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Chair

The Honourable Kevin Sorenson

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•(0845)

[English]

The Chair (Hon. Kevin Sorenson (Battle River—Crowfoot, CPC)): Good morning, everyone. It's Thursday, June 16, 2016, and this is meeting number 21 of the Standing Committee on Public Accounts.

I would remind everyone that again today we are televised. Your cellphones, iPads, or whatever might sound when they receive a message, if you would turn them down or mute them, that would be great.

Today we are conducting a hearing on VIA Rail Canada Inc., as a Special Examination Report of the Spring 2016 Reports of the Auditor General of Canada. Appearing before us today, we have from the Office of the Auditor General of Canada, Maurice Laplante, the assistant auditor general, and René Béliveau, principal.

From VIA Rail Canada, we're pleased to have Yves Desjardins-Siciliano, the president and chief executive officer; Patricia Jasmin, the chief financial officer; Jane Mowat, lead director and chairperson of the audit and finance committee; and Bruno Riendeau, director, safety and environment, risk management and corporate safety.

We will also have an opening statement from the assistant auditor general, Monsieur Laplante, and then a statement from the president and CEO of VIA Rail.

I would also tell the committee that we're going to reserve the last 15 minutes or 20 minutes for committee business. We have some items that have come out of the steering committee that met yesterday.

To our guests as well, this morning I will table a report in the House, so when I leave, Ms. Mendès will take the chair. As a courtesy, I wanted you to know that it's not what you said that is the reason I'm leaving, but it's to table the report.

First of all, I would invite the assistant auditor general, Monsieur Laplante, to make his opening statement, please.

[Translation]

Mr. Maurice Laplante (Assistant Auditor General, Office of the Auditor General of Canada): Thank you, Mr. Chair, for giving us this opportunity to discuss our special examination report on VIA Rail Canada Inc. I am accompanied today by René Béliveau, the principal responsible for this audit.

A special examination of a crown corporation is somewhat similar to a performance audit. In particular, a special examination seeks to determine whether the crown corporation's systems and practices

provide reasonable assurance that its assets are safeguarded, its resources are managed economically and efficiently, and its operations are carried out effectively.

Our examination covered the period between November 2013 and September 2015. Our examination identified a significant deficiency in the corporation's governance. We found that, despite VIA's efforts to define a long-term strategic direction, the corporation still did not have a long-term plan or direction approved by the federal government.

For several years now, VIA's five-year corporate plan and funding have been approved only on a short-term basis, and often late in the corporation's fiscal year. In that context, VIA could not fulfill its mandate as economically, efficiently, and effectively as desired. If it continues, this significant deficiency could even compromise the corporation's medium- and long-term viability.

•(0850)

[English]

We found that the corporation had improved its practices in several areas. For example, in the strategic planning area, we noted that the corporation had the key elements of a risk management framework, had a performance measurement process that enabled VIA to follow up on its operations, and adequately communicated its results. In the operation area, we found that VIA had systems and practices that enabled it to meet the needs of its customers, mitigate safety risks, and ensure the reliability of its operations, the safeguarding and control of its assets, and the quality of its services.

We also identified room for improvement in some areas. In particular, VIA needs to improve its profitability analysis mechanisms, the documentation of its safety management system, and the mechanisms used to measure the effectiveness of that system. VIA also needs to pursue planned improvements to its project management systems and practices, which did not adequately support the implementation of certain significant projects of the capital investment program approved by the government in 2007 and 2009.

We further found that VIA had not met its strategic objectives of increasing revenues in ridership so as to ensure its longer-term viability. The results analysis for VIA indicated that between the 2010 and 2014 fiscal years, revenues increased by only \$5 million, whereas total operating costs increased by \$61 million. We also noted that ridership decreased by 350,000 passengers during the same period.

[*Translation*]

In addition, on-time performance of trains has worsened significantly since 2010, from 82% to 76%, largely because of the significant increase in congestion on the rail network that VIA has to use.

Moreover, VIA did not succeed in increasing the frequency of train departures, as it anticipated when it negotiated the renewal of its main service agreement with the railway companies that own the railway tracks. The corporation will need to find lasting solutions to those problems if it is to ensure its long-term viability.

[*English*]

VIA Rail agreed with all our recommendations, and indicated that it would act quickly to address our concerns. However, since our audit was completed in September 2015, I cannot comment on any measures that have been taken since then. The committee may wish to ask VIA officials to clarify what measures have been taken in response to our recommendations.

Mr. Chair, this concludes my opening remarks. We would be pleased to answer any questions the committee may have.

Thank you.

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

We'll now move to Mr. Desjardins-Siciliano for his opening statement.

Mr. Yves Desjardins-Siciliano (President and Chief Executive Officer, VIA Rail Canada Inc.): Thank you, Mr. Chairman.

As you mentioned, I am joined today by Ms. Jane Mowat, lead director and chairperson of the audit and finance committee; Mr. Bruno Riendeau, director of safety and risk management; and our chief financial officer, Madam Patricia Jasmin.

At VIA Rail our mandate is to provide safe, efficient, reliable, and environmentally sustainable transportation services that meet the needs of Canadian travellers from coast to coast. That is the mandate that VIA Rail management, throughout the years, has provided itself and which governs its activities, as VIA does not have enabling legislation that sets out specifically its mandate, nor does the board or its CEO have a mandate from the government.

I've had the pleasure of serving as president and CEO of VIA Rail since May 2014. Since that time many steps have been taken to revitalize and refocus our service to Canadians, specifically to try to turn the tide on the increasing deficit, sinking ridership, and overall bad performance of the corporation.

In this regard, 2015 was a year of significant progress for VIA Rail. The corporation improved its services by focusing on customers and their needs. The shift toward customer-centricity led to simultaneous increases in ridership and revenue for the first time in many years. Including the month of June 2016, we will have experienced 18 months of straight growth in revenue month over month.

We will also experience three out of five quarters of increased ridership, increased revenue, and increased average revenue per customer, an achievement never realized in the 40-year history of

VIA Rail. This significant accomplishment allowed us to reduce the subsidy provided by the Government of Canada for the first time by almost 12% as compared with last year in 2015.

The results are promising as we move forward to 2017, which not only will mark Canada's 150th anniversary, but more personally will mark VIA Rail's 40th anniversary.

Coupled with our ambitious plans to modernize the future of intercity passenger rail in Canada, which I'll talk about a little while later, we're very optimistic about the future of our crown corporation. That's why we're pleased to be here today to address the Auditor General's Special Examination Report and ensuing recommendations, with which we all agree.

First, I would like to formally thank the Auditor General's office for their co-operation throughout this process. Nobody likes to be audited, but if you're going to be audited you might as well be audited by the Auditor General of Canada—

Voices: Oh, oh!

Mr. Yves Desjardins-Siciliano: —because they do it with sensitivity.

We worked very closely with the Auditor General's office under the Financial Administration Act, on this special report, as we do every year on our annual report that is conducted by the Office of the Auditor General. The period covered by this report is November 2013 to September 2015, and therefore, over half of that period was not under my watch, but I assume full responsibility for its outcome.

We view this special examination as an opportunity to learn more about our strengths, as well as the areas in which we can continue to improve, as I said we do every year with the annual audit by the Auditor General. For example, we've implemented a detailed action plan for improving our SMS, our safety management system, and integrating it into our risk-management system.

VIA Rail's SMS provides the framework to implement our safety policy and to comply with the Railway Safety Act and safety management system regulations. At VIA, the objective when it comes to safety is not to meet regulatory requirements, but to exceed regulatory requirements for the better conduct of our business, and to enhance safety of our operations, our people, our passengers, and the public in general.

It is also the reference for setting goals, planning and measuring our safety performance. In 2015, VIA addressed the recommendations from Transport Canada's 2014 SMS audit, complied with revised new SMS regulations, and maintained and fostered strong participation by all employees, all ahead of the required timelines. In addition, we consulted with external experts to benchmark our SMS against leading practices within and outside the industry, in keeping with our commitment to go above and beyond compliance.

I'm happy to say that it is our view, and that of considered external experts, that VIA leads the way in state-of-the-art safety management systems for railways in Canada today.

● (0855)

We met the deadline of October 1, 2015, for compliance with the new federal legislation, and we've also taken measures to be able to demonstrate the effectiveness of this new system. In fact, I'm pleased to report that by the end of 2015 we completed an analysis of risks and vulnerabilities, and work is under way to implement mitigation measures by the end of 2016. We're also making significant progress on a number of other issues that were uncovered during the examination.

We've increased market discipline in our project management processes, which has resulted in more effective operations and increased revenues. We've put in place a governance structure to ensure better project management follow-up as VIA manages hundreds of projects every year, mainly capital projects, from infrastructure to train station updates and equipment modifications and renovations.

In 2015, we set up a centralized project office. This office has already helped to standardize estimates and measures for risks and benefits, a significant improvement from both a planning and a project management perspective. I'm happy to report that since then, many current projects, such as infrastructure bridge repairs and renovations to stations and other facilities, are forecast to come in on time and on budget.

One example that we are particularly proud of is our GPS train-tracking safety system, which was developed in-house and is a first in North America. The GPS tracking system assists locomotive engineers by providing notifications of upcoming speed changes or restrictions, approaching changes in applicable rules, and upcoming landmarks along the routes. VIA Rail has successfully completed the first live road test of its GPS train safety system in order to validate critical foundational system capabilities, accuracy, and precision of real-time GPS feed and track database in a real environment. This was a significant achievement, and further development and testing of the system are ongoing.

Furthermore, in 2015, we worked on completing the implementation of a new system containing information on profitability per train. Starting this year, VIA Rail will be able to incorporate such information into its decision-making and therefore increase its capability when it comes to managing its revenue.

Another area where we've made efficiency improvements is that of our employee scheduling tools, which are now entirely available online and which gives greater flexibility and convenience both to our employees and to management as we plan the schedules of our 2,600-person workforce.

We also have made improvements to our customer relationship management process, launched a new mobile application, and instituted SMS train status text messaging, all in an effort to address the needs and desires of the modern Canadian traveller.

With respect to the Auditor General's recommendations on long-term planning, we agree wholeheartedly that our operational effectiveness would be greatly enhanced through a timely multi-year approval of funding of our long-term plans. In fact, we have worked with Transport Canada toward this objective and obtained a multi-year funding envelope, which was three years long, ending in

March 2017. We'll continue to work with Transport Canada and see if we can't come to a five-year plan, fully funded from both an operational and a capital requirement point of view.

Should no modification be made to VIA's current mandate, the funding needs will be \$850 million in operating funding and \$650 million in capital funding, for a yearly average of \$300 million per year over the next five years. Moreover, we have begun working with the government to confirm VIA Rail's long-term strategy in order to reverse these trends of increased funding.

In 2015 we launched two different long-term strategic initiatives aimed at improving VIA Rail's services, ensuring long-term financial sustainability, and having the corporation's corporate plan approved by government in a timely manner.

The first initiative is to renew our equipment fleet for services in the densely populated and used Quebec City-Windsor corridor, where 90% of our riders and 90% of our revenue come from. Train operations are capital-intensive undertakings and take multiple years to plan and to build out, and ongoing maintenance is a high requirement. The rejuvenation of the fleet requires long-lead planning and long-term financial commitments.

● (0900)

As you may know, VIA Rail operates the oldest train sets in North America. The average age of our rolling stock is over 40 years. The average life expectancy of rolling stock typically is around 25 to 30 years. Thanks to several elements of funding over the last 15 years, VIA has refurbished that rolling fleet up to three times, but it's coming to end of life. By lengthening our planning horizons, we will be better able to assess and forecast our fleet renewal needs going forward.

The second long-term initiative we are working on is aimed at mitigating issues resulting from having to share tracks with freight trains. Notwithstanding the success we've seen in the past 18 months, we agree with the Auditor General's observation that congestion on shared tracks has made it difficult for VIA Rail to thrive alongside other passenger and commuter rail operators in Canada.

● (0905)

[Translation]

Our travellers expect a reliable service, with more frequent departures and competitive travel times. As we operate on dual usage tracks, with freight and passenger trains sharing a single rail network, our on-time performance has deteriorated proportionally with the freight industry's significant growth in recent years.

While we acknowledge the commercial industry's role as an important economic generator in several Canadian regions, for Canada's only intercity national passenger service, this has had proportional and negative impacts on VIA Rail's on-time performance.

As freight traffic increases, we battle multiplying rail maintenance issues and constant challenges to our business-critical targets. In addition, our travel times are longer today, on the eve of Canada's 150th anniversary, than they were in 1967, when the country celebrated its 100th anniversary.

To illustrate this point, when VIA Rail operates on its own tracks—of which we own close to 300 kilometres of tracks between Quebec and Ontario—our trains can operate at higher speeds and are on schedule 98% of the time. From our perspective, it is practically impossible for both passenger trains, which can travel up to 100 miles per hour, and freight carriers, which travel an average of 40 miles per hour, to share a single network.

That is why our management team developed a plan to build a railway infrastructure devoted to passenger train services, creating a new dedicated rail network, with the scope and route designation to be determined by the federal government and in the interest of future investors.

The first phase of this important project is intended to allow us to operate on our own tracks and thereby increase the frequency of our trains, reduce the travelling time, and offer a more reliable service. In concrete terms, this means tripling the number of daily departures between Quebec City–Montreal and Ottawa–Toronto, tripling ridership on those trains, and eliminating VIA Rail's annual operating deficit and reliance on the Government of Canada. This network could eventually extend to the current corridor all the way to Windsor.

The benefits of such an initiative are both economic and environmental, through anticipated job creation and labour productivity gains. The project's construction will generate more than 30,000 jobs and, through economic growth, give rise to more than 300,000 jobs across this vast region.

In addition, this plan would result in significant greenhouse gas reductions. We estimate it would eliminate five million car trips, thus lowering carbon emissions by more than 11 million tonnes within 30 years and eliminating more than 350,000 tonnes of greenhouse gases a year.

We also estimate that, in offering more modern services, our ridership will increase from just over two million to more than seven million passengers annually and, in turn, mean five million fewer cars on the road every year.

Our management team designed and planned this ambitious undertaking with the goal of finding permanent solutions that will put an end to recurring operating deficits and fickle ridership.

[English]

In addition, this plan would reduce VIA Rail's reliance on federal funding. We are encouraged by the support we have received through federal budget 2016 for this project and intend to submit a formal proposal to the government for this project later in the year.

For long-distance services in western and eastern Canada and in remote regions, we will continue our efforts with the track owners to improve on-time performance. In the current contractual context, though, and given the very different operational and financial frameworks of freight companies versus passenger rail service, possible improvements are limited at this time.

VIA Rail intends to initiate discussions with Transport Canada in order to identify possible alternatives to the current contractual framework where VIA does not have any leverage in negotiating with freight railway owners.

In closing, I'd like to thank the committee for offering this opportunity to highlight the ways in which VIA Rail is addressing the Auditor General's recommendations. I hope that as members of Parliament and as members of this committee, you feel better informed. I thank you for your continued support of our business, as many of you are riders on our trains, and your support as parliamentarians.

I'd be pleased to take questions, and if I can't answer them, I have my colleagues to chip in.

Thank you.

● (0910)

The Chair: Thank you very much for your presentations.

We'll now move into the first round of questioning. We'll go to Ms. Zahid for seven minutes.

Mrs. Salma Zahid (Scarborough Centre, Lib.): Thank you, Mr. Chair.

Thanks to all the witnesses for taking the time to appear before the committee.

My first question is related to the safety management system. I understand that VIA's safety management system is in place to ensure compliance with safety and security regulations and best practices. While it appears, according to the report, that you have identified, assessed and developed mitigation mechanisms for operational risks, this is only the first step. If you are indeed unable to show that the system is actually working and achieving its goals, there may as well be no system at all.

In your response, you committed to being able to demonstrate the effectiveness of your new system by April 1. Now, here we are and it's June 16. Is the system working effectively?

Mr. Yves Desjardins-Siciliano: Thank you for your question.

There were two key dates in the implementation of the new system. The first one was October to be ready and then to be ready for audit April 1. We were ready in both cases. The system was in place by October 1. We were ready for audit on April 1.

We were informed recently that the audit will take place in the fall, in September 2016, I believe.

In order to satisfy ourselves of our readiness, we launched an audit ourselves through EEM. A third party firm conducted an audit. We will have the report tomorrow, but early indications are that we are in full compliance with the requirements.

Any adjustments will be made between now and the official audit that will take place in September.

Mrs. Salma Zahid: Is the system working effectively? Are you satisfied? Can you give some examples of how you think the system is working effectively?

Mr. Yves Desjardins-Siciliano: It is. There are two aspects to the safety management system. One is education and information of employees so that it is integrated into the operation. The other one is documentation of measures and actions taken on a day-to-day basis.

On the first one, we have in the course of the last year, launched under the leadership of Bruno, an extensive education exercise within our workforce, auditing different areas of the business, making sure that the operational realities reflect the new SMS requirements.

On the second element of documentation, we are documenting all the measures that we have taken with regard to safety management. Then we audit these measures to ensure that these mitigation measures are actually implemented. Bruno is responsible for that exercise.

We've added to that a layer of management oversight. For example, at the management committee we have a review of findings and mitigation measures on a monthly basis. Therefore, we ensure compliance by greater awareness, as I said, by the workforce in general, by senior management in particular, and then by a dedicated oversight of the director of the safety management system.

Mrs. Salma Zahid: The next question is with regard to the recommendation in paragraph 46 that you improve documentation related to the safety of tracks VIA uses that are owned by other companies. In your reply, you state that you have no contractual or other rights providing you with access to that information. This is both surprising and concerning and seems like a serious oversight.

How can you be paying to use this track and transporting Canadians across it with no assurance of the safety of that track? Frankly, the response that VIA will raise this issue during negotiations is not at all satisfactory.

What will you do to immediately address this issue?

Mr. Yves Desjardins-Siciliano: We share your point of view. The only comment I would make, though, is that when it comes to the large class I carriers, the CNs and CPs, we argue with companies that are reputable and have their own imperatives that go to safety in terms of their merchandise and their people, so we rely on that fact. The fact that we have to rely on that and that we don't have access to the trackage, we don't have access to information, is a reality.

With regard to short lines or smaller operators, because we are the bigger player in that relationship, we are typically able to enforce audit rights and visit rights. That's how we came to the determination. On Vancouver Island we had to suspend service. The Montreal-Gaspé service was suspended because we inspected the track and we determined it was unsafe. Then the provincial government came to the same conclusions, both in B.C. and in Quebec.

When it comes to CN and CP, these are large corporations. We are the David in that scenario. We do not have the contractual or the commercial leverage to demand and enforce such rights. As I said, the only comfort we get is that they have their own operation at risk, their own reputation, and they have an excellent track record overall when it comes to safety.

Obviously, it is not as good as being able to tell you that our own people have inspected it and are satisfied, but the experience over the last 40 years has been that they tend to take the right measures at the right time. For example, last year between Toronto and Winnipeg, VIA was shut down for 33 days because CN came to the conclusion that their trackage was unstable, so we suspended service for 33

days. However, we weren't able to inspect that track as to why it was unstable and we did not get to inspect that track to know that it was fixed properly. We had to rely on their representation that it was fixed properly and that their trains were running on it, and then we put our trains on it.

Are we satisfied with that? No. Would we like to be able inspect? Yes. In a commercial relationship, sometimes you have to assume the position of being the underdog, and in this case, that's the position of VIA Rail.

● (0915)

Mrs. Salma Zahid: Do you have any suggestions in regard to that?

Mr. Yves Desjardins-Siciliano: I think these companies... Obviously, CN is a former sister company as a crown corporation and it was the foundation of this country. Both have a social consciousness and a public policy mindset in some regard. Other than goodwill and good faith, there's not much that we can do.

Mrs. Salma Zahid: Ultimately, Canadians are travelling on those tracks.

The Chair: Thank you.

We'll now move to the opposition.

[*Translation*]

Mr. Godin, the floor is yours for seven minutes.

Mr. Joël Godin (Portneuf—Jacques-Cartier, CPC): Thank you, Mr. Chair.

Thank you, ladies and gentlemen, for joining us this morning. Your being here today helps us have confidence in VIA Rail. As you no doubt know, our job as members of this parliamentary committee is to ensure the best possible investment and use of taxpayers' money.

With that in mind, I want to read you an excerpt from the Auditor General's report.

...VIA has received from the government only short-term approval of its funding and five-year corporate plan, and often late in the Corporation's fiscal year. In this context, VIA could not fulfil its mandate as economically, efficiently, and effectively as desired. The significant deficiency could also compromise the Corporation's medium- and long-term viability.

I want to focus on that last statement, "The significant deficiency could also compromise the Corporation's medium- and long-term viability."

Our duty, as parliamentarians, is to ask tough questions. We are responsible for taxpayers' money, and you have a mandate to carry out. And now we have this report from the Auditor General.

Mr. Desjardins-Siciliano, granted, you are new to the job and you have implemented measures, but do you think the existing measures, in addition to the ones your team will introduce and put in place, are enough to ensure VIA Rail's medium- and long-term viability?

Mr. Yves Desjardins-Siciliano: Thank you for the question.

The arrival of the new government and its March budget really give us reason to be hopeful. In a very short amount of time, the new government, as well as the new minister, did their homework and learned all about VIA Rail's situation.

First, the government released funding for fleet renewal. We are in the process of completing the legwork so the government can make a decision on new equipment funding for the corridor as early as this fall or, later, as part of its 2017 budget. That's extremely positive news for VIA Rail.

Second, the government, in the same budget, talks about modernizing VIA Rail and calls the proposal for a high-frequency rail service perhaps the only way for the corporation to improve its relevance, on-time performance, and ridership, while reducing its deficit.

We welcome this public policy, one that recognizes our corporation's need to upgrade and renew our fleet. The fact remains, however, that bureaucratic processes are cumbersome. The Auditor General's finding reflects that reality. Even though the government decided to allocate infrastructure funding in its budget to VIA Rail, the approval mechanism involving Parliament and Treasury Board enters into the equation. As a result, VIA Rail is often unable to access the funding until months later and, in some cases, not until the end of the year in which it was allocated. What's more, the funding usually has to be used by a certain deadline. In our industry, though, the construction season is limited to summer, as far as infrastructure is concerned. I'll give you a good example to illustrate that.

Two years ago, the Government of Canada announced \$102 million in funding for VIA Rail infrastructure between Montreal and Ottawa, in other words, the Coteau segment, in Quebec, on the Ottawa-bound portion. The announcement came in November, but the funds weren't released until mid-July of the following year. It was then too late to start the work because of the tendering process: the requests for proposals had to be posted for 43 days and the suppliers had to be chosen. That took us to October or November, just before winter. Construction work got under way the following year, but the funding decision announced in November was valid for only two years. When we were finally able to access the money and start construction, we had just 12 months until the funding expired.

That's the kind of red tape that prevents things from running smoothly. If the mechanism allowed for long-term planning and five-year funding, it wouldn't matter if we lost six months or a year going through the administrative steps because we would still have enough time to plan and carry out the work.

North America is experiencing a railway revival, but procurement remains a barrier. Whether we're dealing with steel for the track, signalling systems, or rolling stock, the procurement process can take as long as six, 12, or 18 months, given all the railway construction going on right now in North America, particularly in terms of passenger trains.

In order to cope with the red tape—which won't go away overnight—we need long-term planning. It's also important to ensure that projects are fully deployed.

Over the past 10 years, many of VIA Rail's infrastructure projects have suffered because of a lack of foresight. Projects that had gotten under way would be disrupted because the funding had expired. We would end up with these small segments—

● (0920)

Mr. Joël Godin: Pardon me for interrupting you, Mr. Desjardins-Siciliano, but I have a limited amount of time.

I understand the administrative burden makes it difficult for VIA Rail to be even more efficient.

I am a regular VIA Rail user, and I must disagree with you. In the Quebec City-Ottawa corridor, trains are on time. Aren't I always on time or about on time for meetings, Mr. Chair?

Let's talk about the future. You have a project for the Quebec City-Windsor corridor, which seems to be the cornerstone of VIA Rail's growth and prosperity. What will happen if the project doesn't work and you can't carry it out to ensure VIA Rail's financial health?

Mr. Yves Desjardins-Siciliano: Last year, VIA Rail's deficit was about \$311 million or \$314 million. If the project cannot proceed, in five or seven years, the annual deficit will be \$450 million to \$500 million. The ridership, which was about 3.9 million last year, will fall to about 3.4 million or 3.2 million. The number of passengers will decrease because the travel time will increase. Also, on-time performance will be negatively affected when freight trains start running more often than they do now.

In short, the service will become almost irrelevant, and the operating deficit will keep increasing. Significant investments must be made to renew the rest of the VIA Rail fleet. This means trains for the Quebec City-Windsor corridor. Also, some equipment in the Maritimes and western Canada has been in use for 45 years.

If the dedicated track project for the Quebec City-Windsor corridor is not carried out, VIA Rail's deficit will keep increasing and ridership will keep decreasing. A future government will then have to decide whether to get rid of VIA Rail or take other measures.

Thank you.

[*English*]

The Chair: Thank you very much.

We'll now move to Mr. Christopherson, please, for seven minutes.

Mr. David Christopherson (Hamilton Centre, NDP): Thank you, Chair.

Thank you, all, for attending today.

First, I would just acknowledge that it's always a struggle to not bring one's personal feelings when we've been delayed on the train or using these services, so I'll do my best to set that aside.

I found myself in a rather unusual position when reading through this report, having been here now a dozen years. I usually get more riled up the more I read a report. Not that it wasn't there to some degree, but I need the Auditor General to help me out. The last thing I want to do is let somebody off the hook when they need to be held to account—the last thing, because that's what we're all about.

Every time I got into the serious concerns raised by the AG's office, in my interpretation of reading the report, I found a third party to be at fault, i.e., the governance issue had the strongest language, and the strongest criticism comes in failing to achieve strategic objectives, and therefore, in governance and overseeing those strategic goals. Yet the report indicated every time that it was the timing of the government in the funding they received; the timing and the amount was consistently a problem.

In terms of the efficiency of the organization, there's this business of how you don't control the tracks you run on. Then there's the whole idea that by national policy, freight comes before people.

Given those kinds of pressures that are outside the control of VIA, what key issues are left once we pull those things away? What are the things we should be focusing on with VIA? I have a whole lot to say about wanting the behaviour of the government to change, to get their act together, but I'm going to come to that a little later.

I'm asking the AG's office, if we take out the parts of this that are the fault of the previous government in funding, timing, and amounts, and if, in the operation of VIA, we take away the fact that they don't control the tracks and it's a major impediment to their achieving their efficiencies, what are the core criticisms that remain in this report as a priority, in your view?

• (0925)

[Translation]

Mr. Maurice Laplante: Thank you, Mr. Chair.

That's a good question, but it's difficult to answer.

[English]

Mr. David Christopherson: We're not used to this approach, but that was my finding.

[Translation]

Mr. Maurice Laplante: The points raised in the report are clear. The impact on VIA Rail activities is well established. The question is hard to answer because VIA has been in this boat for a number of years. The funding arrives late, the tracks are shared, and so on. These issues have all been raised and discussed since the start of the meeting.

If we set aside these issues, it's tricky to know how VIA would manage its operations. We also noted strengths in other aspects of the management of the corporation. For example, the strategic planning was good, and the corporation was well aware of the risks it faced, and it assessed and dealt with them properly.

So setting aside the issues related to government decisions or shared railway tracks, we could say that, overall, the corporation was well managed.

[English]

Mr. David Christopherson: That's the conclusion I came to, and it bothered me because it left me with less to get riled about, which is what I do.

Let's tease that out a bit. Again, it seems as if we're often playing a game of gotcha, when at the end of the day the ultimate goal of public accounts and the Auditor General is to change behaviour so we don't have any necessity for gotcha.

Let me move to another area. You just got off the hook for a whole host of things; otherwise, you'd be dancing right now.

I had a lot of sympathy for the fact that a lot of it was out of your control. In the limited time I have left—and I'll get another chance later—the other priority I want to talk about is safety. You raise it in the report, and I've heard what you said about it, but I want to take one step back from safety and approach it this way.

[*Technical difficulty—Editor*]

• (0930)

The Chair: Mr. Christopherson, I think maybe.... Yes, that's the problem.

Mr. David Christopherson: As usual, I'm my own problem, the biggest problem anyway.

The Chair: If we just keep our phones away from the microphone, we have better sound.

Go ahead, Mr. Christopherson.

Mr. David Christopherson: Thank you, Chair.

On safety overall—and remember we're televised—what is the status of safety issues as raised by the union representing the employees who work at VIA Rail, and also communities, consumer groups, and others who represent the customers? Are there big issues in front of you? Are they business as usual? Have you made great strides?

It's a big important file. Are the union or consumer representatives putting on incredible pressure? What is your interpretation of your relationship with safety in general?

Mr. Yves Desjardins-Siciliano: Thank you for the question and it's a very important one.

As people, we assume, rightfully, that train services are safe, that it is the safest mode of transport for the users, the operators, and the general public.

Therefore, at VIA it's a constant and daily commitment of all employees that first and foremost safety is paramount to our operations. It is the cornerstone on which this business is built. That is why we have quite an enviable safety record at VIA, but it's work that we do every day.

We just concluded our collective agreement with our brothers from Unifor on Sunday evening. In the course of that negotiation, issues related to health and safety, or specifically safety, were not a matter of debate. We're all on the same side, whether it be unionized or non-unionized personnel, senior management, board members, and obviously our shareholders in Canada, when it comes to that area.

We are very pleased with our safety record, but we do not take it for granted. When we have issues, we take action. Right here in this town, in Ottawa, when I took over in May 2014, we were having issues at Barrhaven, in MP Arya's region. We dealt with it right then and there in May and June of that year and, touch wood, the operation there has been quite reliable ever since.

We take that very seriously, because, as I said, it is the cornerstone on which this business is built. We all should assume that taking a train is the safest way to travel and we are committed to maintaining that. It is not currently an issue where we have challenges.

The Chair: Thank you very much.

We'll now move back to the government side and to Mr. Arya, please, for seven minutes.

Mr. Chandra Arya (Nepean, Lib.): Thank you, Mr. Desjardins.

I want to put on the record the efforts you have been making in reaching out to us, especially the MPs and others where we have quite a number of crossings. I also want to put on the record that your employees in the Ottawa office have been quite good in their communication with us. They keep us updated on things that are happening.

As you know, my riding in Nepean has six crossings and each one of them has a high volume of traffic that crosses those crossings. We had that unfortunate accident a few years back that resulted in the loss of nine lives, so the grade crossings in my riding are a very high priority for me.

Have you included the grade crossings in Nepean in any of your plans?

Mr. Yves Desjardins-Siciliano: Since way before the tragic incident that took place at the Barrhaven crossing a few years back, VIA, when it was just the user, not the owner—at the time the infrastructure was owned by the freight companies—indicated its concern about maintaining the grade crossings in that area.

Mr. Chandra Arya: Sorry, I have to interrupt because of the limited time. I know about that.

We know the federal government allocated \$15 million for the Woodroffe crossing exclusively and that has to be used by next year. Have you included grade crossings in Nepean in any of your future plans?

Mr. Yves Desjardins-Siciliano: What I was leading to was the conclusion that we would like to see grade separation. We were suggesting it before we owned the track. Since we've owned the track, we've been asking for it and suggesting it, and we're still suggesting it.

The reality of grade crossing construction is that it is a responsibility of the road authority. If the road is owned by the municipality, it's a municipal responsibility. If it's a provincial road—

• (0935)

Mr. Chandra Arya: What you're saying is that it is the city's responsibility. As I said, we have six crossings. On one, the city is implementing the grade separation. We are talking about a budget of around \$200 million or \$300 million. You are saying that is the city's responsibility. Obviously, the city cannot afford to spend so much money for one single crossing.

Mr. Yves Desjardins-Siciliano: The reality is that separating the railway from road crossings is a road authority responsibility, because the road authority, or whoever owns the road, puts the road crossing over the trackage to seize the tax revenue of the land being developed. That's the genesis of it.

Mr. Chandra Arya: Basically what you're saying is that other than the \$15 million that has been allotted, which has to be used by the end of next year, there are no plans from your side on the grade separation.

Mr. Yves Desjardins-Siciliano: On VIA's side, there are no plans to build or fund grade separation in Ottawa. What we've committed to do is share the cost of the study—

Mr. Chandra Arya: We know the study is going to come out next year. We all know what the report will be. They are going to recommend that there be a grade separation. You're saying you don't have any plans, that it's the responsibility of the city, and I know that the city doesn't have that kind of money, so where does that leave us? Where does that leave the residents of Nepean?

Mr. Yves Desjardins-Siciliano: The cities all over Canada, when they do grade crossings, seek funds usually from their own funds, the province, and usually federal infrastructure funds. My point is, the financial framework, the financial montage, of those investments, is the responsibility of the road authority. If VIA has to make a contribution, usually it will go to the Government of Canada, its shareholder, and seek funding for those undertakings, but it is extremely rare for VIA to build or pay for grade separation.

Mr. Chandra Arya: That's what I'm asking. It is not in your current plans now to go to your sole shareholder and ask for any support for this crossing in Nepean.

Mr. Yves Desjardins-Siciliano: No, because we're not aware that the City of Ottawa is planning to build a grade crossing.

Mr. Chandra Arya: Why is that? You are participating in the study that is currently being undertaken.

Mr. Yves Desjardins-Siciliano: Because we're hoping that the study will nudge them into pursuing grade separation. We're trying to support those who want to see grade separation, because that is what we would like to see happen.

Mr. Chandra Arya: If the city comes up with some sort of proposal requesting support, are you willing to consider it?

Mr. Yves Desjardins-Siciliano: We would support any proposal that the city brings forward to any authority for funding for grade separation in Ottawa.

Mr. Chandra Arya: Okay.

I'll change from my riding. Basically you mentioned the timing of the funding that is made available to you. You stated that usually funding comes late, and you don't have any commitment beyond March 2017 as of now. Do you think the decision will come soon? Is there any change in culture at Transport Canada?

Mr. Yves Desjardins-Siciliano: We are preparing the corporate plan now for the following period. In our conversation with Transport Canada, we will be seeking at least another three years, like the last one, or ideally a five-year plan, but not only on capital this time, but also on operating funding.

Mr. Chandra Arya: Have you not submitted any plans to Transport Canada yet?

Mr. Yves Desjardins-Siciliano: No, not yet.

Mr. Chandra Arya: Okay, that's good.

I'll talk about the new networks. In the first phase, you said there is some interest from the private sector investors for the new track that you're going to have eventually between Quebec and Windsor. Is my understanding correct that the private sector may be interested in participating with you?

Mr. Yves Desjardins-Siciliano: Yes. Once the decision is made from a policy point of view that we should build a dedicated infrastructure for passenger rail, what we're suggesting is that funds are available outside of government. Public pension funds...and you saw it with the Caisse de dépôt in Quebec, with a \$5.5-billion project. We believe that financing is available outside of the government, if the government wishes to seek outside funding.

Mr. Chandra Arya: You want your own tracks, I think, possibly in the area between Ottawa and Toronto. Once that is done, will grade separation be part of it, or is there some way it can come in there?

• (0940)

Mr. Yves Desjardins-Siciliano: Again, depending on if it's VIA establishing trackage over a road, then it's our responsibility, but if the road is already there, the grade separation is the road authority's responsibility.

The Chair: Thank you very much. Your time is up.

We'll now move back to the opposition and to Mr. Godin, *pour cinq minutes*.

[Translation]

Go ahead.

Mr. Joël Godin: Thank you, Mr. Chair.

The Government of Canada invests approximately \$400 million a year in VIA to help it fulfill its mandate. The mandate, I believe, is as follows:

Therefore, the Corporation provides inter-city and long-distance travel services, as well as services for regional and remote communities.

That's what I want to look at. Some Canadians don't have the privilege of living in a corridor such as the Quebec City-Windsor corridor. You serve these regions, but you are incurring financial losses. That's why the Government of Canada offsets these losses.

What about the Gaspé region? You don't own the tracks, but under your mandate, you're required to provide rail service. Everyone's turning in circles. You want to fulfill your mandate, but you can't use tracks that don't meet safety standards.

How can this be resolved?

Mr. Yves Desjardins-Siciliano: The owner of the railway track must make the necessary infrastructure investments so the tracks can be used safely. In the case of the Gaspé, the Quebec government acquired the railway track from the local authorities. The Quebec government is thus responsible for upgrading the infrastructure using its own funds or funds from other sources. It's not VIA's role to invest in railway tracks it doesn't own.

Mr. Joël Godin: Okay.

It's not VIA's role, but as members of Parliament, how can we ensure services are provided to that population?

You are an integral part of the problem and solution. I am thinking out loud. I don't know whether you or the officials from the Office of the Auditor General can answer me. I'm not sure whether I'll be able to get a full answer. Do you have possible solutions for this type of situation?

I mentioned the Gaspé, but the problem also exists in western and northern Canada. The government is responsible for ensuring that one of its service providers, in this case VIA Rail, fulfills its mandate. How can this be resolved?

Mr. Yves Desjardins-Siciliano: For over 12 years, Canadian infrastructure has often been funded at the municipal, provincial, and federal levels. Each of the three levels of government must establish its list of priorities and include the project. My understanding is that, if there's no funding for infrastructure upgrades in the Gaspé, the reason is that the local authorities in Gaspésie, the provincial authorities in Quebec City, and the federal authorities have not included it in their list of priorities. Funding decisions are made by those three stakeholders together. Once the infrastructure has been funded and restored, we must conduct a safety check, and once it is safe, we then use it as needed. That's my understanding of how the infrastructure is funded.

Mr. Joël Godin: Since this situation means that VIA Rail fails to fulfill its mandate, do you lobby provincial and municipal authorities to start developing railway networks or to ensure the safety of the ones they own?

Mr. Yves Desjardins-Siciliano: Absolutely.

Since the VIA Rail service ended, we have been consistently lobbying provincial and local authorities about the infrastructure. The public have been asking us, like they have been asking you, when we plan to restore the service. We give them the same answer. We also tell the authorities involved that it may be time to invest in the railway track given that the demand is there.

The fact remains that it's not our job to repair infrastructure we don't own. We are still in a somewhat difficult situation because we want to work together and cover the territory. The Gaspésie section, in particular, is magnificent. However, we don't have the money to make that type of investment. We also don't have the authority to determine which infrastructure the government should invest in.

Mr. Joël Godin: You have only the authority to propose it.

• (0945)

Mr. Yves Desjardins-Siciliano: Exactly.

[English]

The Chair: Thank you very much.

We'll now move to Ms. Shanahan, please, for five minutes.

Mrs. Brenda Shanahan (Châteauguay—Lacolle, Lib.): Thank you very much for being here this morning. Thanks first to all in the Auditor General's office for a very complete report, and second, to all of you from VIA Rail.

[Translation]

Mr. Desjardins-Siciliano, you gave

[English]

a very dynamic presentation. I, too, had very serious concerns in reading the report, but what you're telling us is that VIA Rail is at a turning point, and I would like nothing better than to be here again in a few years to hear the good news story.

That being said, my very serious concerns and what the Auditor General's office brought out very clearly were the lack of performance measures, be they in the ridership cost or in the capital infrastructure program, just the analysis there concerning the replacement of cars. This was not going in the right direction, and if you have ambitions for the future, we don't want to see that go in the wrong direction either. Perhaps you could share with us how you are tightening up these performance measures and how will they be reported.

Mr. Yves Desjardins-Siciliano: Thank you very much for that question.

You're right. The Auditor General's comments were absolutely accurate, and they were my own findings when I became the CEO of the corporation. That is why initiatives such as profitability by train are now a way that we have to look at the cost of operating a given train and its profitability or its financial viability versus looking at it as an average rail service. That's an example of changing the way we do things.

On the project management office, there was also a recognition of the fact that projects used to be over budget and over time and that we needed to professionalize the management of capital projects.

One has to understand that historically, between 1992 and 2006, VIA Rail was quite starved for capital cash. If you look at the annual reports of VIA Rail over that period, there are years when the capital contribution of the Government of Canada to VIA Rail is zero. Zero. You have over \$4 billion in assets and you have no money to maintain those assets. A rule of thumb in capital maintenance is 3%. If you have a million-dollar house, you should have 3% unreserved to fix the roof or fix the windows. VIA had zero in successive years. The consequence of that is there was no expertise in house to manage capital projects because VIA wasn't getting any capital money.

The Chair: What years were those?

Mr. Yves Desjardins-Siciliano: Between 1992 and 2006, there are different years where it was zero.

The point I was leading to was that VIA had no expertise. Then, all of a sudden, money started to flow, but there was no expertise. That's why projects ran late and ran over budget. We professionalized it by having a project management office and having professionals who know how to manage projects. Early results after only 18 months of this PMO show current projects are running on time and on budget. We're very encouraged by that. Again, I think

you have to take a historical perspective to understand why it got to that situation. We didn't have the expertise to manage capital projects because we weren't getting capital.

● (0950)

Mrs. Brenda Shanahan: Thank you for clarifying that.

Now on to the performance measures; what are the key ones you mentioned, profitability by train?

Mr. Yves Desjardins-Siciliano: Yes.

Mrs. Brenda Shanahan: What are other key measures that you're working on?

Mr. Yves Desjardins-Siciliano: Profitability by train is an important one.

The other issues have to do with, for example, absenteeism and health and safety in the workplace, which has come down as well. In terms of our rate of absenteeism, it's down. Our sick leave time is down. Productivity is up and employee engagement is up.

We measure our full capacity, which is available seat miles on the network, and then the cost for every available seat mile: what the revenue is for every available seat mile. These are measures that have existed in the transportation industry for decades. They did not exist at VIA Rail.

Mrs. Brenda Shanahan: Have you set targets and where you want to be in those measures?

Mr. Yves Desjardins-Siciliano: Exactly. Yes. We've moved our revenue coverage of our costs almost 10% over the last 24 months. We're still obviously operating at a deficit, but we've gone over the 50% mark. Our funding is around 47% of our actual costs, whereas when I took over, it was around 51% or 52%. It's an improvement.

The Chair: Thank you very much.

We'll now move to Mr. Poilievre, please, for five minutes.

Hon. Pierre Poilievre (Carleton, CPC): Exhibit 5 shows the gap between expected benefits and actual results. It says that the initial project expected benefits, set out by the corporation in 2007, included improvements made to tracks and station infrastructure, which was to be done at a cost of \$1.6 million per kilometre, and it was to build 160 kilometres. In reality it built 70 kilometres, roughly half of the expected amount, at a cost of \$4.5 million per kilometre. Roughly half the kilometres were built at a cost of \$70 million more than was originally planned.

In the row below, it states that the expected investment was to build 12 additional trains. The reality was that we got eight trains. We were expected to get reduced travel time. We got increased travel time. We were to improve on-time performance, which stood at 82%. The actual result was worse on-time performance, at an average of about 65%. The expected benefit was to be \$32 million in additional revenues. The additional revenues were not obtained. There was supposed to be a 23% increase in ridership. Since 2009 there has been a 17% decrease in ridership.

This is the gap between the expected benefits resulting from improvements to the Kingston subdivision rail infrastructure. Why is there such a gap between the promised benefits and the actual results?

Mr. Yves Desjardins-Siciliano: It's part of what I was answering earlier, that the lack of in-house expertise at VIA at the time of these investment decisions meant poor planning, to start with. The reality of planning the infrastructure investments at an estimated cost of \$1.6 million per kilometre, versus the reality of \$4.5 million, is a planning deficit. It's not necessarily an actual construction overrun.

With regard to the other elements—increased trip times, decreased reliability or on-time performance—those are due to the unforeseen growth in freight traffic. At the time of these investments in 2007, nobody expected the grain order. Nobody expected the oil surge in terms of oil traffic on tracks. Those operating realities prevented the attainment of the time improvements and the on-time performance improvements, resulting therefore in the decrease in ridership.

The only thing we can really blame ourselves for is poor planning on the cost of building infrastructure. As I mentioned earlier, however, not having the expertise to do it right meant that these turned out to be guesstimates. The reality turned out to be different.

The other element I would add is on process, the initiative process of government funding—

• (0955)

Hon. Pierre Poilievre: Speaking of process, the provision of funds for a private sector enterprise for capital investments comes from three sources: debt, equity, and retained earnings. You're a state enterprise, so you rely on tax dollars approved by political actors. Is it possible...?

We're going to debate how we can modify the process, but isn't this just a fundamental problem with a crown-owned corporation that you have to get approval from the shareholder, which is a big, clunky political apparatus?

Mr. Yves Desjardins-Siciliano: If it's to get year-to-year funding, absolutely, because the clunkiness of that process is greater than the 12 months you have in a year. That's the problem. But if you have a five-year funding plan, you can deal with the clunkiness, because at least you have four to four and a half years to deploy the capital. The pain comes from the fact that it's not only a clunky, difficult, burdensome process, but that it's for only 12 months. If we get the money halfway through the year, and it's the dead of winter, you can't do capital improvements.

Hon. Pierre Poilievre: Wouldn't it make more sense to fund your operation through a per passenger kilometre subsidy, and then ultimately let you set your own capital and operating priorities? Would that not create more market discipline, to fund you based on the results you achieve, rather than your relying on political and bureaucratic players to approve plans made by your company and the investments that would follow?

Mr. Yves Desjardins-Siciliano: Whether it's per kilometre or available seat miles or passenger kilometres at the end of the year or adjustments, the measurement is not as important as the planning horizon and the commitment horizon. I think that is the key issue.

As we say in a commercial enterprise, yes, you go to the debt market and you contract debt for a year. You contract debt for 10 years or for 20 years. When you go to the market for investors, they don't buy stock for 12 months. They buy stock for the long term. It gives you a planning horizon that is in line with your operating

reality. How we do it, how we come up with a formula, to me that is an element, but the key determinant is long-term funding.

For example, when we table our corporate plan for the next five-year period, if the government decides to fund that plan at its requirements, or below or above, for five years, the funds are secure regardless of a change of government, change of policy, or change of anything, and the business will unfold commercially. But if a change of government, change of policy, change of minister, or change of bureaucrats offends a plan that is in deployment, that's when you get into the situation we are in today. I'm not sure that this is unique to VIA. This is a crown corporation reality, I believe.

Hon. Pierre Poilievre: That was my point at the outset.

The Vice-Chair (Mrs. Alexandra Mendès (Brossard—Saint-Lambert, Lib.)): Mr. Poilievre, that's it. Thank you very much.

We'll go to Mr. Harvey.

Mr. T.J. Harvey (Tobique—Mactaquac, Lib.): Thank you, Madam Chair.

I'd like to thank you all for being here, of course. I have just a few quick questions for you.

First, we've spent a lot of time talking today about government's responsibility in long-term funding. There are two stages to my first question. First, could you provide us with what your projected deficit is going to be for the 2016 fiscal year?

Mr. Yves Desjardins-Siciliano: Patricia, is that handy?

Ms. Patricia Jasmin (Chief Financial Officer, VIA Rail Canada Inc.): Yes, we did it in the previous corporate plan.

Mr. T.J. Harvey: I'm just asking for that number.

Ms. Patricia Jasmin: Sorry.

Mr. T.J. Harvey: Would it also be possible, but not right here today, for you to provide us with your five-year strategic plan?

• (1000)

Ms. Patricia Jasmin: Definitely, yes.

Mr. Yves Desjardins-Siciliano: Yes.

Mr. T.J. Harvey: I mean the financial side of it.

Mr. Yves Desjardins-Siciliano: Yes, after this year, it will most likely be around \$300 million.

Ms. Patricia Jasmin: In 2016 it's \$238 million for operating funds and \$32 million for pension funds.

Mr. Yves Desjardins-Siciliano: It's \$270 million.

Ms. Patricia Jasmin: Yes, it's \$270 million.

Mr. Yves Desjardins-Siciliano: The drop from \$314 million or whatever is really the pension fund. The pension fund calculations have changed tremendously.

Mr. T.J. Harvey: I see that. I was looking on your website at the 2015 year-end report.

I also see that you're per-mile employee ratio has gone down substantially too—

Mr. Yves Desjardins-Siciliano: Yes.

Mr. T.J. Harvey: —compared to 2011. It kind of peaked in 2013, which was a really good year for the ratio per employee. You had an extremely low per-employee ratio, and I see that it is maintaining itself at a lower rate.

Mr. Yves Desjardins-Siciliano: Right.

Mr. T.J. Harvey: My next question is on Mr. Poilievre's comment on a per passenger or per mile subsidy, if you were to do it that way. Just a little bit off to the side of that, I see that for some of these routes, especially the rural routes, some of the subsidies are up—

Mr. Yves Desjardins-Siciliano: It's 90%.

Mr. T.J. Harvey: Yes, it's \$700 or \$800 per passenger on a route. Where's the cap on that? At what point do you say that we can't subsidize this run to this level and operate efficiently? The reason I say that, ultimately, is that I recognize that it's a crown corporation.

Mr. Yves Desjardins-Siciliano: Right.

Mr. T.J. Harvey: I was looking at Amtrak's website, too. I looked at their year-end report from last year, and I see a lot of similarities between the two companies.

Mr. Yves Desjardins-Siciliano: Of course, right.

Mr. T.J. Harvey: It's not a problem that just VIA Rail has. I think it's a crown corporation problem within this industry, the passenger rail industry. What I'm saying is that ultimately we need to move toward a direction that is going to see at least a substantial reduction in operating costs that are going to be relying on the government. While I do agree that we need to try to maintain service to as many geographic areas within this country as possible, I'm asking that question because I want to know what your opinion is.

Mr. Yves Desjardins-Siciliano: We're the operators, and the public policy decision is at another pay grade as to where we run and what we should run. It is not up to me to say what would be acceptable or not acceptable. My responsibility is to optimize what is available. That's why we developed this higher frequency train concept to exploit the commercial viability of the Quebec-Windsor corridor, because we believe that can be run profitably, and so profitably that we believe over the longer term it can generate sufficient profits to eliminate the operating deficits of the public purpose services like the remote areas, as long as we have those.

The decision to cap those, or to stop that type of service, is a policy decision to be made by the shareholders and not by the operator.

Mr. T.J. Harvey: Right. No, I recognize that.

All I was asking is, do you have a number in mind of where you as the operator think the plateau for that is? When you look at your strategic plan over the next five years, and you look at all facets of your business and all geographic areas, do you have an idea in your head, per passenger, where you think the cap is on that?

Mr. Yves Desjardins-Siciliano: No.

Mr. T.J. Harvey: Okay.

Mr. Yves Desjardins-Siciliano: Our tack is that we can eliminate the subsidy on the Quebec-Windsor corridor, and we can generate sufficient profit to reduce, if not eliminate, the subsidy on those services.

On those remote and long-haul services, the only place where we see profitability as well, because we believe it exists, is on the tourism services of the Ocean and the Canadian in the peak summer tourism months. That is why we run the Canadian through the Rockies on a profit basis, because it is a tourism offer. If you sit in economy, then you're on a subsidized basis because that's an intercity service, but if you're in a sleeper car, and you enjoy that tourism experience, then it's a tourism offering like any other tourism offering, and it's meant to be profitable.

Mr. T.J. Harvey: I have one more quick point. On this new GPS tracking system, what's your estimated return on investment? What do you think your return on investments over the long term is going to be? What will that generate in savings for you as a company, and what is your timeline on realizing those savings?

● (1005)

Mr. Yves Desjardins-Siciliano: On the GPS train system, the motivation is first and foremost safety, and therefore, it's not an economic justification, per se.

The financial justification, if one needs one for a safety-related improvement, is twofold. It's a much more affordable substitution to positive train control. Positive train control is a signalling system that would cost billions of dollars to install across Canada, and this is a millions of dollars alternative. There's a huge return in terms of savings over the positive train control investment. The second element is that the system allows for better train handling, which means fuel economies, because the train handling is more efficient, and there are fewer accidents or rule violations. Where the train is immobilized because you've violated a rule, crews have to be changed, and the passengers wait and are indemnified. It costs millions of dollars a year. There's sufficient justification there again.

The investment on GPS is fairly small. I think to date it's less than \$2 million over two years, but compared to a billion-dollar positive train control investment, or the millions of dollars that we lose by indemnifying passengers who are delayed hours when the train has to stop because the locomotive engineer violated a rule, or the millions of dollars that we save on fuel, because now we monitor the fuel usage as a train is idled or moved down the track, it makes local engineers better users of fuel, and the cost of fuel has gone down. We've reduced our fuel consumption by 24%—

The Vice-Chair (Mrs. Alexandra Mendès): I'm sorry, Mr. Desjardins-Siciliano, but this is really getting very far...

I'm really sorry to cut you off.

Mr. Christopherson, the floor is yours.

Mr. David Christopherson: We can tell you're getting a little experience now, T.J. You go right to the last second.

Thank you very much, Chair.

If I may, the first thing I want to do is respond to my friend Mr. Poilievre in terms of that clunky apparatus he references. For the record, I just want to underscore that it's also known as Canadian democracy. My friend and some of his cronies would privatize the office of the Auditor General, if they had an opportunity.

This question is for Mr. Laplante, to start.

I want to come to the issue that's on page 3 under "Background" of the AG report. Paragraph 10 makes note:

In 1978, VIA became a Crown corporation separate from CN. To date, the Corporation is not governed by any enabling legislation. VIA obtains the funding it needs through its corporate plan, which is approved once a year.

It's my opinion, but I suspect that the biggest behavioural change we need is from the federal government in this instance, that this will be reflected in our report and that there is going to be a priority on it. I don't understand the difference and how it might affect the fact that government has been part of the problem here in not providing enough money and not doing it in a timely fashion.

The notes say that the corporation is not governed by enabling legislation. If we went down that route, with enabling legislation, would it put more pressure on the government to at least have to provide more timely funding announcements, or is it unrelated to anything we're focusing on here?

[Translation]

Mr. Maurice Laplante: Thank you for the question.

The president of VIA Rail can likely give a more detailed answer.

That said, as a result of the lack of enabling legislation, the corporation's mandate is unclear. Enabling legislation helps clarify a corporation's mandate. When the legislation doesn't exist, the corporation's mandate must be approved through the corporate plan.

Mr. Desjardins-Siciliano could probably add something, if he thinks it would be necessary and useful.

[English]

Mr. Yves Desjardins-Siciliano: Thank you for the question, Madam Chair.

VIA is a non-agent crown corporation. There are 47 crown corporations in the Government of Canada, and there are three non-agent crown corporations that do not have enabling legislation. They are Marine Atlantic, Ridley Terminals in B.C., and VIA Rail Canada. It is the most important crown corporation without enabling legislation. As I said, it is a non-agent crown corporation: it does not bind the crown.

It was created in 1977 as a CBCA company, so it is a commercial entity with all the powers of a normal company, except that it is subject to the Financial Administration Act of Canada, and that's where the appropriations come from. Therefore, its normal powers of a company to borrow money, to pledge assets, to create equity vehicles for a special purpose don't exist.

•(1010)

Mr. David Christopherson: I'm sorry, but I'm trying to focus on whether it would help us with the issue of timely government funding announcements.

Mr. Yves Desjardins-Siciliano: It would help in as much as if the government's wish were to establish such rules, for example, as multi-year funding and to establish the ability of VIA to pledge assets or borrow money, it would clarify VIA's opportunity to run itself as a business.

Mr. David Christopherson: If you had a choice—

The Vice-Chair (Mrs. Alexandra Mendès): Mr. Christopherson, your three minutes are up. I'm sorry. You've had four and a half—

Mr. David Christopherson: Can I have some of T.J.'s extra two and a half...?

That's fine, Chair. I understand. Thank you.

The Vice-Chair (Mrs. Alexandra Mendès): I'm really sorry.

Monsieur Lefebvre, please.

[Translation]

Mr. Paul Lefebvre (Sudbury, Lib.): Thank you, Mr. Chair.

I read the Auditor General's report. The VIA Rail representatives here today told us that, in the past, their strategic planning failed to achieve its objectives because the company did not have dedicated tracks and its equipment assets were probably not at the desired level. The obvious reason is that the tracks were in use. VIA Rail is an operator and does not own all the tracks.

Mr. Siciliano-Desjardins, you're now saying that you're looking at the possibility of creating a new strategic plan with a significant investment. Your company may then be profitable. That's your goal. In your 2007-11 report, I can see that the Auditor General said as follows:

[English]

The 2007-11 corporate plan included a major capital investment plan that was intended to increase ridership by 40 percent and revenues by 39 percent within that five-year period.

However, VIA did not succeed in meeting these targets. Actually, it went lower at that point in time.

[Translation]

In his opening statement, the assistant auditor general, Mr. Laplante, said as follows:

The Corporation will need to find lasting solutions to those problems if it is to ensure its long-term viability.

You said today that dedicated railway tracks for passenger trains may be created. What capital costs will be required for your project to become profitable?

Mr. Yves Desjardins-Siciliano: Thank you for the question.

The infrastructure costs for a dedicated segment between Quebec City, Montreal, Ottawa, and Toronto are around \$2.5 billion for railway tracks and signals and over \$1.25 billion for electrification, if the segment needs to be electrified. Also, the new fleet we plan to acquire will cost about \$1.25 billion. Therefore, the project will cost around \$5 billion in total.

Mr. Paul Lefebvre: You think a \$5-billion investment would make you profitable?

Mr. Yves Desjardins-Siciliano: Absolutely.

Mr. Paul Lefebvre: In your presentation, you said the following:

Should no modification be made to VIA's current mandate, the funding needs will be \$850 million in operating funding and \$650 million in capital funding.

Therefore, by spending \$5 billion, VIA Rail could become profitable.

Mr. Yves Desjardins-Siciliano: Exactly, and we could obtain the \$5 billion from sources other than the Government of Canada. That's also an important factor.

Mr. Paul Lefebvre: That's what I wanted to discuss. Explain what you mean.

Mr. Yves Desjardins-Siciliano: For example, the Caisse de dépôt et placement du Québec and Canadian pension plans—OMERS, Teachers, CPPIB, and PSPIB—have all been investing in passenger railway networks around the world for the past 15 years. They are getting a return on their investments. Therefore, a passenger train network can be operated profitably as long as the infrastructure is adequate, the schedules are arranged based on the clients' needs, and the goal is commercial.

Let's take the example of CN. Until 1995, CN received almost \$1 billion a year in grants from the Government of Canada. Today, CN generates \$1 billion in profits per quarter. Has the freight transportation industry changed? The freight cars, tracks, and business models are all the same.

•(1015)

Mr. Paul Lefebvre: However, Mr.—

Mr. Yves Desjardins-Siciliano: It's completely possible to operate the network profitably. It's possible to attract investors looking for a return. Also, currently the interest rates are extremely low. Commercial return opportunities for investors are rare. The infrastructure sector is one that provides a consistent return over a long period. That's why we're confident we'll be able to find 50%, 60%, or 80% of the funding if the government requires it. We can find it through the government procurement process.

Mr. Paul Lefebvre: Okay. Thank you.

[English]

The Chair: Thank you.

Mr. Poilievre, you have five minutes.

Hon. Pierre Poilievre: I'm looking at your key operating statistics by service group. They show that even in the most profitable corridor, or I shouldn't say most profitable, for it's not profitable, but the corridor that loses the least money, your passenger mile subsidy is still 27¢. Do you have any comparisons for what the passenger-mile subsidy is for highway use in the same corridor?

Mr. Yves Desjardins-Siciliano: No.

Hon. Pierre Poilievre: A recent study produced by the governments of Quebec, Ontario, and Canada on the subject of high-speed rail between Windsor and Quebec City showed that the incremental passenger count that would result would actually not come from cars taken off the road but from passengers taken out of the sky. In other words, you'd be reducing air passenger counts by increasing passenger counts on your trains rather than reducing the number of vehicles travelling on our highways between Windsor and Quebec City.

The airline system is not subsidized, although I know that Mr. Christopherson would like to nationalize it again. In fact, it is a net contributor to the Government of Canada. The airlines pay corporate taxes and fuel taxes. They indirectly pay airport rents, and the passenger pays for the cost of security as part of the fees that you pay to get on board an airline.

Why should taxpayers be subsidizing a money-losing mode of transportation at the expense of a money-generating mode of transportation?

Mr. Yves Desjardins-Siciliano: Mr. Chairman, I believe the honourable member might be quoting from the 2012 eco-train study.

Hon. Pierre Poilievre: It's the study that the three governments did on—

Mr. Yves Desjardins-Siciliano: Exactly, that's the 2012 eco-train study. That is a study for high-speed rail. That is partially why we don't believe in high-speed rail. High-speed rail is a simple direct substitution of air traffic for train traffic. That means three things for the consumer.

One, the price of a high-speed train ticket is equal to or greater than the price a plane ticket. The proof? Europe today. In Europe today, all high-speed train tickets have higher costs than flights.

The second reason that high-speed rail is not a good idea for consumers is that a high-speed train typically does not stop under 300 to 400 kilometres. That means it would do Quebec, Montreal, one stop in Portneuf, and one stop in Drummondville. It would go from Montreal to Toronto, and it wouldn't stop in Cornwall, Belleville, or Kingston. It would go from Ottawa to Toronto, but it wouldn't stop in Peterborough and it wouldn't stop in Markham. It would go from Toronto to Windsor, and it wouldn't stop at Aldershot or—

Hon. Pierre Poilievre: Excuse me, Mr. Chair. We're short on time.

I do appreciate your candour on the subject, though, because I think you're absolutely right, and I'm glad to hear you say it. The point I was making is that the study also demonstrates that rail often does not compete with highway traffic. It competes with airline traffic, even when it's not high-speed rail, so we are subsidizing a mode of transportation that loses money at the expense of one that makes money. That's just the reality.

I point to an example. The Winnipeg-Churchill per passenger subsidy is \$1,000. That's just the subsidy. That doesn't include the fare. What is the cost of a plane ticket from Winnipeg to Churchill?

• (1020)

Mr. Yves Desjardins-Siciliano: There are no planes. Between the 42 stops between Winnipeg and Churchill, there are no planes. That is why the Government of Canada provides a service. It is the same thing on the Canadian from Toronto to Vancouver. On the over 200 stops on that line, there are no planes. At some of those stops, there are no roads. That is why the Government of Canada provides rail service. But that is not my preoccupation. It's my duty to do that as long as the government asks me to do it.

My preoccupation is the Quebec-Windsor impression being given that the traffic growth would come from planes. As I was trying to demonstrate.... What I just said applies there too. If you're in Drummondville, Cobourg, Belleville, or Aldershot, you do not have a plane alternative.

The high-frequency train project we have demonstrates that it will eliminate five million car trips. How many car trips are there between Montreal, Ottawa, and Toronto per year? Thirty-eight million, and they have no substitution, because there is no plane, obviously.

That's where that traffic is coming from. There will be some coming from planes, but on the total corridor there are 45 million trips: 8% by plane, 6% by train, and the rest on the road. This is where we have to come up with an alternative to get people out of those cars, killing our children and our future with carbon gas emissions.... It's by putting them on trains, where they can be not only safer and faster in getting into the cities, but more productive while they're doing it. That's the approach here. I make that correction.

The Chair: Thank you very much, Mr. Desjardins-Siciliano.

Mr. Christopherson, you have the floor for five minutes.

Mr. David Christopherson: Thank you, Chair.

First off, Mr. Desjardins-Siciliano, we hear from a lot of executive officers and presidents here, and I just wanted to say that I am impressed with your command of your file. I am very impressed, and I'm not easily impressed. That doesn't necessarily mean I agree with everything, but I have to tell you that your command of your file is noteworthy. Really, it is.

Mr. Yves Desjardins-Siciliano: Thank you.

Mr. David Christopherson: I want to come back to the issue of

Mr. Yves Desjardins-Siciliano: Is there a "but" coming?

Voices: Oh, oh!

Mr. David Christopherson: No. You've watched before, or you've been briefed. No, it's stand alone.

I want to return now to my earlier line of questioning around enabling legislation.

Mr. Desjardins-Siciliano, it sounded like you were in favour of it. The Auditor General said it would be an improvement. Is that a recommendation you would actually make to help us hold the government to account in terms of their providing timely funding announcements?

Mr. Yves Desjardins-Siciliano: Enabling legislation would be a great addition for management

. I'll let Ms. Mowat speak for the board, but as I said, as I take over as CEO of this company, it is left to me and my management team to develop a strategy that we believe to be in the best interest of the corporation. We are officers of the company. Therefore, as a crown corporation, by law we have to do what's in the best interest of the stakeholders, which include shareholders, suppliers, employees, and passengers. We define that, and that's a bit unusual. Therefore, that clarity would be welcome from a management point of view and—

Mr. David Christopherson: That's great. We'll leave it at that, sir.

If I may, I'll go over to Mr. Laplante.

I think you said you would see it as an improvement from your point of view. Is that correct? I don't want to put words in your mouth.

Mr. Maurice Laplante: Yes, that is correct.

Mr. David Christopherson: Great, so there's something for us to consider.

Also, in this business of freight being a priority over people on the tracks that you share, could somebody provide me with the underlying rationale, even if you don't agree with it? Why are things more important than people?

Mr. Yves Desjardins-Siciliano: I don't think it's a matter of things being more important than people. It's a matter of who owns the infrastructure and who controls it.

As an owner, you make operating decisions as to which trains go first based on your operating imperatives and commercial operatives. That's the first thing.

The reality is that Canada's economy depends on freight railway traffic, as \$300 billion a year of freight is moved on these railways. We are an exporting country, so we need to make sure they are efficient. That's why decoupling the two—

• (1025)

Mr. David Christopherson: That's your answer, moving to that separate—

Mr. Yves Desjardins-Siciliano: That would be good for both of us.

Mr. David Christopherson: That's where I want to go now, for as long as I can.

How do you go about that? I was surprised that you could do that on your own. Do you have to buy...? There is land to be acquired.

I was on a municipal council and I know what it takes just to do roadways. Now we're talking about a railway. Can you help me with that?

Mr. Yves Desjardins-Siciliano: What we are proposing to do, which is somewhat cheap and quite fast to deploy, is acquire existing freight railway beds and repurpose them for passenger rail. They are currently abandoned or of very little use, so we would operate them. For the freight traffic that runs on those tracks, which is usually a train a day or two trains a week, we would control when they run. Obviously we would make them run when we are not running passenger trains.

Mr. David Christopherson: Then we'd flip it around since it is the Canadian people's. People would come first and then the freight. That's something else—

Mr. Yves Desjardins-Siciliano: Exactly. That's why this can be done so quickly.

On the issue of the enabling legislation, if I could just complete my response, Mr. Chair, in the past there have been ideas of enabling legislation, but they were getting into the weeds of running the railway. That's not the approach we would propose.

The approach we would propose is an approach that enables the company to run itself. Give it a specific mandate, whether it be the environment, car traffic competition, or remote areas, and then let the company run itself like any corporation should. Therefore, it would eliminate the need for a government subsidy, first and foremost, and second, where there is competition—and some are concerned about competing—it would be on a level playing field with no government funding. That would be the objective of enabling legislation, not mandating that you have a station at this place or that place, or that you run the train at 9:05 versus 9:25.

The other fallacy is that law would give priority to passenger trains over freight trains, like it does in the U.S. The U.S. legislation makes that statement, but if you talk to my colleague, the CEO of Amtrak, he'll tell you that's worth nothing, because you're on a network. It doesn't matter that you're the first to go. If you're going at 100 miles per hour and there's a freight train 200 miles ahead of you going at 30 miles per hour, how fast will you meet it? You don't have to answer that question.

Mr. David Christopherson: That's good.

Voices: Oh, oh!

Mr. Yves Desjardins-Siciliano: If you're the CEO of Amtrak or VIA Rail you're going to meet it too fast, too often. That's the reality. Giving priority to trains that are on a network is a bit of a red herring. It's not a solution.

Mr. David Christopherson: Yes, a catch-22, it doesn't work for you.

Thank you so much.

The Chair: I think we're going to have to end it there.

Mrs. Mendès.

Mrs. Alexandra Mendès: I have very quick question.

The Chair: Very short.

[*Translation*]

Mrs. Alexandra Mendès: Thank you, Mr. Chair.

Thank you to all the witnesses for being here today.

I want to make a comment on Transport Canada.

Mr. Desjardins-Siciliano, let's go back to the start of your presentation. When conducting a safety check of the entire railway system, doesn't Transport Canada also need to reassure users like you, who have no control over the system, that it complies with the standards and is safe?

Is that also Transport Canada's role?

Mr. Yves Desjardins-Siciliano: Absolutely.

Safety inspections are usually conducted together with Transport Canada employees. If we conduct the inspections ourselves and find defects, we always involve Transport Canada. The assessment is always done with Transport Canada.

Mrs. Alexandra Mendès: For CN as well?

Mr. Yves Desjardins-Siciliano: Transport Canada takes care of CN without us. We don't have any inspection rights.

Mrs. Alexandra Mendès: But you still obtain a Transport Canada certificate indicating whether it's safe.

Mr. Yves Desjardins-Siciliano: Transport Canada will allow CN to operate, but we're not involved in the discussions.

Mrs. Alexandra Mendès: Okay.

[*English*]

Thank you.

The Chair: Thank you very much.

I want to commend you, as Mr. Christopherson did, but also our Auditor General's department for very good work, and for a meeting that I felt was very informational.

All of us, I think, understand better the work, the challenges, the measures that you're going to be putting in place to improve, and also to be certain of the safety that has been mentioned.

Thank you very much for your attendance here today. If after leaving here you all of a sudden think you could have given a little more information on an answer or you could have supplemented an answer to help the committee do their work, we will be doing a report on this, and any further information would be greatly appreciated. You could send it to our clerk.

We're going to suspend for two minutes just to allow members to thank our guests and allow them to leave, and we will come back on some very important committee business.

[*Proceedings continue in camera*]

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