toughest time to ship in Canada. When we miss that sweet spot and we're now pushing shipping down into June, July, and August, we are losing premiums that we would have captured had we had more rail capacity earlier in the year.

Yes, it's very unfortunate. We would rather see a lot more movement, a lot more sales going on when customers around the world are paying top dollar for our product, because the southern hemisphere is in a different cycle than we are. We are definitely losing out.

The Chair: Thank you, Mr. White. Thank you, Mr. Barlow.

[Translation]

Mr. Drouin, you have six minutes.

[English]

Mr. Francis Drouin: Thank you, Mr. Chair. I'd just like to state some of the facts here, because I heard some issues that were not factual. I just remind my colleagues that the House of Commons was able to pass Bill C-49 within two months. The bill was first introduced on May 16 and we got it passed by October 30—sorry, let me correct the record: it was by November 1.

It's been in the Senate for more than two months, and it's the charter relating to passengers. I remind my colleagues as well—and they have access to the blues—that 70% of the discussion is about what we're talking about today. I just want to put the facts in perspective.

Mr. White, I know there are some issues with Bill C-49, but I think we're striking the right balance. We've heard a lot about the winter. Bill C-49 wouldn't have addressed the winter issues.

What can government do better? I know you mentioned the advance payments program. Right now the discussion we're having is not going to help our farmers today. In the future, is the government providing enough steps to mitigate that risk in terms of cash flow issues? Do you have any suggestions for us that we could adopt today?

Mr. Rick White: I did mention briefly about the advance payments program. As a proactive measure, the government should be looking at the advance limits that are currently in place. Right now, if farmers have not delivered and paid down much of their advance and they're at the maximum \$400,000—say they paid it down to \$300,000 due to slow movement—they're running into a brand new program on April 1 and they're only eligible for another \$100,000. That's catching some of them in the pinch between two programs, because the overall maximum is \$400,000.

An easy fix would be to expand that limit to whatever the government would be comfortable with. We would say double it to \$800,000. Farmers use the program for what it's intended for, which is to cash-flow themselves so they can market their grain appropriately. They can't market now because of the grain transportation problems that are plaguing the industry such that they're not able to sell their grain. That is one very proactive measure on the finance side.

Again, I don't want to take away from the focus on the service issues at hand. Bill C-49 is what we really need long term, and we really need that bill amended and passed. There are some good amendments coming forward. It needs to be done this year to get ready for next year, because this year, what's happening is going to happen. We can address some of the financing, as I suggested—a short-term Band-Aid fix to help farmers through it financially—but at the end of the day, Bill C-49 is the focus. We need to get it passed. We need to get it through the Senate. We need co-operation with the House to get royal assent on it before we go into the summer break, because we need to start next year in a lot better place than we have been this year.

• (1715)

Mr. Francis Drouin: Great.

Mr. Bonnett, do you have anything to add?

Mr. Ron Bonnett: The cash flow is just one point.

I was a little disappointed when I listened to some of the railroad presentations. The one thing that gets missed in there is about getting the planning in place so that you can deal with the issues. Everybody knew back in October that there was going to be an issue, and then all of a sudden it's February when you start putting locomotives in place and drawing people back. I think the only reason they put those people in place was the threat of government action, and I think what we're looking at with Bill C-49 is that this threat is always going to be there. They have performance standards that they're going to have to meet.

We're talking about a bridge with the advance payment programs, but we have to remember that the core issue is that farmers can't market that grain when the grain is ready to be marketed. That's going to affect the cash flow, so unless we have a long-term solution, we could be back at this table in three years.

It's interesting that they talked about putting in interim engines to keep the lines open. That was discussed when they were in front of this committee four years ago as well. Why wouldn't that type of planning be in place?

Mr. Francis Drouin: Maybe I can ask Mr. Dyck and Mr. Bjornson.

I know, Mr. Bjornson, your group is part of the Ag Transport Coalition. Is there an opportunity for you guys to meet every year with the rail companies and say what you think your crops are going to be this year, and how many cars you believe you're probably going to need? Is there that opportunity for you guys to talk about that with rail companies?

Mr. Tyler Bjornson: There is an extraordinary amount of interaction between the shippers, the customers, and the railways on projecting what future volumes are going to be, both at an individual company level as well as at a group level. Recently we've had one of the railways interacting with the crop logistics working group, which is the full collection of industry associations in agriculture talking directly to the railways about the challenges we're facing.

There are also groups within Transport Canada, multisectoral groups including the ag sector, that talk about forecasting and demand into the future. That's taking place right now. I think what's missing is the accountability if the railways don't put into place the capacity needed in order to meet those demands.

Mr. Francis Drouin: Do you guys meet at the end of the year to discuss what went wrong and how to fix it? Is there that opportunity as well, or is it just about projections?

Mr. Tyler Bjornson: I think there's always a desire to see that sort of a discussion take place and be able to reflect on opportunities to do better. We'd certainly welcome that. I don't think it always happens. I don't know that the door was always open to do that, but I don't see any reason we wouldn't want to meet and discuss how we can improve for next year and how we can make sure that it doesn't take public scrutiny and a scolding essentially in order to get the grain moving.

The Chair: Thank you, Mr. Bjornson.

[*Translation*]

Thank you, Mr. Drouin.

[*English*]

Now, Mr. MacGregor, you have six minutes.

Mr. Alistair MacGregor: Thank you very much, Chair.

Mr. Bjornson, in your opening statement you had made mention of how international customers had reacted to the previous crisis, to the delays and some of the damage it did to our reputation. I was wondering if you could maybe elaborate a little bit on that. How long did it take us to recover? Have we fully recovered, and what's this current crisis going to do to the efforts that were made over the past four years?

Mr. Tyler Bjornson: Thank you very much for the question.

We know it's an issue with our customers internationally because a number of the commodity associations nationally that are responsible for canola, wheat, and pulse crops go around the world when there's a new crop that comes out and discuss with our international customers some of the quality issues and any of the challenges that we might be facing, any opportunities, and have just a general regular conversation with our customer base as well to make sure that we're establishing a good relationship. My colleagues who do those missions abroad have told me that their customers, especially in high margin, high-value markets and especially in Asia, raise this question every single year around whether or not we're going to be able to deliver the crop. That's still happening this year, five years afterward. Even before we knew of the challenges back in October, we were hearing that from customers. It's hard to judge how long it's going to be before we stop getting those questions, and it's hard to judge how many sales and opportunities we missed as a result of customers not wanting to take a chance on doing business in January, February, March because they're worried we're not going to be able to deliver.

• (1720)

Mr. Alistair MacGregor: Mr. White, do you have anything to add?

Mr. Rick White: I was just going to give an example. Japan is our longest-standing, most important customer for canola. We meet with them formally twice a year. Every time we've met since 2013, they've brought up the reliability of delivery of their product—our canola—to them in Japan. It's a concern. We really shook the relationship substantially with the crisis back in 2013, and they haven't forgotten. Every meeting it comes up.

Mr. Alistair MacGregor: I'd like both of you to comment again. This government has set the goal of increasing our agricultural exports to \$75 billion by 2025. Are you optimistic that we can reach that goal, given what we're still going through?

Mr. Rick White: On the production side, definitely we can reach it. The question is whether we'll have the infrastructure to sell it and get it out of port.

Mr. Tyler Bjornson: With the ability to continue to innovate and adopt new technologies at the production level as well as the handling and grain processing levels, we definitely see the potential to reach those levels. In terms of our ability to deliver on that, there are still a lot of question marks. That is why the remedies in Bill C-49 are so critical, from our point of view.

Mr. Ron Bonnett: I have just one point to add. We're talking about the rail system right now, but if we're going to be going after export markets, that will include the regulatory systems, the docking systems, the rail systems—a whole number of things. It's about value-added processing. There has to be an overall strategy to deal with this. This is one component. We know the bottleneck right now is rail, but we have to make sure that the system operates fluidly and that all the pieces fit together.

I think that ties in with some of the comments that were made about sharing data and information, because if we don't know what all of the partners are doing, it's pretty hard to design a system that works fluidly.

Mr. Alistair MacGregor: Mr. Bonnett, I'll continue with you for my next question. I believe you were in the room listening to CN's

and CP's testimonies. You heard their statements and how they responded to questions from this committee. What was your takeaway from what they stated? Are you happy with their plans, or is it too late?

Mr. Ron Bonnett: The initial reaction is that I think we got their attention. The frustrating thing is that it's taken a lot of pressure from government officials, individual MPs, and farm organizations, as well as an almost crisis situation that developed in February, when Manitoba didn't have any cars delivered in one week. Some of what we're hearing sounds so similar to what we heard in 2013 and 2014. There is a need to make sure we have some type of system so that proper planning takes place, but it has to go beyond that. There have to be some teeth, and Bill C-49 provides part of that, to ensure there's compliance.

It's not the same as trucking grain. In that case you can go hire another trucker if one isn't performing. You're stuck with those railroads, so you don't have the flexibility to do that. That's why the regulatory system has to be in place to ensure there's compliance.

Mr. Alistair MacGregor: I've heard all of you talk about Bill C-49. It was my colleague Robert Aubin, the NDP transport critic, who moved the motion to split the rail provisions off of Bill C-49, create a new bill, Bill C-51, and refer it directly to the transport committee. Unfortunately, we were not successful, but it was our hope at the time that those particular clauses of Bill C-49 could make a speedy passage. In hindsight, that might have been the best option. Unfortunately, as a House body we have no control over the other place, but I hope they are hearing the message loud and clear that those provisions need to get the attention they deserve.

Thank you, Chair.

The Chair: Thank you.

Go ahead, Mr. Longfield, for six minutes.

Mr. Lloyd Longfield: Thanks, Mr. Chair. Thank you all for coming and giving your perspective on things.

This is not to relive the old debates that we had in the House of Commons before the summer that looked at an integrated transportation program, but what we're seeing now is that part of that integration—and it includes all the intermodals, including air traffic as well as rail and truck transportation—is also financial.

Mr. White, the previous time we were facing problems, in 2013 and 2014, there was a spike in requests for APP funding. We knew that we were in trouble because of that spike in requests, but this time we didn't get the same warning signals. Could you comment on the financial warning signals that could have helped us react quickly?

•(1725)

Mr. Rick White: During the crisis of 2013, the cash advance spiked quite substantially. We put probably an extra \$300 million out the door in the last two months or so before the new program. We knew farmers were desperate at that time. This year the data doesn't show that yet—and I underscore “yet”. That's why in my testimony I suggested that as a proactive measure, we should be looking at this aspect. The data doesn't show it yet, but we're not through this situation yet either. The financial issue could be coming and it could be coming very quickly, because spring is coming, inputs are going out, and bills are going to have to be paid. I hold judgment as to whether or not we're seeing it yet, but we need to be ready.

Mr. Lloyd Longfield: Yes. Thank you. From the farmers' perspective, we need to make sure that they can purchase their seeds and other inputs.

FCC is playing a role this time. It's doing that as part of a stopgap measure. Would you see that as more of a permanent solution that could provide access to more funding if we're not able to change the APP limits?

Mr. Rick White: We see the permanent solution as just changing the limits. We don't see that as ad hoc, because farmers have been asking for limit increases in an ongoing way regardless of the situation. Now would be a great time to do it, because it would be a much more proactive measure to take.

Mr. Ron Bonnett: Don't forget as well that if you extend the payment period, farmers are paying interest on that money as well. If they had the payment, they wouldn't have to pay that extra interest. The solution is to make sure they sell the grain when it's due to be sold.

Mr. Lloyd Longfield: That's a good point. You always have the good points.

FCC, I understand, is giving them 30 days interest free, to get their cash flow going.

I'm also thinking in terms of Mr. Dyck. I'm really interested in the change of movement of grain on the Prairies. I grew up with the old elevators, the small elevators. When you go into Saskatchewan and Manitoba now, you see these super-elevators with high throughput. Do we have the road infrastructure to get to these elevators? There are further distances to get to these elevators.

I'll be speaking in the House on the budget in a few minutes, so I'll have to rely on one of my colleagues to cover for me, but infrastructure deficit is one of the major deficits that we have that we're trying to address through our provincial and territorial partners. Where are we at in terms of road infrastructure to match the high-throughput grain handling services that you're providing?

Mr. Mark Dyck: That's a great question.

Road infrastructure is essential, for sure. We're actually in the process of building four brand new elevators. We have two more under construction that are going to be completed this summer, with more to come.

One of the key things we look at when we build an elevator is the road infrastructure. We're trying to build on class 1 highways. You can have a lot of grain in a dryer, but if the farmers can't access it...

You want to be on class 1 highways so you can avoid road restrictions during certain times of year. It is essential in the long term for farmers to have the proper infrastructure to deliver to our facilities.

Mr. Lloyd Longfield: In terms of—

Mr. Tyler Bjornson: I would just like to add to that, if I could.

Mr. Lloyd Longfield: Go ahead, please, Mr. Bjornson.

•(1730)

Mr. Tyler Bjornson: I'm really glad you brought up roads, because that's one of our concerns. Hopefully rail service will improve over the coming weeks, but the challenge is that there are going to be weight restrictions and road bans starting in April. Not only that, my colleagues here are going to be in the field seeding their next year's crop. If that becomes available in April and May... That's partly why I said at the end of my testimony that we've lost too much of the opportunity for this year, so let's not do the same thing for next year.

Really what we're focused on is preparing for next year and making sure that we don't lose that opportunity for next year. It will take us months and months to negotiate service level agreements with reciprocal penalties, and we will probably have to arbitrate them. That's why we're focused on speedy passage. We know it's going to take us many months to negotiate those agreements.

Mr. Lloyd Longfield: I understand that some of our provincial partners are giving extensions on what would have normally been a restriction. Facing the situation that possibly highway infrastructure could also, depending on the design.... I know they're doing some interesting things in the northern territories about this challenge.

Mr. Tyler Bjornson: They're really challenged.

Mr. Lloyd Longfield: Yes.

As far as the long-term plan is concerned—and farmers have been asking for years for the government to have a long-term plan—we're hoping to get to that stage through an independent Senate. Really, we aren't whipping votes. We don't have the tools, as government, to use with the Senate that previous governments have had. Hopefully we can work together to get this through quickly.

I'm going to have to leave it at that. Thank you very much for your testimony.

The Chair: Thank you, Mr. Longfield.

That concludes this hour.

I want to thank all of you—Mr. White, Mr. Bonnett, Mr. Dyck, and Mr. Bjornson—for taking the time to come here and talk about the situation on the ground. Hopefully we'll get good weather and timely shipping.

We'll suspend quickly to change the panel again and be right back.

• _____ (Pause) _____
•

•(1735)

The Chair: Okay, everybody, back to your seats. We'll get this third hour going.

In this hour we welcome, as an individual, the Honourable Gerry Ritz; from the Grain Growers of Canada, Mr. Jeff Nielsen, President; and Mr. Ian Boxall, a Vice-President of the Agricultural Producers Association of Saskatchewan.

We'll start with seven minutes for opening comments.

Let's go right to you, Mr. Ritz.

Hon. Gerry Ritz (As an Individual): Thank you, Mr. Chair.

Thank you to the members of this committee for taking on this study. A lot of the farm groups have made a lot of pertinent points, so I won't underscore them again, but this is déjà vu all over again. As has been said, we went through these same things in 2013 and 2014.

I'm hearing a few different things this time around. There's an apology from the railways, which is great. I'm going to go to my banker tomorrow and tell them they can't foreclose, because I've got an apology. However, it's a good start.

I do have a bit of a concern in that what we talked about, which led to Bill C-30 and is now underscored in Bill C-49—there is some more work to be done on that, with a couple of amendments—still comes down to consultation among all of the supply chain to find out what exactly will be required, when, and so on. As Rick said, the prime months for shipment to get that premium dollar are in the fall. Somehow we're still missing that.

I was a little bit concerned when the railways talked about how they allow for 3% growth. From talking to industry, it seems they need 13%, but they're not making that connection. They were talking too about last year's big crop, but in reality it's less than 3% of the five-year average increase. If they're talking 3%, there shouldn't have been a problem.

Also, we're only talking about agriculture here, but there are a lot of other commodities on the rail as well, and I understand that there are concerns from all of them, as we found out in 2013-14. It wasn't just farmers. They began the push to see some changes, but everybody who hauled a bulk commodity, including intermodal and so on, was talking about delays, about boats sitting waiting, about not being able to off-load boats and so on because the capacity wasn't there to do that.

Since that time, there have been tremendous increases in infrastructure through the full supply chain. The railways are now talking about making some of those investments, but it still comes down to track capacity. To get to the bottom of that is again a collaborative effort. It takes data on a week-by-week, quarter-by-quarter basis, going through Quorum and Transport Canada, to figure out where the hot spots are, where there's a problem. Then the shippers, the grain buyers, can make a decision that, for instance, we're not going to run to Thunder Bay this week, because there'll be this type of capacity problem there. We'll run west coast, or we'll run not west coast Vancouver but Prince Rupert, because we see some bottlenecks and capacity problems on those lines.

Again, it needs a collaborative effect, quarter by quarter, week by week, to know exactly what's going to happen. I'm a little shocked that some of the line companies don't seem to understand, or the railways can't figure out, how much volume they're going to have to

handle when StatsCan is out there saying what the crop is going to be before I've even brought my combine into a few of the fields. The numbers are always out there. They're reasonably close, within the margin of error. I think what our crop outputs are going to be has to be brought into the argument as well.

Most farmers do those StatsCan surveys. I know you guys get more than you want to do. They call before breakfast and they call after supper, when you're busy.

It's great that you're doing this. It's great that you're having this analysis. Again, the problem comes down to the fact that it's tied up in the Senate and there's no push to break it free there. I know that work was done in trying to split the bill, and that was a good move, but there are things that the Minister of Transport can do by order in council to continue what sunsetted in July and get the interswitching back at 160 kilometres, which works well. We didn't pick that number out of the sky. We sat down with the new design that's out there. I mean, at one point there were almost 2,000 elevators across western Canada. Now there are 300, with the same kind of capacity. They're all located a lot further than the 30-kilometre interswitching, which was the rule at that point. We sat down and drew concentric circles where it made sense, and 160 kilometres was the magic number.

I know they're talking about a long haul now of 1,200 kilometres or some such thing, but the average haul out of western Canada at the port in Alistair's country is 1,400 kilometres. We're still a little short there. I'm not sure how workable it is or whether the minister has the ability to tweak that or not. It all comes down to....

Japanese buyers are usually the ones who talk about three things. They love our quality, they're always concerned about the price, and they always bring up the ability to ship in a timely way. Those are the three things I heard year after year after year about Japan, even before we had our problems in 2013-14.

Moving beyond that, there's still a tremendous amount of work to be done to make sure that when we're bidding against the U.S., against Australia, against Brazil, and against the other major producers in the world, we're there in a timely way and can make this thing work.

I know one of the major shippers. He owns 40-some Panamax boats. He doesn't like to come into the west coast because he doesn't want to sit there. There's only money in moving and continuing to move. There were some changes made, and he is now doing some work out of there, but still it's not his first port of call. He needs other things happening.

• (1740)

A tremendous amount of infrastructure is going to be needed. I know there is talk about the corridors. The TPP has now been signed, and that means a lot more product going out, providing we ratify it in a timely way and we're one of the first six, so let's get 'er done. At the end of the day, of course, it's about making sure that we can load those boats and get them on the water and to our buyers overseas.

I'll stop with that, because I know you guys need some time for questions. You also have a vote coming up, I understand.

The Chair: We do.

Thank you, Mr. Ritz.

Now Mr. Nielsen is up for seven minutes.

Mr. Jeff Nielsen (President, Grain Growers of Canada): Thank you, Mr. Chair, senators, and MPs, for allowing me to come and provide some comments to you today.

Across the Prairies, farmers are once again suffering the impacts of poor rail service. Unfortunately, this is not a unique experience. We dealt with it four years ago, and that's why I am here today: to ask the committee to back the systemic solutions that can fix rail transportation for the long term.

Grain Growers of Canada represents 50,000 grain, pulse, corn, oilseed, and soybean farmers across Canada, from the Atlantic provinces to the Peace Country of British Columbia.

Personally, I run a family-owned incorporated grain farm in south central Alberta, near Olds, growing wheat, malt barley, and canola. Grains off my farm are shipped south to the U.S. and to Mexico, and shipped through the west coast to ports in Asia and around the world. Effectively, every tonne of grain I sell off my farm must travel by rail to get to the end customer, be it in Canada, the U.S., or overseas.

Over the last couple of months, because of poor rail service, elevators are filling up and our grain is not able to get to our customers. This situation has put many farmers across the Prairies in the position where, because their own grain hasn't moved, they haven't been able to get paid.

We appreciate that this committee has recognized the difficult position this has put grain farmers in and has agreed to hold this hearing today. We believe that transportation is not a partisan issue and that all members of the committee should be able to agree on the need to have a rail transportation system that works. That is why we're asking you to come together and support getting Bill C-49 amended as we've presented it and passed as quickly as possible.

As has been mentioned, the unfortunate reality is that road bans and seeding are fast approaching. I will quickly just give a bit more information on road bans. Every 10 loads of grain I can haul today without the road ban would mean 13 trips the next time, once the bans are in place. That costs me more money in manpower for that trucker, and naturally it costs more for fuel. Farmers will have to use their skills as business managers to work through the difficult position they have been put in due to these new issues.

However, there is an opportunity to fix this situation for the long term so that farmers are not forced into a rail crisis again. With the amended Bill C-49 in place, the industry will have effective tools to hold the railways to account or to be able to take their business to another railway if they cannot get acceptable performance.

I know you've heard of the problems farmers face today, and that is why there is a focus on Bill C-49. First and foremost, the bill provides the ability to hold the railways financially accountable for the service through reciprocal penalties. The current lack of accountability impacts all the players in the supply chain, and ultimately farmers. Giving shippers the ability to hold railways to account through the reciprocal penalties in Bill C-49 will help ensure that car orders are fulfilled and my grain can get delivered.

Other benefits of Bill C-49 include a clear definition for "adequate and suitable service", increased requirements for reporting and railway contingency planning, improved data collection, and new powers so that the Canadian Transportation Agency can play a larger role in areas such as improved dispute resolution processes.

However, it is important to understand where Bill C-49 falls short.

First, the maximum revenue entitlement, or MRE, is a key tool for protecting grower interest, and it needs to be amended to cover the movement of soybeans. I understand that when schedule II was created in 2000, soybeans were not really grown yet on the Prairies; however, soybeans are now a major commodity. They are the third-largest crop in Manitoba and soon will become second. Their production is spreading across Saskatchewan and Alberta as growers get new varieties. The act also excludes chickpeas, which should be corrected. It is simply unfair that some producers are protected, but not all of us are.

The real benefit of Bill C-49 is the long-haul interswitching, which gives shippers the ability to take their business elsewhere if they can't get acceptable service. Grain farmers saw improved service when interswitching was in place previously; often the threat of taking their business elsewhere was enough to get the railways to improve service.

However, as the bill is written today, too many elevators and too many processors will be excluded from long-haul interswitching. This means farmers will likely be put in the same situation of grain being backed up in their bins the next time one railway starts to suffer.

•(1745)

That is why the second target amendment that Grain Growers of Canada supports is to amend the provisions for long-haul interswitching so that it can remain a very useful tool for our grain companies to obtain more competitive terms of service.

Bill C-49's long-haul interswitching provision allows some of the same benefits as the previous extended interswitching; adoption of the amendments proposed by the crop logistics working group will ensure that oat and other grain farmers will receive the service they require.

Grain farmers across Canada have worked hard to provide the world with top-quality grain, oilseeds, pulses, and corn. We strongly support the government's ambitious target to increase agrifood exports to \$75 billion by 2025, but this can only be achieved with a dependable and accountable rail transportation system. We can't meet our target if we can't get our grain to market.

The bottom line is that this year's repeat of the 2013-14 rail crisis is another example showing that we need to see Bill C-49 amended and passed as soon as possible. While it may be too late to see significant improvement this year, Parliament has an opportunity to give shippers the tools they need to prevent this situation from happening again. CN and CP have demonstrated time and again that they will not act on their own, and that is why shippers need tools to hold them to account. Without these legislative tools, we know it will happen again. It shouldn't take a farm crisis to get the grain moving.

I thank you and look forward to your questions.

The Chair: Thank you, Mr. Nielsen.

We now have Mr. Boxall for six minutes.

Mr. Ian Boxall (Vice-President, Agricultural Producers Association of Saskatchewan): Thank you, Mr. Chair, and thank you for the opportunity to present to this committee.

I'm here today to explain how poor rail performance affects my industry, my community, and my family business, and why we need Parliament to take immediate action.

I and my wife Lisa and my brother and my sister-in-law together farm 8,300 acres of grains and oilseeds in northeast Saskatchewan. I am also vice-president of the Agricultural Producers Association of Saskatchewan.

We farm about as far from port as you can get, and in an average year our farm pays \$360,000 in freight to get our products to our customers. The backlog of grain in the Prairies has had a huge effect on the ability of producers to cash-flow their operations and is making things extremely difficult for farmers going into their most expensive season. In the northeast, we are sitting with 3-month-old grain contracts undelivered due to the shortage of timely and sufficient railcar service to the elevators. At the end of February, personally, we were sitting with an outstanding wheat contract from December that we had been unable to deliver. This was leaving us in an extremely tough financial position. Luckily, our local elevator, which is one of only four in Canada that are serviced by both CN and CP, found some room to take our product and help us out. They didn't have room to take the entire contracted amount, but just

enough to give us the money we needed at that time. We don't get paid on a contract until we deliver, and these delays place financial and personal stress on us as producers for something that shouldn't be a concern.

Two of the short lines that operate in northeast Saskatchewan have also felt the pinch of the lack of rail service this season. They have had a very poor and inconsistent supply of cars this shipping year, and this problem started in October, long before winter showed up again in Canada. They have also had several cases of cars that have been loaded and then not picked up for weeks. Producers do not get paid for the product loaded in these cars until it is received by the end user, so this is again placing unnecessary financial and mental stress on producers.

A lot of the highly sought-after oats grown in northeast Saskatchewan are loaded on these short lines in either dealer or producer cars. I grow 2,200 acres of these oats every year, and with poor rail service the market for these oats is in jeopardy. The processors need to find alternative sources for their oat supply, since our railroads have dropped the ball on shipping our product in a timely manner. My little boys want their oatmeal most mornings. I want that to be Canadian oats from Tisdale, not oats from Australia.

The rail issue isn't just affecting grain deliveries. Our local fertilizer dealer has been trying to put fertilizer in place for us, its customers, since last fall. Due to rail logistics, they have to pull fertilizer by truck out of Redwater, Alberta, instead of Clavet, Saskatchewan. That's an additional 1,000 kilometres per trip. So far this season, they have had to pull roughly 60 loads of fertilizer from Alberta, and that is only half of the product they require. If things continue like this, we are looking at an additional 120,000 kilometres of trucking freight. That's added manpower, truck power, wear and tear on the roads and equipment, costs, and carbon emissions that we as the end users are going to have to pay for. Spring road bans will be coming into effect very soon, and we could be short of fertilizer in western Canada to put in this year's crop. All of this is due to poor management and planning on the side of the railroads.

Farmers need to get the rail service that we pay good money for. Bill C-49 was drafted because of the disastrous shipping season of 2013-14, and it's completely outrageous that we are even here today and talking about this again.

In closing, we need all parliamentarians, from both the House and the Senate, to come together and pass Bill C-49 for the sake of the shippers, the processors, the retailers, our economy, our farmers, and all Canadians. Farmers already deal with so many unreliable factors—weather, crop prices, input costs—but reliable rail service is something we should be able to depend on every year.

Thank you.

• (1750)

The Chair: Thank you, Mr. Boxall.

Now we'll start our question rounds with Mr. Dreeshen. You have six minutes.

Mr. Earl Dreeshen: Thank you very much. I'm glad the witnesses are here so we have an opportunity to talk and everyone can listen to some of the concerns that exist.

Ian, you mentioned the concerns you have with short lines and poor service. I don't think people recognize the importance of that aspect. Everything is affected because of it.

The road bans at spring seeding that we talked about earlier are an issue that is going to affect farmers and those who are going in, since even if they start calling for grain right now, it's going to be difficult to move it, and you have all of these other issues. I think that's one of the parts that is so critical for us to look at.

I know, Jeff, you were talking about the long-haul interswitching concerns. I know that when you were engaged in this issue back in 2013-14, this was a critical component as well.

Minister Ritz, we've seen so many things that have happened. You spoke about the tremendous development of infrastructure that is taking place in our system. This started when real investment went to give farmers the freedom to market and we started to see the issues that were expanding.

I thank all of you for the efforts you have made.

I'm wondering, Mr. Ritz, if you could talk about some of the concerns and issues you see, how the order in council was able to move things forward, and why, if that was a solution back in 2013-14, it wasn't done back in December or January when this problem started to develop.

• (1755)

Hon. Gerry Ritz: We could have gone back further than that and extended it to when they sunsetted in July, just to keep things on an even keel.

The problem we had in 2013-14 was cash flow for farmers, but there were also 60-some boats sitting on the west coast charging huge dollars in demurrage, waiting to be loaded. That's what led to the minimum weekly numbers. It's a very blunt instrument. We were very fortunate in that crop year that the tonnage was all of similar grade. There wasn't a lot of blending required, so it was just a matter of getting the tonnage to Vancouver, onto the boats, and gone.

At the end of the day, that left secondary lines and short lines coming up short. Ian was just talking about that too. Short lines always face the brunt of not getting the cars they need to move that product, and they serve a tremendous area. I know in the CP case

that the southern part of the Prairies is a tremendous catchment area. I think there are six or seven short lines that feed in, and they're not used to the extent that they could be. There are elevators out there on those lines. Some of them were farmer-owned terminals, and still are, and they need access to do that.

The minister does have some tools that could be put in play now while waiting for the Senate to make its move. He could reinforce the 160-kilometre interswitching. He could talk about volumes that have to be met, although maybe not to the same extent, because I understand that there are only 40 boats sitting there now, maybe not all for grain.

At the end of the day, there are tools that he can put into play while he waits for the Senate to finally get around to doing something, and it may actually put some pressure on the Senate to finally move as well.

Mr. Earl Dreeshen: On the same question about interswitching, you mentioned how the 160 kilometres was determined. There seems to be some talk that maybe we could change it back to another number, or whatever. I wonder if you could expand on that, because you mentioned that we used to have 2,000 grain elevators. As a farmer from 40 or 50 years ago, I know that's what we were doing. We were hauling to all of these small grain elevators. Then, of course, they consolidated. It means they're driving more in their trucks on their roads, and everything else that we used to do. Why was the 160 kilometres a factor that you determined for 2013-14?

Hon. Gerry Ritz: As I said, the existing number was 30 kilometres. You could see one elevator from another one. Every little town had its name on it, and you never got lost because you knew exactly where you were, whether you were in an airplane or driving down the highway. Now we have 300 high-throughput terminals, G3 Canada with these loop tracks, and so on. That's the answer: you load on the go and you unload on the go. There's no stoppage at all. At the end of the day, they're farther apart.

When I started farming, we had a three-ton truck and we took it two miles away. Then it got to the point that as we got a bigger truck, the cargo wouldn't fit into the elevator anymore. We couldn't lift the box to unload it, so we were in there shovelling it out. Then they started building bigger elevators, and trucks got bigger to drive farther to service them.

Farmers have made the difference. There's more capacity on-farm than there ever has been before, which is not the answer, because you've got to move it to sell it and get paid for it. Everybody's made the decision to increase their infrastructure, whether it's at port or on the farm. All the grain companies have done that too. They can handle more and handle it faster, and they're open more hours and so on.

However, the weak link is still getting it from that delivery point on the Prairies to the coast, or south, or wherever it is that you're trying to ship it. That's where the infrastructure has to be picked up. Perhaps it needs extra track.

I know a lot of the work the grain companies have done. I drove by huge parking lots at every siding as I came in on Sunday to catch the airplane this morning, and they're all sitting there. There are no engines on them, but the cars are all there. They've been spotted. Whether that counts in their equations, I don't know; at the end of the day, it's delivery point numbers that matter.

Mr. Earl Dreeshen: The grain companies are where the frustration is when we start talking transparency, because they're ready to call the farmer to say they know when this train's going to come and they'll get ready, and then they call him back later to say that it didn't work, so it's going to be another day. Then when they finally get a crew together to load the train, instead of it being when they thought it was going to be, it's on a Sunday that they're going to have to bring everybody in.

Can you just talk about some of the other issues you've seen on that side when it comes to the grain elevator system?

Hon. Gerry Ritz: You're absolutely right that there is a frustration out there. A lot of the grain that's grown now, I'd guess in the 50% range, is contract. Guys want to know up front what the price is going to be and commit to the volume. Maybe it's even higher than that now, but in 2013-14 it was 50%. The grain companies are buying on contract. They've made a deal with the end-user in Japan or China or wherever that at such-and-such a delivery date, they'll have the product there, because they've got to do something with it then.

The Chair: Thank you, Mr. Ritz. I'm sorry, but I have to cut you off.

We go to Mr. Drouin for six minutes.

Thank you, Mr. Dreeshen.

Mr. Francis Drouin: Thank you, Mr. Chair.

Mr. Ritz, you tried to get out and we pulled you right back in.

You mentioned collaboration at the local level and understanding whether the shippers need to go to Thunder Bay or Prince Rupert, etc.

I'm wondering whether that data is available for Mr. Nielsen's members. Is that local data available in terms of how many grains would be available in that particular area?

•(1800)

Mr. Jeff Nielsen: Not to the degree that we would like it to be, no. The government does facilitate some collection of data through Quorum Corporation, and as part of the Ag Transport Coalition we get that data from them, but it's not as distinct as you're suggesting.

Hon. Gerry Ritz: It's reactive.

Mr. Jeff Nielsen: Yes, it's reactive.

Mr. Francis Drouin: Mr. Ritz, you've mentioned that one of the tools would be to use an order in council. That's one of the tools to get to the same objective. We already know that CN and CP for week

number two—and that's again going to the Ag Transport Coalition—have increased their capacity.

When you put in that order in council, was the capacity suddenly increased to 100% the next day?

Hon. Gerry Ritz: No, but the collaboration did. That's what it's all about. It's about the line companies knowing what's going to happen on any given week, knowing how many cars they're actually going to get so they can call Jeffrey and tell him to load up that Super B and get it in here on Tuesday because we've got a car. It's the collaborative thing that makes the biggest difference so that there's partnership within the supply chain and everybody knows what the other guy's going to do when and how they're going to do it. That's the key.

Mr. Jeff Nielsen: If I can say so, we're past the point of severe weather, or what they call severe weather. Severe weather is the biggest red herring I've ever seen in my lifetime, but we're past that point. We have longer sunshine days now, longer days, and they're getting warmer. Yes, there could be an issue with washouts or something once the snow does melt, but when Minister Ritz at that time put the order in council in, it was in the spring too, and grain handling actually got better. It's getting better now because we're into spring.

Mr. Francis Drouin: That's exactly the point I'm getting to. Some folks are calling for an order in council, but is it going to have the impact that we wish? Do we really need to do that in order to have an impact?

Hon. Gerry Ritz: It's a Band-Aid.

Mr. Jeff Nielsen: We need the bill passed.

Mr. Francis Drouin: In regard to spring, we've heard testimony today on whether or not the order in council had an impact when spring weather changes and whatnot, so there's still a debate on whether or not it had an actual impact.

I completely agree that there needs to be predictability—

Hon. Gerry Ritz: It did have an impact, since 60 boats got loaded.

Mr. Francis Drouin: Yes, but in springtime, they're saying whether or not.... The port of Thunder Bay opened, but it was closed during the wintertime. Anyway, I don't want to get into that debate. That's past.

Hon. Gerry Ritz: Sure.

Mr. Francis Drouin: Mr. Nielsen, what do you believe? You've mentioned that there needs to be greater collaboration between the House and the Senate and that we need to pass Bill C-49 as quickly as possible. Is it your wish that we amend it or that we just get it passed? Again, we're getting mixed messages from industry on that.

Mr. Jeff Nielsen: It may come from the industry side that you're getting mixed messages, but I think if you look at.... I'm not sure who you're thinking of on the industry side. The grain growers sit on the crop logistics working group, whose mandate Minister MacAulay renewed last summer, and that whole committee fully agrees on the proposed amendments that we have put forward.

When you have that diversity—and Mr. Bjornson made the comment earlier in the past panel—from oilseed crushers to elevator companies to farmers to farm organizations, and we all agree that these amendments will make this bill that much stronger.... We don't want to deal with this four years from now. It's been 30 years since we've had transportation legislation such as this come forward. We're very impressed with this legislation. We want it done right. That's why we're proposing the amendments. They will ensure that things are done right.

Mr. Francis Drouin: I understand the Senate will be dealing with clause-by-clause consideration by March 27. Normally that's good news. It means that it should get through committee fairly shortly.

Mr. Boxall, you mentioned cars that were loaded up that were not being picked up for weeks. I certainly believe we need predictability in the marketplace, especially if we want to get to \$75 billion. I know, Mr. Nielsen, your members have said we can contribute to that.

From a farmer's perspective, how do you believe that a government can improve predictability in the marketplace, especially on the transportation side? I'm hoping we can re-invite Mr. Boxall later on, when we complete our study, to hear how to get to \$75 billion, because I think your witness testimony would be really appreciated.

What can the government or industry do better to get there?

• (1805)

Mr. Ian Boxall: Address what has been said here about communication and collaboration, about making sure that everybody within the whole supply chain knows what's going on.

I've been phoned several times this winter to load the trucks and then been phoned and told not to because the train didn't show up. We can't have that. That doesn't work in an industry like ours. It doesn't work when I've pre-sold my grain for cash flow because of storage costs, or for other reasons I've done it because of price. Communication needs to be better among all aspects of the supply chain.

Mr. Francis Drouin: We've heard from previous testimony that the industry and the rail companies meet with farm groups before projections, but there is not necessarily that collaboration to review what happened this year or the previous year to see how we can fix it. Would you welcome a vehicle for collaboration after the fact to see what we can improve on in the following year?

Mr. Ian Boxall: Absolutely.

Mr. Francis Drouin: We're going to put the legislation in place, but legislation without resources is just legislation. Would you welcome that?

Mr. Ian Boxall: Absolutely—

The Chair: Unfortunately, we're out of time. Perhaps you can answer it later on.

Thank you, Mr. Drouin. Mr. MacGregor, you have six minutes.

Mr. Alistair MacGregor: Thank you, Mr. Chair.

Mr. Ritz, I'll start with you because you were minister for quite a long time, so you've seen it from Minister MacAulay's perspective.

I wanted to go back in history a little to the role that the Canadian Wheat Board used to play in shipping grain. Can you tell me what its role was, as you understood it to be, before the legislation in 2011?

Hon. Gerry Ritz: The big thing is that they were a monopoly buyer, not a monopoly seller. They put out a three-bushel quota. It made it easier for the railways to keep up, because they'd put out a three-bushel quota up in Ian's area, but I wouldn't get it. Railways could concentrate on Ian's area in that couple-of-weeks stint and get the grain out of there. They did the same thing with Jeff. There was no western Canada-wide movement of commodities. They'd pick and choose and try to keep it fair for everybody so that we all starved to death. I never cleaned out my bins, not once, not ever. We always have a carry-over, even now, but not to the extent that we did then.

The first couple of years that I farmed, they never sold a bushel. I wasn't allowed to sell it to anybody else. I wasn't allowed to trade it. I had grain on the ground, and it rotted. I lost a ton of value there. They'd buy, and then they would make a deal with the grain company here to move product over there. Even when it got to their terminals in Vancouver and a boat came in, they'd say to take some from Ian's terminal, some from Jeff's terminal, and they'd move that boat here and there, to the point that some of the shippers wouldn't even come in and pick it up because it's hard on the carcass of a boat to move it out half-loaded and shove it back in again.

It was easy for the railways to keep up because they were getting little bits and dribs and drabs here and there and so on. The blending was done on the Prairies. If I hauled in a grade 2 and I wanted it brought to grade 1, they would mix in some of Randy's and bring both of us up to grade 1. They would still pay me for a grade 2, and he'd get his grade 1.

Now the blending is done mostly at port and is not done as much on the Prairies, so you have to coordinate those trains coming into the ports to blend that product. That's why 2014 was easy to do with that blunt instrument of minimums, because it was all the same. Every other year we've had low protein here and higher grades over there that we needed to move, but it's all done at port now in a different way.

With the Wheat Board gone, it made it tougher for the railways to keep up. The shippers like it, and for the most part the farmers have liked it.

Mr. Alistair MacGregor: I have talked with the B. C. Chamber of Shipping, and when the Wheat Board was dissolved.... Are there any lessons we can learn from the transition from them to what we have today that may serve us well?

Hon. Gerry Ritz: I think the biggest lesson is that we should have done it 10 years sooner.

Mr. Alistair MacGregor: What I meant is that it did lead to some backlogs at port. The B.C. Chamber of—

Hon. Gerry Ritz: It was actually done in 2012-13. The first year that there was a problem was in 2013-14. There was a big crop, and so on.

Mr. Alistair MacGregor: Are there lessons that we can learn for the current government going forward, in how we could have maybe better coordinated that transition going forward?

The Chamber of Shipping of B.C. has told me that in the years following there was a bit of a mix-up, and it did lead to the increased use of anchorages along the southern Gulf Islands. The loading at port wasn't as efficient as it used to be.

I'm just wondering, going forward, if there are any lessons.

Hon. Gerry Ritz: I'd argue that. You'd have to talk to the grain companies themselves, but they all said to me at that time that it was easier.

You can't go back and change it now. It was five years ago.

Mr. Alistair MacGregor: No, I know that.

Hon. Gerry Ritz: When Australia took their version of a grain commission down, their version of CIGI, the big difference was they were all tied into their wheat board.

That was the big concern with buyers like Japan. They were concerned that we were going to lose our capacity to grade. We didn't, because CGC is a stand-alone agency and CIGI is a stand-alone agency. They continued on doing their good work.

Somebody made the point about the crop tour that happens every fall now, when we go out to the world with representatives of all the different commodity groups. I touched base with a few of them over the years. In countries where they say, "Here's what we have. Here's the quality, here's the pricing, and here's the availability", those are worth their weight in gold. They continue to work really well.

The grain commission takes part. CIGI takes part. All of the line companies take part, and a lot of the farm organizations. It's a dynamic industry group going from country to country.

●(1810)

Mr. Alistair MacGregor: Mr. Nielsen and Mr. Boxall, you've possibly had the chance to hear the statements from CN and CP. You've heard of their plans to rectify the situation and hopefully get us to a place where we don't have to repeat this scenario.

Are you filled with much optimism and hope that we're going to get there with this plan, in addition to Bill C-49 being passed?

Mr. Jeff Nielsen: In a word, no. I didn't see much in the letters they presented.

We need to have this bill passed so we can actually have some teeth, and so we as farmers, Ian and I, can do a financial plan for our farms so that if there's an issue because we couldn't move in December, then hopefully we can see.... We may not be compensated, but we know there could be avenues that our grain companies could use to rectify the situation. Still, maybe it won't be the end of December when we move it. It may be the first two weeks of January.

The thing is, we're working on financial plans, business plans for our farms, literally on the combine. We're planning our next year's crop on the combine and we're already pricing some of next year's crop while we're taking the existing crop off.

Hon. Gerry Ritz: Your bank wants that, too.

Mr. Alistair MacGregor: Do you have anything to add, Mr. Boxall?

Mr. Ian Boxall: If what we saw on the letter that they posted on their website and circulated on the 15th is an indication of what their planning looks like.... With the passing of Bill C-49 and the planning aspect in that bill for them to submit a plan for the winter haul, if that's what it's going to look like—vague, broad, sweeping—then we're in trouble. As producers, we're in trouble, because that isn't a plan.

I want a plan. I want the number of cars by quarter, by province, by sector. That's what we need. We need a concrete plan that's going to work for the industry. I don't have any recourse, because I'm not a shipper. As a producer, I want a plan.

The Chair: Thank you, Mr. Boxall. Thank you, Mr. MacGregor.

We have about three minutes left. I just want to warn that there is a bus outside, apparently waiting to take all of us back to the House.

[Translation]

Mr. Poissant, you have the floor.

As soon as the bells start ringing, though,

[English]

we're out of here.

[Translation]

Mr. Jean-Claude Poissant (La Prairie, Lib.): Okay.

I want to thank the witnesses for being here today.

Mr. Nielsen, I understand the situation since was a grain grower myself, of malt barley seeds in particular.

You said earlier that there are about 50,000 farmers. It was also noted that the APP should be improved and that advances should be doubled. Would that really meet your needs? If the APP advances were doubled, then just half the number of farmers would benefit.

[English]

Mr. Jeff Nielsen: Any tool that farmers can use to alleviate a situation is great. APP programming is one of the tools we can use. Is doubling the funding...? You have to understand that if you double the amount a farmer...

As Mr. White said in the previous sessions, there's an expense to any line of credit you get. It's called interest. What Ian and I want to do is move our grain when we contracted that grain. If we have to use other tools to try to mitigate that situation, we have to also realize we're going to be paying for those tools in interest charges.

That's my stumbling block. It's nice to have as many tools in our tool box as possible, but I'm very conscious of what it's going to cost me.

[Translation]

Mr. Jean-Claude Poissant: Similarly, we agree that Bill C-49 must be passed quickly. That being said, I realize that this bill alone will not be enough. We have talked about the APP, Farm Credit Canada, infrastructures, elevators, road infrastructure, and the need to listen to farmers.

With regard to elevators, is it feasible to have infrastructures closer to the ports and to transport a certain amount of grain there in advance of any difficulties that may arise?

• (1815)

[English]

Mr. Jeff Nielsen: In being around for a good period of time, sitting on a couple of previous entities of grain companies that merged as they grew up, and sitting as a director of the Canadian Wheat Board at one time, I think we've rationalized our elevator system to make things more efficient.

In the case of Ian and me, we have made our farms more efficient by getting larger trucks and stuff like that. We see the efficiencies, I believe, in the inland terminals that have been built and that certain companies are continuing to build. We're seeing a great expansion and improvement on the west coast in some of the handling facilities that have been retrofitted, plus a brand new facility that's coming on stream.

It's a good point, but I think that the way we have it set up now works. We're seeing growth in capacity in the western provinces. I think that's a bonus. We just need to have a system that works so we can get our product to the market.

[Translation]

Mr. Jean-Claude Poissant: The CN and CP officials said earlier that they will be investing \$3.2 billion.

Do you think that is enough to improve the situation?

[English]

Mr. Jeff Nielsen: It's great. As far as investing into infrastructure goes, I know Ian's probably increasing his investment in his farm every year, and as a producer I'm trying to increase my investment in my farm to make my farm better. It's just a good business decision for CN and CP to do that. I commend them on that and encourage them to continue doing it.

[Translation]

Mr. Jean-Claude Poissant: I would like to hear about your dealings with shippers.

By harvest time, you surely have an idea of the amount of grain that will have to be shipped. When the crop yield is high, you know there will likely be a problem.

Do you meet with shippers often to make transportation plans?

[English]

Mr. Jeff Nielsen: I'm the primary transporter. I own my own trucks, so I'm the driver. If I can't drive it myself, I hire a neighbour to drive for me. I'm the primary person.

As Ian and I are on our combines in the fall, we're already planning our production cycle for the following year. You know by your averages what you're going to produce, so you work that production into future contracts—

The Chair: I'm sorry to interrupt. The bells are ringing, so we shall suspend and return after the vote.

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_____ (Pause) _____

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• (1930)

The Chair: Welcome again. I apologize for the late sitting, but sometimes we're called back to the House, so we had to prolong the meeting.

From the Alberta Wheat Commission, we have Warren Sekulic, Director; from the Western Canadian Wheat Growers Association, we have Daryl Fransoo, Director; and from Keystone Agricultural Producers, we have Dan Mazier, President.

Thank you all for being here.

We shall open with a seven-minute statement.

Go ahead, Mr. Sekulic.

Mr. Warren Sekulic (Director, Alberta Wheat Commission): Mr. Chair and members of the committee, thank you for the invitation to appear today.

My name is Warren Sekulic. I'm a director with the Alberta Wheat Commission. I'm a fourth-generation farmer in northern Alberta, and we will actually celebrate 90 years next year.

I am here today because the current grain transport backlog continues to impact my operation and the operations of farmers across western Canada. In addition to sharing my specific experiences, I also offer the strong support of our 14,000 farmer members for the amendment and passage of Bill C-49, the transportation modernization act, as a means of addressing the systemic issues in our freight rail system.

My farm is located 70 kilometres north of Grande Prairie, Alberta, which is over 1,200 kilometres from the nearest port, and we are totally dependent on the one railway that services this line of four inland terminals. With our limited access to processing facilities, market alternatives, or other methods of transportation, almost 100% of the grain and the crops I grow are destined for the export markets and dependent on a single railway.

As with all businesses, planning is an essential part of my operation. Each year, much work goes into planning—planning what crops I'll plant; the amount of inputs, such as the fertilizer and seed I'll need; when those inputs will be delivered; and the timing of the contracts that I will negotiate to sell my grain. Those contracts are usually aligned with when I pay my bills.

As an example, on my farm in 2013-14, as a sound farm management practice, I had all of my forward contracts in place to sell my grain to the local terminal. I had a prudent plan to deliver my grain in a timely manner so that I could pay my land rent and input costs, such as fertilizer and seed. The rent is typically due in the fall. I even had allowed a buffer for rail delays, given that they are commonplace, especially up north.

When the railway failed to deliver in 2013-14, it put my farm business and my livelihood in jeopardy. I'm contractually obligated to pay my rent, regardless of whether or not I deliver my grain. Like most young farmers, I'm cash strapped as I build equity in my business, and because of long delays that year, I needed to secure a bridge line of financing in order to ensure that I could retain my land, pay my debts, and see my operation succeed into the next year.

I am here today, at what is one of the busiest times of the year for my operation, because as I head into the 2018 planting season, we are once again experiencing a backlog in the freight rail system which is impacting my operation and farming operations across western Canada that are reliant on the freight rail system.

When it comes to rail transportation in Canada, the agricultural sector has always operated in a monopolistic environment. Each year, our farmer members grow millions of tonnes of wheat, other grains, and oilseeds. We rely almost entirely on rail transportation to ship our products from the Prairies to port terminal facilities on the west coast and to Thunder Bay and south of the border into the U.S.

Costs associated with railway failures, such as demurrage fees and lost sales, are ultimately passed down the supply chain to me, the

producer. As the price-taker, I'm dependent on the price the market dictates. I cannot adjust my price, the price of the products, so ultimately these increased costs reduce my profitability.

AWC appreciates the government's commitment to legislation that will ensure a more responsive, competitive, and accountable rail system in Canada. We believe that Bill C-49 is in fact a historic piece of legislation that paves the way for permanent, long-term solutions to the rail transportation challenges that Canadian farmers have faced for decades.

Passage of this bill is imperative, especially in light of poor rail service that shippers have been experiencing in western Canada this year, with the poorest period of car order fulfillment dropping as low as a combined 32% between CN and CP, reaching the levels experienced during the 2013-14 crisis. In any other business, this lack of performance would be unacceptable, but in the grain sector, these service levels are all too common.

Because of this poor service level, currently I am left with a significant amount of grain on my farm, grain that was all contracted for delivery in October, November, and December. This type of backlog causes a cascading effect, not only on my operation but across the entire system. For instance, I had peas contracted for delivery in November, and when railcars didn't arrive to take my peas as scheduled, I had to bear the cost and resources of bagging my peas and leaving them on the ground in temporary storage, pending the availability of railcars to make up this shipment.

As the snow starts to melt now and the railway has still not fulfilled my delivery, I have to now use further resources to move the peas from bags to bins so that my product doesn't get damaged.

I, like most farmers, have contracts scheduled with terminals on a fairly ongoing basis, so when cars eventually do arrive for my peas contracted in November, the contracts that I have in place for March delivery of my canola get pushed into April. April contracts get pushed into May, May into June, and on and on. This is further complicated by spring conditions in which road bans are instituted, making it almost impossible to deliver my grain if delayed trains do arrive. This is not a fictitious backlog; this is reality.

● (1935)

As I and other farmers ramp up our operations to prepare to get our seed in the ground for this growing season, we are feeling the impacts of the current backlogs in the system. Farmers who haven't had the opportunity to deliver their grain in as long as six months are strapped for cash flow to buy inputs for this year's crop, and systemic rail failures often cause delays in receiving inputs, such as my fertilizer, which has actually been delayed since December.

In January I was in Ottawa to deliver this same message to the Standing Senate Committee on Transport and Communications. Now it's March, and while I have moved some of my grain, I am still significantly behind. From all indications, between the backlog and the spring conditions, as well as my focus on getting the crop in for next year, I will likely not deliver my grain until we're into April or May. For some of my contracts, that's almost eight months later than what the contract stipulated, which is eight months of not getting paid.

For these reasons, I am advocating for the amendment and passage of Bill C-49, the transportation modernization act, as a long-term solution to addressing the ongoing freight rail failures.

With respect to the role that reciprocal penalties play in this legislation, railways have long had a variety of measures that govern shipper efficiencies, including asset use tariffs. These tariffs are used to penalize shipper failures through monetary fines in order to gain shipper efficiencies. For example, when the railway spots my cars at a local elevator and the grain company fails to load them within 24 hours, the grain company faces an automatic monetary penalty. On the other hand, if the railway shows up two weeks late, there are limited or no penalties. Therefore, the railways are the only link in the grain logistics supply chain that are not held to account.

We were recently made aware that CN Rail has included a form of reciprocal penalties in their service level agreements. On the surface, this seems like good news, but these penalties are still extremely one-sided. As an example, they give CN the ability to spot cars at any time in a period of more than a week, while grain companies are still required to load these cars within 24 hours or face penalties. Bill C-49 provides the ability to establish service level agreements with truly reciprocal penalties.

Under Bill C-30, which expired on August 1, 2017, interswitching provisions, which allowed shippers to access any interchange within 160 kilometres, proved to be a powerful and effective competitive tool to improve competitiveness for grain shippers.

The Chair: Mr. Sekulic, I'm going to have to ask you to wrap up, because we're past the time. I'll give you time for a concluding statement.

Mr. Warren Sekulic: Our priority is to ensure the ultimate passage of Bill C-49 in order to help correct the imbalance between the market power of the railways and shippers, and we would strongly advocate for the deficiencies in long-haul interswitching to be addressed.

The Chair: Thank you so much, Mr. Sekulic.

Now we have Mr. Fransoo for seven minutes.

Mr. Daryl Fransoo (Director, Western Canadian Wheat Growers Association): Thanks for that story, Warren. I've heard from farmer after farmer after farmer that we can't get our grain to the ports and we can't get paid. That's kind of the big thing.

Mr. Chair and members of the committee, on behalf of the Western Canadian Wheat Growers, thank you for holding this meeting. I'm glad this issue is getting the attention it needs, although I am saddened that we have to be holding this meeting at all.

As a grain farmer, I can state without hesitation that when our rail lines are only hauling 50% at most, a lot of people and a lot of farmers are hurting.

Unfortunately, one of the reasons these statistics have risen in the last couple of weeks is that carriers are running more trains on main lines, and many farmers and terminals on the side branch lines are still woefully short of rail stock. In addition, we are now facing spring breakup in many parts of the country, so road restrictions are coming into place. Then we have planting season. We can ill afford to have these kinds of rail backlogs in the future.

As I stated, I personally know of many grain farmers who are having the same problems as Warren. One in particular has a barley contract worth three-quarters of a million dollars that is three or four months behind. He's a good-sized farmer, but that's a lot of money to be waiting on.

When grain is sitting in a farmer's bin, of course we aren't getting paid. We can't pay our bills, and the domino effect rolls out across all the towns and across the Prairies. On top of the immediate financial problems, farmers are attempting to make decisions for the looming crop year. When cash flow has all but stopped for many farmers, the future looks bleak.

I'd like to remind the committee—and Ian did it earlier—that in 2014 this not only affected grain but also the fertilizer coming up from the Mississippi. It ultimately made it here, but it gave input companies a reason to jack the prices, and farmers had to pay for that in the end. Truthfully, it shouldn't be this way and it doesn't need to be this way.

I'm glad that CN acknowledged they had made mistakes. This is a good start, but good intentions do not resolve the problem that grain farmers are facing.

I recognize that we can't discount weather, because it is an obvious safety issue. With that said, rail has run in Canada for over a hundred years. Cold temperatures and snow in July shouldn't be a surprise, and we need better planning for that. CN and CP need to be better prepared. They need to not get rid of power and have more front-line manpower. Obviously their forecasting was poor, so I suggest maybe they spend some money on that.

Although Bill C-49 isn't a perfect bill, it does give shippers some clout and does put some of the onus back on the rail companies. We need to pass this bill, with some of the proposed amendments, sooner rather than later so that farmers have that much-needed protection.

The government has stressed this year that agriculture will play a major role in strengthening our GDP and the middle class. We grain farmers are up to the task. We are among some of the most productive grain growers on the planet. Unfortunately, with the current grain transportation problems, we won't be able to easily meet these objectives. There are tens of thousands of farmers and hundreds of thousands of middle-class people who are negatively affected by backlogs like this.

We need an efficient transportation system. We need to be able to move all commodities to market: grain, minerals, raw resources, and finished goods. We need to be able to meet our customers' expectations. We need good rail lines that meet timelines, and we need pipelines for oil. The Western Canadian Wheat Growers believe this is a non-partisan issue. Ships are waiting in Vancouver. Farmers have the grain that needs to be exported on these ships. Farmers and grain shippers want to work with you, the governments, and we want to work with the rail companies. Let's collectively solve this problem.

In closing, Mr. Chair, Bill C-49 needs to be passed as soon as possible. We need long-term solutions to the problems we are facing today, but first and foremost we have to get this bill through. Get it done before the summer comes along so that we can work with some of these clauses in there and make sure they work.

Mr. Chair, I thank the committee for meeting today. Let's make certain that we, collectively, are not just talking. We need to be doing, and starting today, we need to fix this problem for the long term.

I look forward to answering your questions.

● (1940)

The Chair: Thank you very much, Mr. Fransoo.

Now we have Mr. Mazier for seven minutes.

Mr. Dan Mazier (President, Keystone Agricultural Producers): Thank you, Mr. Chair and members of the committee, for having me here today to speak about this important issue in the grain transportation system.

My name is Dan Mazier. I'm the President of Keystone Agriculture Producers, which is Manitoba's general farm policy organization representing over 7,000 farm families. I'm also a grains and oilseeds farmer northeast of Brandon, Manitoba.

In 2013-14, Canada suffered from a grain transportation crisis that is estimated to have cost western Canadian farmers approximately \$6.5 billion. When shippers—my grain buyers—are unable to readily move their commodities to port, they will begin offering farmers lower cash bids or no cash bids for their products, so although farmers are not the actual shippers ordering the railcars, they are the ones who end up bearing the costs of the poor rail service.

The Government of Canada responded to the 2013-14 crisis in several ways, including an order in council that penalized the railways for missing grain movement targets and an accelerated schedule for the statutory review of the Canada Transportation Act. Out of that review came several recommendations that were

incorporated into Bill C-49, which passed in the House of Commons and presently sits before the Senate, as you know.

In 2013-14, the magnitude of the crisis caught many in government and industry off guard. This time around, we became aware much earlier of the challenges that railways have been having in moving our grain this year, largely because we now collect information on grain car orders and deliveries. This is done by a group called the Ag Transport Coalition, which reports weekly data on the number of grain cars ordered by shippers compared to the number of cars actually delivered by each railway.

According to Ag Transport Coalition data for Manitoba, six weeks ago, at the beginning of February, CP supplied 74% of cars ordered. So far, so good.

CN delivered 14%.

Things only got worse from there. In CP's worst week in February, they only managed to deliver 17% of ordered cars. In CN's worst week, they delivered 0% of their orders. On average, combined, the railways delivered only 29% of the cars that were supplied on the want week for the month of February, which created a backlog of 28,000 cars, or approximately 35,000 trucks, leaving more than 30 ships waiting for grain off the coast at the port of Vancouver.

How do we move forward and fix this problem before permanent damage to our country's reputation as a reliable shipper of grain is done again?

A good first step is to come up with a plan to get the grain moving. As the committee knows, a co-signed letter went out to the railways from Ministers Garneau and MacAulay requesting such a plan and a report back by March 15. I also understand that CN has taken a proactive approach in communicating with shippers with how they want to move forward. It all boils down to more people, more locomotives, and more products. I would encourage this committee to monitor and support the ministers, using all the tools possible, so that we can all keep pressure on the railways to keep the backlog cleared.

The elephant in the room is that we need to have Bill C-49 strengthened and passed as quickly as possible. As you know, it is presently before the Senate. Along with other farm stakeholders, I have given presentations with amendments that we argue will create a policy environment whereby the railways are held more accountable for their service failures and the impact they have on shippers.

I would like to point out that the current design on the long-haul interswitching option in Bill C-49 is being viewed as overly restrictive in terms of which shippers are eligible to apply for it. We are recommending clarifying the existing language for interswitching to ensure that it is as effective as possible for shippers to access this program.

The most impactful amendment we are recommending is to empower the Canadian Transportation Agency to initiate investigations into service issues when it becomes aware of them and to mandate solutions when necessary. Presently, the agency's ability to act under most provisions of the Canada Transportation Act is triggered by an application or a complaint.

For instance, although the agency is allowed to act on its own motion with respect to air carrier tariffs for international services, it can only examine and potentially correct issues with domestic tariff provisions in cases where an application has been received. Similarly, under section 116 of the Canada Transportation Act, the agency's power to order measures to address rail level-of-service issues is conditional upon receipt of complaint. An extension of the agency's own-motion authority would allow for a proactive initiative of inquiries when there is evidence that a problem might exist.

● (1945)

This may include statistical evidence, a pattern of complaints, or consistent credible media reports regarding the transportation service providers' financial difficulties or service failings. The authority would be particularly relevant to matters affecting more than one transportation service provider or user, for which the existing complaint-based process is not particularly well suited.

This measure was one of the recommendations made by David Emerson in 2016 in the report to the Government of Canada that Ron Bonnett alluded to earlier this afternoon. We agree that these measures are necessary to help resolve service-related challenges that appear to be inherent in a monopoly marketplace such as Canada's grain transportation system.

In addition to these service-related measures, we are requesting that soybeans and related products be added to the schedule 2 list of grains that are eligible to be covered under the maximum revenue entitlement. In Manitoba, with more than two million acres planted in 2017, soybeans represent our third-largest crop by area. Currently the transportation costs for soybeans are as much as 40% higher per car than the MRE-covered grains, with no promise of getting these cars. They are charging more, but we're still not getting those cars in the first place. There is no reason that the farmers, who have innovated and adapted to changing conditions, should be denied the same protection from price exploitation by an monopoly industry that other crops receive.

To conclude my remarks, I would like to make one point very clear.

It is critical that Bill C-49 pass with these amendments before the House rises in June. This way shippers and carriers will know what their obligations are under the law. They will make the needed investments to ensure that the 2018 crop is delivered to customers on time and that we do not suffer the same economic hardships as a country that we have now suffered twice in less than half a decade. The railways must face repercussions if they fail to meet acceptable service standards. They must not be allowed to gouge captive shippers of soybeans. Their performance must continue to be carefully monitored and action must be taken when they fail.

In Canada our growing season is very short. Our seeding and harvest windows are narrow and it is difficult to predict how long

they will last. To deal with this challenge, we invest more in equipment than nearly any other farmer in the world, and when the conditions are right, we work all day and all night to get the crop off the field and into the bin. I fully expect the railways to make investments necessary to get the job done, and if it requires senators and members of Parliament to work all day and night to get Bill C-49 strengthened and passed into law, then I expect that of you as well.

Canada's economic well-being is critically tied to rail transportation. Do not shy away from your responsibility to ensure that the Canada Transportation Act addresses the challenges we face and ensures that Canada's economy can grow to its full potential.

Thank you very much for your time and attention. I look forward to your questions.

● (1950)

The Chair: Thank you, Mr. Mazier.

We shall start our question round.

[*Translation*]

Mr. Berthold, you have six minutes.

Mr. Luc Berthold: Thank you very much, Mr. Chair.

This is our last hour to consider this urgent situation.

After listening to the witnesses this afternoon, I have a fairly direct question, for all of you.

Is it possible to save the farmers' current season or not? Do you think we have all the necessary tools to do so or would you agree with Mr. Mazier that it is too late to save the current season and that we must now do whatever we can to safeguard the next season?

[*English*]

What are your thoughts about that?

Mr. Daryl Fransoo: You know, if we're talking about something like an order in council, I think we're too late for that. Unfortunately, we've probably missed the boat. When this topic was really brought to light, say three weeks ago, there would have been the opportunity, but in that respect we're definitely too late. With road bans coming up and planting season coming up, we are going to deliver less grain. It's just a fact we have to get the crop in, and we can't run on roads that aren't made for trucks to run on. An order in council or something to that effect would be no benefit now, but it might have been or it would have been a month ago.

Mr. Warren Sekulic: I think Daryl is right. I don't think you can save this season. I don't think something like an order in council would necessarily be the way to go.

There was talk about infrastructure spending earlier on today. If you want to spend money on infrastructure, send us down those roads this spring and force us to haul grain in two weeks. Then I would be applying for an infrastructure grant for my farm, because it would tear the heck out of the yard, the roads, and the fields. It would be bad.

Mr. Dan Mazier: We're 28,000 cars behind. To fix this, the plan in October was 5,000 cars per week. We're going to be 500 cars per week over, 1,000 cars per week over. That's 5,500 to 6,000 cars that they can do for the next however many weeks until August.

I don't know. Is there enough room on our farms to accept the new crop? That's where we could have some real trouble. As far as trying to save it, we have time, but the railways really have to perform at top notch. If past practice is any indication, I highly doubt it.

[Translation]

Mr. Luc Berthold: I am shocked.

[English]

I'm angry, really angry about that, because we told them to act. We told them a lot of times, over and over. This season is failing because of the lack of action by the Liberals. I don't want ask you to be political; I can't. I'll do it.

We told them in June of last year to split the bill, to pass just some amendments that you require. The Liberals defeated all the amendments we proposed. Now you are asking them again to make these amendments to Bill C-49. I hope that this time they will accept, if we want to fix the problem for the long term. I think you should work a lot with the Liberals and try to convince them to accept those amendments, because otherwise you will have another bad season next year.

[Translation]

What is happening is offensive. We asked for an emergency meeting three weeks ago. You are saying we might have been able to change the course of things three weeks ago. Mr. Sekulic, you might have been spared one of the many delays you mentioned. Unfortunately, someone said it was not a rush and that we would have the meeting on March 19.

We have to send a very clear message right away. We have to stop playing games with western grain producers. We have to work to make sure the grain gets to market. It is the government's responsibility. It is our responsibility as a committee to demand that the government ensure that the farmers' grain gets moving so they can be paid. We are playing games with Canada's reputation and with the farmers' reputation.

Mr. Sekulic, how does it feel as a young farmer to see your debts mounting while you are unable to sell your crops? How do you deal with that, in your family? How do you feel?

● (1955)

[English]

Mr. Warren Sekulic: It's stressful. It's really stressful, especially in the light that we....

I learned my lessons really hard in 2013-14. I planned my sales. I generally sell the vast majority of my crop in October, November, and December, in anticipation of moving it by March. I have to plan for that every year. I shouldn't be planning for railway risk. I don't think I should be, anyway, but I do, and it can be quite stressful.

I have a lot of canola that is supposed to move in March. I was told by my elevator that it probably won't move until the middle of April, and I won't be moving much in the middle of April because

I'm far north. The thaw generally comes a little later than in other parts of Alberta.

[Translation]

Mr. Luc Berthold: Okay.

What do you think, Mr. Fransoo?

[English]

Mr. Daryl Fransoo: I echo those statements. I call it non-partisan, but there are always some politics at play. Maybe the boat was missed on a couple of things early on. It shouldn't have been an omnibus bill. We know that, but let's learn from those mistakes right now. It's a win-win for everyone. It's a win for this side of the table, that side of the table, and the other side of the table to get this bill passed as soon as we can.

Mr. Luc Berthold: I hope that amendment will pass too.

Mr. Daryl Fransoo: Right. It definitely does strengthen the bill tremendously.

If the amendments were to hold up the bill for some amount of time or an indefinite amount of time, I could do without them, but it shouldn't be that big of an issue to pass those few amendments we're asking for, and the bill, and have it done by the time that you guys rise for the summer.

The Chair: Thank you, Mr. Fransoo.

[Translation]

Thank you, Mr. Berthold.

[English]

Now it's Mr. Longfield for six minutes.

Mr. Lloyd Longfield: Thanks, Mr. Chair, and thank you for coming the distance you have at this time of year. It really shows the commitment to your community, and we really appreciate your staying for this meeting.

I don't want to get into the partisan discussion about Conservatives in the other place or us in the House of Commons. We are trying to solve a problem for you. We do need to see some action going forward, and I think we're talking about that today.

What I'm very interested in is how you discuss these things as a group. How do you interact with your neighbours and farmers down the road?

I'm thinking of what used to go on in the Petro-Canada in Colonsay, Saskatchewan, at lunch time. They would talk about what was going on in the fields, who was late getting stuff in, and whose wife was kicking their butt because they weren't out in the field that day. There were conversations around the dinner table at noon in Colonsay. How do you have those conversations among farmers, and what's the opportunity to involve the larger supply chain, the shippers, the storage people? How do you collaborate?

Mr. Warren Sekulic: We're in constant contact with our elevator agents and each other. I have a whole bunch of friends on Messenger, and we talk multiple times a day. We talk a heck of a lot about this, about the commissions, the press releases, the surveys. This is how we get paid, so it's a significant issue that gets talked about a lot.

Mr. Lloyd Longfield: But it's likely missing people at the table.

Look at this as a supply chain. If your productivity is increasing, you're putting a lot more through your farm than you used to put through, and the system isn't handling it. Then throw in a couple of weather events or other things that stop things from moving so that cars don't get to the site on time. How do we have that full discussion to make sure we get the issues identified before they're blowing up in our faces?

• (2000)

Mr. Dan Mazier: It's quite interesting. In late 2014, we established the Ag Transport Coalition. That was the first time we had a window into what the shippers were actually requesting, into the demand. We were told at that time, and it went on for a couple of years, that they make up a plan. It starts in June, July, when we're going to sow our crops. They know how many acres are sown out there.

Well, they had that same plan this fall. It was supposed to be 5,000 cars. The problem is, when it starts messing up.... I remember the meeting very clearly this October, when CN said, "Well, we've got good news and bad news." They said they had projected 2% growth in the economy and they got 13%, so they were sorry, but they had to do some catching up.

I just can't get over the missed opportunities we've had. This is the second time in five years.

Mr. Lloyd Longfield: The reality is that we can't shift all resources to grain because other sectors need cars as well.

Mr. Dan Mazier: But they cut back way too much on their capital. They cut back on their staffing and on their power.

Mr. Lloyd Longfield: Sure, and I'm not saying.... We need to serve the grain industry, but in terms of how we get that conversation about capital forecasting.... To avoid future problems, if we continue to have bumper crops.... We've exceeded 2013-14 in last year's crop. We're looking at the same numbers, or even more, in this coming year.

You guys are young farmers. You're the start of a generation of farmers who are going to face these issues. We need to have a better way of governing so that among you, us, and the shippers we all know what's going on. It shouldn't be at the end of the season that we figure out we have a problem.

Mr. Daryl Fransoo: They definitely missed the ball on forecasting this time, but there's no incentive for them to spend money on capacity like that when we can't hit their bottom line. That's what some of Bill C-49 will do. We'll be able to hit them where it hurts, and maybe they will spend more money on forecasting or maybe they won't be so long to acquire resources, because they'll know there is some loss to be had.

I definitely agree that we have to move all commodities. Our economy depends on all of them. As I said, that includes getting

pipelines built. I think that will take some capacity off the rail line, which could then be used for grain.

Mr. Lloyd Longfield: My question earlier to one of the witnesses from the rails was that the penalties aren't going to increase our throughput. We have to increase our throughput before we get to that stage.

Mr. Dan Mazier: Giving the CTA more power to investigate beforehand is a key. I think that's probably the amendment to make the biggest fundamental change in how we look at this.

Mr. Lloyd Longfield: Do you mean the structure of the CTA?

Mr. Dan Mazier: Yes.

Mr. Lloyd Longfield: I'm thinking that as well, from our conversations.

Mr. Warren Sekulic: As well, we need to have other companies pick up the slack if the one company isn't performing. We think the competitiveness in the interswitch amendment is a big deal. It could really help this legislation work the way it's intended.

Mr. Lloyd Longfield: In 30 seconds, was there something on your pages that you didn't get out that you'd like to get out?

Mr. Warren Sekulic: It was covered in a lot of the other talks. It's the reciprocal penalties and the interswitching.

Mr. Lloyd Longfield: Thank you for standing up for your communities and for coming all the way across the country to try to help us to solve the problem with you.

The Chair: Thank you, Mr. Longfield.

Go ahead, Mr. MacGregor, for six minutes.

Mr. Alistair MacGregor: Thank you, Chair.

Mr. Mazier, in your exchange with Mr. Longfield you were talking about both railways' performance indicators, the power of their locomotives, and their workforce. I had asked them when they were here earlier about the net trend from 2013-14 up to now—how many locomotives they had and their workforce—to see if there had been a dip and they were trying to catch up all of a sudden.

What has been your experience with that trend with those companies over the past few years?

Mr. Dan Mazier: In 2013-14, they cut back too much. At CP at that time, there was a fellow named Hunter Harrison. He started the whole process of making sure that their capital was utilized to the utmost. That changed the way railways use their capital and their investment, but it was at the cost of service. The shareholders were very happy about that response, but it did not serve Canada very well.

You can't look at Canada in the same way that you look at the United States. When you have two independent railways, they have obligations and a lot of rights in Canada, but what comes with that is a lot of responsibility. They have a responsibility to service Canadians, especially people who only have access to one shipper. They've somehow focused away from that.

Even in the data that they were presenting today, there was nothing about "here's what we're seeing for demand". They know what we're demanding. We need 5,000 cars a week. They know the plan. They didn't mention how many cars. They just told you what they delivered. There was no agriculture language in that at all with regard to delivering cars.

I think we have a long way to go. Two years ago, CN did cut—from what I remember—2,000 employees and several locomotives. They did very well last year. They supplied transport for what we had to ship, but there wasn't much economic activity.

On the other hand, last year we missed on CP. As the president of a farm group, I was irate when I turned around in April and started talking to farmers and there were a lot... Southwestern Manitoba and southeastern Saskatchewan were hit particularly hard. CP was around 40% to 50% all winter last year, and no one said anything. They got away with it last year.

I kind of feel bad for CN this year, but it has to stop. They don't understand.

• (2005)

Mr. Alistair MacGregor: Can I get a quick comment from you? You mentioned the 28,000-car backlog, and you're pretty pessimistic about part of this year's crop.

Are programs like the advance payments program and the suite of business risk management tools adequate to deal with crises? Is there something we can do to improve them? Do you have any suggestions for this crisis here?

Mr. Dan Mazier: It's interesting. If we don't get rid of the backlog, what's going to happen in either August or September is that we're going to have to build more bins and have more debt, but we're not going to be able to pay bills. They can defer the interest from those actual payments. I think they can do that. That was done the last time, in 2013-14. There's a deadline of September 31 for last year's crop. They could defer interest on that and say, "No, we're going to let it go until January or whenever, until you get rid of the crop." Until we get those numbers down and see what kind of summer they have, they could apply for that. Increasing the limits would help, but as we all testified, it's borrowing money when you have money in the bin.

There's the other thing we haven't talked about. As our grain comes into summertime, into spring, the temperature of the grain is changing, so we have to recondition it. We have to turn the fans back on. We have to make sure.... There's snow that sifted in and condensation going on, so we have to re-handle that grain again, maybe pull some bins out and circulate them. Meanwhile, we have to put a crop in. We have to start sowing it, seeding it, spraying it, and all that kind of stuff. It adds that much more complexity.

Mr. Alistair MacGregor: Mr. Sekulic and Mr. Fransoo, you both experienced 2013-14, and look at what we're going through now. Do

you have any general comments on the parallels between the two? Are we going to repeat this sad story in another four years, or are you optimistic that we have something before us that will actually tackle this problem?

Mr. Warren Sekulic: I think that if we can pass this bill with the amendments that we're pretty much recommending as a supply chain, we can go a long way toward fixing the problem. I sure don't want to be coming back here in four years.

I was here in 2013-14. I learned those lessons really well, and they were really hard. I manage that risk right from the get-go every year now myself with regard to my own business and marketing plans and that type of thing. I'm behind, but I did manage that risk, because I didn't ever want to get stuck in a situation of looking at February. FCC moved things back to March in 2013-14. It used to be that February 15 was the payback date; now it's March 15, but they're talking about pushing it back again. If I'm looking at coming to the middle or end of January and I haven't moved my contracts, I sure as heck don't have my cash in the bank to pay that FCC bill.

Mr. Daryl Fransoo: I echo a lot of that. We've just got to concentrate on getting this bill passed as quickly as we can. Everyone is asking for amendments. They're no-brainers, so let's get them in there and get this done.

• (2010)

The Chair: Thank you, Mr. Fransoo. I have to move on.

Thank you, Mr. MacGregor.

Mr. Drouin, you have six minutes.

Mr. Francis Drouin: Thank you, Mr. Chair.

Thanks so much for staying late with us.

Thanks, Warren. We're all on a first name basis. It's nice to see you.

You mentioned that you've had to create a buffer zone because of the unpredictability of the rail system. How do you have that conversation with your accountant, I guess, on how to create that buffer zone for you, and how much has that increased since the incident in 2013-14?

Mr. Warren Sekulic: It's not really a conversation with my accountant. I took 2013-14 and saw how long the contracts got pushed back. From past experiences, I know that our service in the Peace Country can be pretty terrible. We can be the last that are cleaned out. I just don't leave risk on the table that I won't have my grain delivered in time to pay my bills—or I try not to, anyway—so I sell a big proportion of my grain early. That's how I manage that risk.

I end up paying a bit of a penalty. You can sell in, say, September or October, for a wider basis, and that's when everyone wants to sell, but it's just a better risk to take, in my opinion, than not having the cash flow to pay my bills later on.

Does that answer your question?

Mr. Francis Drouin: I want to focus on the long term, but as a member of Parliament, I'm not yet convinced.... I know Bill C-49 will answer a lot of questions, but I've spoken to a lot of your members and a lot of farmers about capacity, and they're saying that they're getting a lot more efficient on the farm and can produce a lot more in the same acreage of land, so that obviously means production is going to increase.

Mr. Mazier, are you having that conversation with the rail companies about long-term capacity? What's the five-year or 10-year output? Are we ramping up capacity? Even if Bill C-49 is there, we will be back here in four years if we don't have that capacity. If we don't ramp up capacity, it will happen again.

Mr. Dan Mazier: We did have the solutions back in 2013-14, and we talked about giving the agency more power to be more proactive, which is the word we're all looking for, I think, instead of reactive. As long as the railway companies are focusing on stockholders' share, we're all going to lose. We're going to lose as Canadians.

They've got to get their head around that. They're supposed to be offering us the service. When the economy starts ramping up, their solution is to ration, to cancel orders, to stomp out that economy and restrict it. I don't know how a carrier, in good conscience, could do that, especially with the monopoly that they have in Canada. It doesn't make any sense at all. They need regulations.

Mr. Francis Drouin: Yes, I completely agree, but I'm concerned whether we have the infrastructure in place to answer the demand in five years. That infrastructure takes a while to build, right?

Mr. Dan Mazier: They are coming to everybody and saying that this is the infrastructure that we're putting in. They know they have some choke points. In Vancouver, I know that they talk about the bridge going over the water and the other one up to Prince Rupert. They know they have some pretty vulnerable spots. I think they're ready to invest and to work with us, but a lot of their problems could be solved by using their power and their staff a lot more efficiently. Don't be cutting down right to the bone. When the economy slides down a little bit, be ready for that little bump, so that instead of that 2% bump, say an 8% bump. Put that in your model and see what it looks like.

Mr. Francis Drouin: That's one of the questions that I've asked previous witnesses. I think there's an opportunity for you guys to talk about projections with the rail companies, but there's not an opportunity for feedback after the fact. Would that be something that you guys would welcome?

I would suspect that meeting over 80% would be great news in today's cases. However, if there was an opportunity for you guys to provide feedback, then you could say, yes, this year we've met our numbers, but here's how we can improve the service for next year.

Mr. Dan Mazier: They have to start talking to our shippers and our grain buyers. They have to understand what they go through.

We've all locked in to next year's price. We've probably got 20% of our product locked in for next fall already. Railways don't get that.

We are different in agriculture. You can shut down a mine and you can shut down an oil line and you can shut down a car plant. You can stop these industries, but you can't shut down agriculture. We go on cycles. We have the sunshine and the rains, so we produce. That's what we're hardwired to do, and we're going to keep on doing that because the government is sending us very clear signals to produce more. As producers, farmers can scream all we want, but the carriers have to start understanding what our grain companies and our buyers are going through. Why would they take on all this risk if the railways are not even going to provide enough service to move the grain?

Do any of you guys want to comment?

• (2015)

Mr. Francis Drouin: Thank you very much.

[Translation]

The Chair: Thank you, Mr. Drouin.

Mr. Poissant, you have six minutes.

Mr. Jean-Claude Poissant: Thank you, Mr. Chair.

I would like to thank our witnesses for their testimony.

Earlier you said the delay was about 20,000 cars. Before that, the CN and CP officials said that instead of 4,000 cars per week, there were 3,000 to 3,200. Is that included in the calculation of 20,000 cars that you mentioned? That is what I am wondering.

[English]

Mr. Dan Mazier: That was planned shipment, so that's correct.

Here is what happens if they don't get them when they order them. The boat is sitting out there, and they said they wanted them in week one, week two, or whatever. They don't show up until the next week, so then they have more orders. They have to clean up week one and week two. Let's say they delivered only half of them; then they get bumped, and they say, "Oh, no; we only brought half of them again." That's 28,000 cars of missed opportunity.

Meanwhile, as was alluded to earlier this afternoon, there's another crop coming from another part of the world that we didn't even think we were going to be competing against, because our grain was supposed to be gone. The plan was for 5,000 cars a week. The shippers were there and the railways agreed to it, but the railways decided they had another plan. Then I guess winter came.

Mr. Warren Sekulic: Further to that, if the plan was 5,000 cars a week, the elevators buy grain to their expected level of service. They're only buying grain from the farmers up to what they can expect to ship. They're doing that, as far as I understand, based on their agreements with the rail companies, and the rail companies aren't living up to those agreements. It's frustrating at the farm level, where the line companies or shippers are actually just buying up to the number of cars that the railways say they can supply, and they are not even living up to that.

[Translation]

Mr. Jean-Claude Poissant: We know that Bill C-49 is supposed to solve much of the problem, but do you think this bill and the amendments will meet all the needs?

[English]

Mr. Daryl Fransoo: I guess time will tell. I don't think it's quite strong enough. That doesn't mean we can't get it passed and get some clout for the shippers, right? Maybe next time around we'll have to circle the wagons and look at the MRE or whatnot. What is important today is to get this bill passed.

Mr. Dan Mazier: There is no silver bullet. It will go a long way in fixing a lot of things, modern-day things.

We've dismantled the Wheat Board. In some way they did control the flow of grain. They bought it differently, as Mr. Ritz alluded to earlier today. Things flowed differently in Canada.

We have a new market, called Japan, all of a sudden coming into the west coast. Things have changed in Canada. A modern-day Bill C-49 will bring us up to date to at least address these problems.

The problem is that part of the act needs updating. We've transformed as a country and we just haven't been able to adapt in a regulatory sense to make it happen for everybody.

[Translation]

Mr. Jean-Claude Poissant: I have one last question.

Earlier, I asked the people around the table if it would be possible to have elevators near the ports. When crop yields are high, the crops could be shipped very close to the ports. In difficult times, there would be reserves on hand ready to be delivered so you could meet your commitments. Is that feasible?

• (2020)

[English]

Mr. Warren Sekulic: In my part of the world, the farmers are already hauling huge distances. Some farmers are already hauling four hours one way to get to the high-throughput elevators. Maybe I'm misunderstanding your question, but if you start building the elevator....

[Translation]

Mr. Jean-Claude Poissant: At harvest time, the grain cars would start moving immediately in order to fill the reserve elevators close to the ports. When challenges arise then, there would already be reserves on hand to meet the demand because the grain would already have been shipped by rail.

[English]

Mr. Dan Mazier: That's how they treat Alberta. They're closer, so they'll do cycle times quickly. Then they'll empty out Saskatchewan. In Manitoba, we actually go through the St. Lawrence Seaway a lot. Sixty percent of our product goes from Manitoba that way. It's interesting. The railways have got it figured out, but if things go really badly, they empty out Alberta first—probably southern Alberta, not northern Alberta. Then they'll start whittling away at western areas. They're using the closer elevators, but there's still a mountain range that they have to get through.

[Translation]

The Chair: Thank you, Mr. Poissant.

[English]

Mr. Barlow, you have six minutes.

Mr. John Barlow: Thank you very much, Mr. Chair. I'll split some of my time with Mr. Dreeschen.

It's frustrating that we're dealing with this, and it's sad to see or hear from our producers today that they have pretty much resigned themselves to the fact that this is a lost season. It's especially frustrating when, as Mr. Fransoo said, action could have been taken weeks or months ago to address the season, regardless of what happens with Bill C-49.

This is no fault of my colleagues across the way, because we do work fairly well together. Many of the amendments that are being discussed right now that you have all talked about today were brought up at the transport committee by the Conservatives, and the Liberals voted them down at the transport committee.

We're already talking about dealing with things next year, the consequences of this year. This should never have happened if we had acted quickly on the advice from stakeholders and members who went through this before in 2013-14. I'm just shaking my head that while we're having to deal with this situation, we're already talking about how to deal with the consequences.

Mr. Mazier, you talked about CN getting through this before somehow despite massive cuts. It was because nothing was being transported in the energy sector that they managed to get through that, but it's a little different this time around. You're right that they made massive cuts to their staff and their equipment, and now they're trying to scramble to get it back.

Ian Boxall brought it up before, when he talked about how he pays \$360,000 a year in freight alone. The cost to the industry of that last crisis in 2013-14 was \$8 billion. Do you have any idea what this is costing you this time around, and have you recovered financially from 2013-14?

Mr. Daryl Fransoo: I think it's a little too early to put a dollar amount on it. Fortunately, this time around we are a little later in the season. In 2013-14 we saw that basis widen, whereas right now we're just starting to see it widen.

It's a little too early to put a number on it, but the fact that a lot of farmers are taking on more debt to pay off their debt shows we have a big problem here.

Mr. John Barlow: We also heard over the last few weeks that our transport minister and our agriculture minister consistently defend the railways, saying we've talked to CN and we've talked to CP. They relied on them to try to solve this problem. We've seen the consequences of that approach.

In your opinion, from the answers you heard today from CN and CP, do you have any faith that without the consequences of fines, penalties, and mandatory volume regulations, there would be any incentive for CN and CP to improve their service?

Mr. Daryl Fransoo: No. The straight answer is no. Their plans were nothing. A lot of CN stuff was already announced, to be quite frank. Then I felt CP brushed farmers by the wayside with their letter to the minister, unfortunately.

• (2025)

Mr. Dan Mazier: They didn't talk about grain at all in their replies, so it was basically business as usual. This is how they were reacting to it. It was not specific to agriculture or grain, which is.... I think they missed the mark on it.

To answer your question, when we get Bill C-49 passed—not “if” we get it passed—it will enable a lot of us to do a lot more things to the railways to hold them accountable. That's why we need it passed.

Mr. John Barlow: Right, but sometimes the government has to step in and take some action. Definitive action could have addressed this weeks ago, and they didn't act.

I'd like to share the rest of my time with Mr. Dreeshen.

Mr. Earl Dreeshen: Thank you, John.

Again, as we've heard so many times, getting Bill C-49 passed with the amendments is the critical aspect of it; otherwise, we'll be coming back to deal with this again later on.

One of the things we talked about earlier was the APP and whether it should be raised from \$400,000 to \$800,000 and so on. All of those things don't help unless you know exactly when you want to use that tool, because if all you're doing is punting it down

the road because you've lost all of the contract opportunities and your marketing....

That can work, and you can use it, but you better know that the year before, rather than trying to deal with it on an ad hoc basis.

Of course, the other aspect of it is trade, which is what we really are missing throughout. I was just in Southeast Asia a couple of weeks ago, talking on trade issues. We tried to say that we'll be able to market these products and that they should look at the great things they'll get if they have our Canadian grain or our beef and so on, but they look at it and say that right now they know they can get it from Australia, and there are no issues there. I know we're losing all of these opportunities because of the way people look at it.

That's one of the aspects that we have to recognize. The railways forecast a 2% or 3% increase and say they'll just do it as the economy looks, but as farmers we are increasing the volumes immensely because we have the skills and the tools and we are going from there. The key concern I have is how we keep this pressure on throughout the summer so that they are ready on August 1, when week one shows up, to handle the issues we always face.

The Chair: Unfortunately, that's all the time you have.

Mr. Earl Dreeshen: Well, I got my story in.

The Chair: I guess that covers our meeting. I certainly want to thank all of you for taking the time and for that extra-long day. I wish you a good trip back, and I think the message has been heard.

Mr. Luc Berthold: I want to thank all the members of the committee too, Mr. Chair, because they accepted to have this emergency meeting. I think we appreciate the fact that we had this four-hour meeting. I just wanted to put it on the record.

The Chair: Okay.

Mr. Angelo Iacono (Alfred-Pellan, Lib.): To all the staff, translators, and everybody, thanks. Hopefully we won't get you to work that late every night. Thank you.

The Chair: The meeting is adjourned.

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