



HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

Standing Committee on Agriculture and Agri- Food

AGRI • NUMBER 015 • 2nd SESSION • 41st PARLIAMENT

EVIDENCE

Wednesday, February 12, 2014

—
Chair

Mr. Bev Shipley

Standing Committee on Agriculture and Agri-Food

Wednesday, February 12, 2014

• (1530)

[English]

The Chair (Mr. Bev Shipley (Lambton—Kent—Middlesex, CPC)): I'd like to call the meeting to order. This is meeting number 15, pursuant to Standing Order 108(2) a study on the grain logistics system in Canada.

I want to welcome our witnesses that we have from 3:30 to 4:00 today. It is a bit of a compressed time. We have chatted with them. We have them on video conference.

From the Thunder Bay Port Authority we have Tim Heney, chief executive officer.

By video conference from Alberta Federation of Agriculture from Taber, Alberta, we have Lynn Jacobson, president, and Humphrey Banack, second vice-president.

By video conference from Swift Current, Saskatchewan, we have Inland Terminal Association of Canada, Robert Chapman, grain manager, South West Terminal.

I believe we have by video conference with us, first of all, from Thunder Bay Port Authority, Mr. Tim Heney, CEO. Is that correct?

Can you hear us okay?

Mr. Tim Heney (Chief Executive Officer, Thunder Bay Port Authority): Yes, I can hear you. Can you hear me?

The Chair: We've asked the witnesses if they would give us a five-minute opening. What that means is that we keep the times tight, folks, and we'll get around for one round for the groups in terms of the first round.

Mr. Heney, please go ahead, for five minutes.

Mr. Tim Heney: Thank you, Mr. Chair.

On behalf of the Thunder Bay Port Authority, I would like to thank you for the opportunity to appear before you today.

The Port of Thunder Bay is western Canada's entry point to the St. Lawrence Seaway system and 95% of the cargo handled at the port originates in western Canada, of which over 75% is grain. Thunder Bay currently ranks as the ninth largest of 19 Canadian port authorities, shipping an average of 7.5 million tonnes annually.

It is the second-largest Canadian port on the Great Lakes, and we have the distinction of being the largest export port on the seaway with over 85% of our shipments travelling the entire system for export to Europe, North Africa, and Latin America. The port also

serves domestic markets in eastern Canada and U.S. markets around the Great Lakes.

The St. Lawrence Seaway is the world's largest inland waterway and was built to provide direct access to European markets for the western Canadian farmer. Currently over \$2 billion is being invested in the system, including \$1 billion in new vessels following the removal of the 25% import duty on foreign-built ships.

While the use of ocean vessels at the port increased last season, the time has come for a review of regulatory costs imposed on the system, including tolls, pilotage, marine services, and ice-breaking fees. These costs have grown to over \$135,000 per voyage for an ocean vessel travelling to Thunder Bay and are eroding the competitiveness of the seaway at a time when grain shipments through Churchill are being subsidized.

Thunder Bay currently has eight operating grain elevators with a combined grain storage capacity of 1.2 million metric tonnes, the largest in North America.

The port has the fastest ship turnaround time of any western Canadian port as well as an improved railcar cycle time, which has improved 36% over the last 10 years, bringing us to one of the fastest turnaround times in western Canada. James Richardson, Viterra, Cargill, P & H, Canada Malting, the Canadian Wheat Board, Western Grain, and MobilEx operate grain facilities at the port.

In January of this year the Wheat Board purchased facilities in Thunder Bay and Trois-Rivières, a major vote of confidence in the St. Lawrence export corridor.

Thunder Bay is served by both CP and CN. Our grain shipments last season were lower than in 2012. A slow spring and fall were followed by an average November and December. Car unloads this crop year were average and we have not as yet experienced the surge relating to the record harvest.

The past shipping season was the first full year following the removal of the Canadian Wheat Board monopoly. Shipping the majority of the wheat and barley is now controlled by companies with facilities in the port, and with the exception of Richardson's, all of the other terminals experienced reduced shipments in 2013.

The Port of Thunder Bay stands ready to accommodate last year's record harvest with the largest grain storage in North America and a grain handling capacity of over 18 million tonnes. Manitoba country storage is at a record with over 100% capacity as the spring flooding season approaches.

With that, I'll end my remarks.

•(1535)

The Chair: Thank you very much for your conciseness.

We're going to make sure we get everybody coming up here. I'll now move to the Alberta Federation of Agriculture from Taber, Alberta. We have Lynn Jacobson, president, and Humphrey Banack, second vice-president.

Welcome to our study. Thank you for coming. You have five minutes.

Mr. Lynn Jacobson (President, Alberta Federation of Agriculture): Hello. My name is Lynn Jacobson and I'm president of the Alberta Federation of Agriculture. I farm in Enchant, which is in southern Alberta. I raise wheat, pulses, and canola. We do canola seed production and also some alfalfa seed production.

I'm speaking today on behalf of the Alberta Federation of Agriculture, our province's only general farm organization. Our members are involved in all aspects of agriculture production. We also work closely with other western general farm organizations on problems that affect all of western Canada's agricultural producers.

I'd like to thank the committee for this opportunity to provide comments on the very serious problem western Canadian farmers are facing shipping their grain and oilseed production this winter. From our perspective, the single largest problem we are facing is inadequate rail service. Western Canada produced a record crop in 2013, totalling some 90 million tonnes of grain, oilseeds, and pulses, close to 30% more than was harvested in 2012. While we enjoyed good growing conditions last year, this bumper crop was also due to new technologies, better crop protection, and higher yielding varieties. In other words, we view an increased level of crop production as a new normal in the prairie provinces now and into the future.

Grain producers, governments of all levels, and industry players have all invested in research priorities that will provide producers and the industry with access to varieties and processes that will increase production across Canada in the future. Without reliable access to overseas markets, these investments will be largely underutilized.

As a result of these investments and growing world demand, the current problems grain producers face will only get bigger if there isn't an immediate and permanent solution to fix the shortfall in Canada's grain transportation system. This is the situation we currently face. Last year's crop of 90 million tonnes compares to an average of 50.8 million tonnes. If things do not improve this year, we will have a 22-million tonne carry-over in 2014. As a comparison, the normal carry-over for a given year is eight million tonnes.

With this huge amount of grain stockpile and if the transportation system isn't fixed immediately, even producing an average crop in 2014 would still have a negative effect on the market as Canada absorbs only about 20 million tonnes of grain a year and the rest must be exported. The inability to move this volume of grain is having a detrimental effect on pricing, and the potential losses for prairie farmers are huge. Based on StatsCan's most recent production figures, the zero forward pricing revenue for canola is anticipated to be \$1.6 billion less than it should be, while CWRS wheat is looking at a \$1.2 billion hit. If you assume 50% was prepriced, canola's hit

would be \$823 million lower and wheat would also be \$606 million less than it should be.

At this time when we have record crops to deliver, rail companies are actually operating 2% to 3% more slowly than they were at this time last year. The railroad's plan was to spot 11,000 cars per week and this just isn't happening. In fact, CP has reduced engines and railcars by 43% and 35% respectively, taking 400 locomotives and 2,700 railcars out of service at a time when we need to move the biggest grain crop in history to port. Further, CP has reduced staff by 4,500 employees.

Our reputation as a reliable supplier to the export market is being damaged by this as well. As an example, last week Japan announced it would start purchasing more American wheat over Canadian wheat because the rail backlogs have led to late Canadian orders two months in a row, leaving Japanese mills short on grain. Even our neighbours to the south are unhappy over Canadian delays. An American General Mills plant has already started importing oats from Scandinavia because Canadian suppliers aren't reliable. As Randy Hoback was quoted as saying, "That's unbelievable.... How can the logistics be easier to ship oats out of Scandinavia to the U.S. versus 400 miles north in Manitoba and Saskatchewan?"

We have more than 50 ships stacked up in Vancouver and Prince Rupert harbours waiting to be filled. Western Canadian grain farmers are paying in the neighbourhood of \$500,000 of demurrage per day. Even farmers in B.C. are seeing shortages of feed grain in that province since most of it comes east from the prairie provinces. The situation is going from the sublime to the ridiculous when prairie farmers are sitting on record stockpiles, yet their fellow farmers in B. C. are scrambling for feed grain supplies.

In summary, something must be done and done immediately. The short-term solution to move more grain to the market in the coming months is that the railroads must reallocate locomotives and staffing from other products to grains and oilseeds. The railroads and grain handling companies must work together to utilize this increased access. To enable this, the Government of Canada must enforce the Fair Rail Freight Service Act to ensure an immediate increase in shipping capacity.

•(1540)

The railways have extensive market power over farmers and all shippers. Until this is addressed, the situation will remain unsolved. We firmly believe that rail companies need to fully understand and appreciate how vital an efficient grain transportation system is to western Canada's economy and Canada's reputation as a reliable supplier of world-class grain products to the world, as opposed to their current approach of tailoring their logistics system to maximize their profits.

The government recognizes this and enacted the Fair Rail Freight Service Act last year. Unfortunately, the provisions of the act are fairly weak and do not compel rail companies to enter into a service contract with shippers. Even if they did, there are no penalties imposed on the railways for non-compliance. At this time we are unaware of any shipper who has signed a service contract under the current act.

As well, if a grain company takes a railroad to court and wins, the fine that is outlined in the act automatically goes to the government, so the grain company is out for this legal cost—

The Chair: I'm going to have to ask you to wrap it up fairly quickly.

Mr. Lynn Jacobson: The government is set to review the act next year, but this needs to be done now. We cannot wait another year. The act must be amended immediately to compel railways to enter into service contracts with shippers and have meaningful performance standards in place. Should railways fail to meet these standards, meaningful penalties should apply.

I'll skip to the last point since you have the written thing.

In conclusion, rail companies must be part of an efficient grain transportation system in Canada, which requires both improved human resources and the infrastructure in place to make it happen. Canada is expected to double its grain production by 2050 to help feed the world. Prairie grain farmers are ready to do their part, but this will be meaningless unless the other players in the grain transportation system step up and meet this goal.

We are recommending revision to the Fair Rail Freight Service Act with more enforceable capability on performance standards, addressing accountability, service contracts, premiums, and penalties.

I'd like to thank you for providing us the opportunity to speak to the committee today. We will gladly answer any questions you have.

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

We will move to the video conference from Swift Current, Saskatchewan. We have the Inland Terminal Association of Canada, Robert Chapman, grain manager for the South West Terminal.

You have five minutes, please.

You're going to have to just hold up a bit, sir. We can see you talking, but we just can't hear you. You have to unmute your mic.

• (1545)

Mr. Robert Chapman (Grain Manager, South West Terminal, Inland Terminal Association of Canada): The mic is unmuted. It's just taking a long time to unmute, I guess. Sorry about that.

The Chair: There we go.

Mr. Robert Chapman: Thank you very much, members.

On behalf of the Inland Terminal Association of Canada, it's a pleasure to take part in this process. The companies within ITAC view themselves as an integral part of a competitive marketplace for farmers. All of the ITAC members have at least 50% ownership by farmers in their companies. Some members have mainline companies as partners, while others are entirely owned by private

farmer investors. In all cases, ITAC members offer strong local competition for grain purchases driven by the strong farmer membership.

ITAC members include CMI Terminal near Naicam; Gardiner Dam Terminal near Strongfield; Great Sandhills Terminal near Leader; North West Terminal at Unity; Providence Grain Solutions based out of Fort Saskatchewan, with locations in Alberta and one in Saskatchewan; Prairie West Terminal near Plenty; and South West Terminal at Gull Lake.

The grain handling industry has adapted well to the new marketing environment that started in the previous crop year. Those of us who are left welcome the opportunity to continue to grow our businesses.

On January 24 our group gathered for a regular meeting, and a straw poll was taken of the outstanding orders—railcar requests made and not filled. The eight terminals in attendance were 4,300 cars behind at the time. The group ships about 2.4 million tonnes in a typical year. The unfilled orders amounted to almost 20%, at 17% of typical movement.

Of course this is not a typical year, with crop production at 30% to 40% above normal. It is also important to note that these 4,300 unfilled cars represent real sales that have been made to customers.

It is ITAC's understanding that both railways have gone back to railcar allocation based on historical averages. When they realized the magnitude of the rail backlog, they abandoned the open order system, which was based on sales made and approved through export terminals.

As smaller companies who in many cases are single-point shippers, we have few options, as compared with mainline terminals, to fill customer commitments when railcar supply is restricted. We believe transportation capacity must be enhanced. The industry will need to move even larger volumes of grain as genetics and farming practices evolve. While 2013 was a record crop, we feel this could become near the norm.

The system must be based on performance-driven incentives that are equal for all parties—the shipper, the receiver, and the railways transporting products. Currently elevator companies scramble to load trains in the allotted time to avoid monetary penalties. No such penalties exist when railcars do not arrive on time or sit idle filled with grain.

Please understand that the current environment is based on a one-sided tariff-driven process benefiting the rail companies. We are strong advocates of performance-based, two-way agreements with penalties and transparency. The railway needs to commit more locomotives, railcars, and human resources. We believe necessary financial incentives for the railway companies can be achieved within the current revenue cap.

I could spend time on industry statistics to highlight the magnitude of the backlog, but I'm sure you're more than well aware, given the prior presentations, of the depth of the problem this year. We choose instead, in this presentation, to highlight the overriding fact that rail transportation is failing to meet anywhere close to the current need.

There is a huge cost to farmers and the entire economy. Farmers receive much lower prices because of the backlog, and grain sales have been delayed in a world grain market faced with declining prices. That's not to mention that the system costs are much higher than they would be if the system were performing to expectation. Basis levels are at a record high, lowering further the price that farmers receive. The basis is high because all of us as exporters are paying huge demerit bills for ships that are waiting for grain.

The carry-over grain at the end of the crop year means that a logistical backlog could take two years or more to resolve unless more transportation resources can be deployed. The current backlog of unfilled sales and the inability to execute new sales could seriously damage Canada's reputation as a reliable source of supply. Traditional buyers are already currently shifting their demand to the U.S. and other sources. It's always difficult to win back lost sales and customers.

ITAC wishes to be part of the solution. To that end, we have financially supported Pulse Canada's logistics initiative, which has also gained federal support, as you're aware. However, it's a medium- to long-term initiative. Better movement needs to be accomplished in the short term or this problem will grow increasingly expensive.

Before I close, I would like to reiterate that ITAC businesses are truly farmer-driven. The enterprises have been built and paid for by farmers, and farmers are the guiding force behind them. Farmers need and deserve better rail service.

I appreciate your time and attention. I look forward to questions.

• (1550)

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

We'll go quickly to five-minute rounds, starting off with Madam Brosseau, please.

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

I would like to thank our witnesses for being here with us today. I think we're all on the same page in that we really need to get this moving and find some solutions.

I'll just keep some my questions for Mr. Jacobson, please.

In your statement and your presentation to the committee today, you mentioned that you had some problems with the Fair Rail Freight Service Act. I wonder if you could comment more on some

amendments that you would like to propose to the committee. I know you said that you would like to have a revision, and there is one to be done next year, but you proposed to have one done right now.

Mr. Lynn Jacobson: Thank you for the question.

Basically, our information in reading the act is that there is really no reason that a grain company would want to sign that agreement. So far we've been proven right, in that no company has signed that thing. We've been told that the reason is that most of the negotiating power and the advantage is on the railroad side if they sign an agreement.

Plus, with that agreement there is such a long timeframe to get it all set up before an arbitrator steps in, that's another problem.

Also, the accountability, the service contracts, and the premiums and penalties are not really set out clearly, as far as we can see. On the penalty part, when a railway is charged a penalty, if that penalty goes back to the government, clearly it should be going to the shipper or it should be going to the producers.

Ms. Ruth Ellen Brosseau: Would you be able to submit those recommendations for amendments to our committee in written form? Is that okay?

Mr. Lynn Jacobson: Yes.

Ms. Ruth Ellen Brosseau: Thank you.

Another thing I would like to touch on is that this is a logistical problem. There needs to be more communication among all stakeholders and among all players in this to make sure that this does not happen again, because Canada has received a black eye when it comes to our trading partners. This is something that is going to have a domino effect, so we have to make sure that we restore trust.

I wonder if you can comment on your thoughts on having a special agency that would be in charge of logistics when it comes to transport of grain in Canada.

Mr. Lynn Jacobson: It has been talked about. In the back of my mind, I always wonder if maybe we do need some type of agency that's going to regulate all railroad traffic and keep track if we're going to increase the capacity on this.

One of the things that the U.S. does, especially with grain, is report all sales and shipping on that to the USDA. That's lacking in Canada. It's held as proprietary information of the grain company.

The railways now have to report all their shipping and that, but maybe the grain companies also have to be included in that so that we get an overall picture of what is happening within the whole system. You can coordinate the system better with more information.

Ms. Ruth Ellen Brosseau: We've heard some rumours from other witnesses saying that maybe the rail companies are playing favourites and transporting other goods instead of grain.

Do you agree with those kinds of comments or do you disagree?

Mr. Lynn Jacobson: No, I can't disagree, but I think all the commodities are asking for more rail service and more space and capacity on that rail line.

The rail line has set out their logistics plan, which maximizes their return to shareholders. You can look at their quarterly reports of profit and loss, and you can see what that's doing for them, except it's having a drastic effect on the rest of us in Canada, especially western Canada.

Mr. Humphrey Banack (Second Vice-President, Alberta Federation of Agriculture): They should be able to be held to accountable...*[Technical difficulty—Editor]*...with other stuff.

Mr. Lynn Jacobson: Yes.

Can you repeat the last part of your question?

Ms. Ruth Ellen Brosseau: Last part of the question...oh my gosh, where was I?

Sorry, I was thinking about a follow-up question. Just short term, if we had to take an action today, a recommendation on this report, what would you recommend would help to get grain moving right now?

Mr. Lynn Jacobson: Right now?

Ms. Ruth Ellen Brosseau: Right now.

Mr. Lynn Jacobson: Right now we're facing a drastic situation in western Canada because a lot of the grain is not moving. November contracts are put into April or May of this year. The Red River Valley is probably going to flood, and they have a whole bunch of grain in that area. There has been no logistics plan to take care of that problem. But when it comes right down to it, what you have to do within this system is to plan the whole thing, and you have to have the penalties in place.

Railways right now are short engines and human resources to run those trains, and that's been in the planning for 9 to 12 months. CN went through the same thing a couple of years earlier, so they lost crews and engines.

To immediately get grain moving in western Canada, you'd have to take resources away from other areas of transportation such as coal, or potash, or whatever, and put that towards grain to get the grain moving. They can't physically put the assets in place to move the grain, so they have to steal from some other place to do it.

If they don't do that, this year is going to be a wash. It's not going to improve this year. But our biggest fear is that this is going to move into next year and then cause an even bigger problem next year. Because the cashflow situation for a lot of farmers is going to be desperate by next year if this continues.

• (1555)

The Chair: Thank you, Madame Brosseau.

Now we'll go to Mr. Hoback for five minutes, please.

Mr. Randy Hoback (Prince Albert, CPC): Thank you, Mr. Chair, and thank you, gentlemen, for appearing by video on this very important subject. It's something that farmers up in the northeastern part of Saskatchewan started to complain about right after harvest. Things started to slow down at the time. I was rather suspicious of some of the grain companies and their contracting. There's still some suspicion there, but the reality now is that the railways just haven't met the task.

I guess the question I have for you is this. Do you think they have enough capacity in the system to handle even a below-average crop?

Mr. Humphrey Banack: I think it's very difficult for them to meet demand in the future. As for capacity, we have to think outside the box as to how we're going to handle this. We were in Banff a couple of weeks ago at our annual meeting of the Alberta Federation of Agriculture. We sat right beside the railroads going through the mountains. They're very busy with consumer goods and all that stuff.

There is not going to be a quick answer. We may have to look outside the box to move the grain this year, and that is something we are going to have to look at into the future. Our production in western Canada will continue to grow with genetics, with research, with other things. The Canola Council of Canada announced that they want another 10 million tonnes by 2025 over 2015. There is no quick answer to this. We need to have rail service to move this crop out.

We have to have a long look at logistics. As Lynn mentioned, there may be some shipping reports and sales reports from the coast, which the Americans have, that may help the system. I would like to understand how many tonnes of grain we're moving through our port facilities, through the system—those numbers are available in the States but we don't have that in Canada. The sales numbers, too, could help us meet future targets.

Mr. Randy Hoback: Mr. Chapman, I'm curious. When a train shows up at your terminal, have you been able to follow after it leaves your terminal to see how long it takes to actually get the cars to the west coast? I've been talking to a few other inland terminals who say that the railroads will pick up the cars, but they end up on a spur somewhere 50 or 60 miles down the road, and they will grab one or two cars at a time.

Can you comment on that?

Mr. Robert Chapman: I'll comment in a couple of ways, one on behalf of ITAC and then directly, as you asked, concerning our terminal.

Our terminal is located on CP's main line. Generally speaking, when the cars are lifted, they go to destination from our location and they go in one block, for the most part. We're a 134-car loader at our location. All of our members are at least 100-car loaders.

We see various lay times, and sometimes it depends on how you link, I think, into the main line. However, lay times as a group are higher this year, in our minds, than they were a year ago. We're also not at last year's levels within our group as far as the car service we have received to date is concerned.

Mr. Randy Hoback: Then, concerning the delay and how far you're backlogged in loading under your contracts, where are you today? Would you be loading contracts from November right now? If I were to come to your terminal and to say that I want to deliver some wheat or durum, when would I have a delivery period that I could actually deliver into?

Mr. Robert Chapman: We wouldn't currently book anything until June or July, and I think most of the other members are in a similar situation. We'd be very hesitant about whether we wanted to book this until we see a little bit more water go under the bridge, if you will, because we're so uncertain, given how far behind we are now. I would say we're probably five to six weeks behind on average, possibly a little bit more.

Mr. Randy Hoback: Okay. As far as going to the new crop is concerned coming into this June or July, we normally start contracting in September and October. How are you going to approach this year, with the knowledge that we're probably going to have a 20-million metric ton carry-over plus whatever they don't deliver above that? I'm curious about how aggressive you're going to be in putting contracts out, because this past year you obviously did contracts and obviously weren't able to execute them properly because of the railways.

• (1600)

Mr. Robert Chapman: We were extremely aggressive last year with our bookings all the way from April-May forward. Yes, we are lucky enough with...[*Technical difficulty—Editor*]...and harvest does come earlier. So we were able to get some of our program executed early, simply before the rest of the province's harvest was completed.

Yes, it will be a struggle to contract new crop and to know at what levels we're able to anticipate service. Given what normally happens, in the short term, we will be a lot more...I don't want to use the word conservative or responsible, but very careful in how we go forward, because we really don't know what's going to carry out of this year into the next. We're really in a quandary.

That's a very good question, sir, and very difficult to answer.

The Chair: Thank you very much, sir, and thank you, Mr. Hoback.

We'll now go to Mr. Eyking for five minutes, please.

Hon. Mark Eyking (Sydney—Victoria, Lib.): Thank you, Mr. Chair, and thank you, guests, for coming to us by video today. Of course, it's a very serious situation, and I have a couple of questions.

My first question is for the Thunder Bay Port Authority.

Tim, can you hear me?

Mr. Tim Heney: Yes, I can.

Hon. Mark Eyking: It seems that your port has a very good record of turnover times in handling grain. I have visited your port before, though I have never visited the actual operations there.

You have ice in your harbour for a long time. Compared with Vancouver, are you doing something different? They seem to be having problems loading the ships fast enough.

Mr. Tim Heney: Thunder Bay has what we call the legacy of capacity. At one time we did most of the grain shipments in Canada through the port. We had the reputation of being the largest grain port in the world and we still have the largest grain storage. The number of facilities and that excess capacity leads to our quick ship turnaround time, because you have so many facilities available and reduced tonnages through the eastern corridor. Much of the grain shipment has moved to Asia, so we have lost a lot of it. It was traditionally to Europe and the Soviet Union. When those markets

changed, of course, Thunder Bay declined in tonnage, but we still have the facilities.

What's happening today to some extent is that you're seeing a rush to the west coast even for European shipments, to take advantage of an anomaly in freight rates on Panamax vessels. These ships are much larger than Seaway size, and the rates are so attractive on these ships that they're trying to hit those by going through the Panama Canal and exporting to Europe.

The problem we have is that when people do this, the demurrage is piling up in Vancouver. When you do the actual costing, you probably should have been on the Seaway with those shipments. Our car turnaround time is much faster, and you don't have to cross the Rocky Mountains to get to Thunder Bay; it's all downhill from the Prairies.

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

My question is for the other two gentlemen. I think we're alluding to what's working in the United States that is not working here. I think on Monday somebody alluded to there somehow being a bigger stick over the head of the railroads down there.

What happens if, for instance, a ship can't be loaded, as we saw in the case of a ship from Japan, and it goes to Seattle and there is a million-dollar fine. Do you think that would wake up the railroads and that all of a sudden they would be buying more locomotives and having more on the track?

Mr. Humphrey Banack: Yes. We believe that a fair shippers act and contracts can be based two ways. We as producers and shippers have times to load cars and there are penalties and we receive premiums from the railroads for meeting those deadlines. What we don't see is penalties for the railways or premiums for them. If we have a contract that we have to meet on time, we and I'm sure shippers across the country, whether they be in mining, forest products, or whatever, would pay a premium to have their product delivered earlier or on time.

The Fair Rail Freight Service Act just goes to penalties on the railroads. There are premiums for the railroads to earn for exemplary service and there are premiums to be earned by the grain industry. I think we could have penalties and premiums from both sides of this through the act and through those agreements.

Hon. Mark Eyking: Yes.

Mr. Lynn Jacobson: I have just one more comment on that.

• (1605)

Hon. Mark Eyking: Make it quickly.

Mr. Lynn Jacobson: Premiums shouldn't have to come at the expense of the freight rail cap either, because I think keeping it in place provides some type of check on the system. But you can put premiums in place for early dispatch of a ship or whatever, like the dispatch that they earn at the terminals. There could be some such split for the railways so that they can do that. But the railways have never ever paid a penalty for late delivery.

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

The Chair: You have three-quarters of a minute.

Hon. Mark Eyking: My last question, and I guess it's a big one, follows up from Mr. Hoback's on the loss if, for instance, the railroads don't pull up their socks and improve the status quo over the next three or four months. There are talks of at least two billion dollars' worth of loss for growers. Is there a number for what we could lose this year? How much could we lose in potential sales, assuming that this crop is going to be the same?

Mr. Lynn Jacobson: I would say that the figures are probably going to be what I quoted earlier, to some extent, if I can find the piece of paper I had. We talked about \$1.6 billion and then \$800 million and more for forward contracting.

If you can't do any forward contracting next year or if the price is down that much more, then we're going to expand the losses further, and they could be well beyond \$2 billion, depending on where the price settles out.

Mr. Humphrey Banack: Very quickly, I'll reply to Robert Chapman's talk about extended basis levels. Basis levels for companies are high now because their risk is much higher in this environment, and those are going to be a loss to the grain producers in Canada.

The Chair: I want to thank the witnesses very much for coming out.

Thank you to the committee members for being astute in terms of your time.

We will now break for a couple of minutes while we bring in the next set of witnesses.

Thank you very much.

- _____ (Pause) _____
- _____

The Chair: I'd like to call the committee back to order. We have a pretty tight schedule.

I want to welcome our witnesses. As you've heard, we had our first round on Monday, and then wrap up today.

We are very thankful and appreciative that both CN and CP were able to attend and be a part of the short study that we're having. The shortness doesn't indicate anything about the significance and the urgency of it. You've likely had a good taste of what we were hearing on Monday also, so I'm glad you were here to hear that.

You will each have 10 minutes to make your presentation before we go to questions.

From the Canadian National Railway Company, we have Mr. David Miller, assistant vice-president of government affairs.

Mr. Miller, for 10 minutes, please.

Mr. David Miller (Assistant Vice-President, Government Affairs, Canadian National Railway Company): Thank you, Mr. Chair.

I want to thank the committee for the invitation to appear here before you today. We certainly understand that you're hearing a great

deal from your constituents regarding the movement of the current record crop. That really is the key point. This is a record crop, a crop of 76 million tonnes, 20 million above the five-year average and a full 20% above the previous peak in 2008. Not only is it a record crop, but it's a crop that few saw coming even as the harvest was starting.

As late as mid-September Agriculture Canada's own estimates had the size of the crop at 60 million to 63 million tonnes. Post-harvest from mid-September to the end of November CN performed well. After a number of months of very low demand from May to mid-September, we prepositioned our car fleet and other resources to prepare for the harvest. We were able to ramp up quickly and we were spotting more than 5,000 cars per week. In fact, we were able to set new CN records for spotting cars over an eight-week period.

However, as you know, since early December we've been facing the most prolonged period of extreme cold in many years. In some places this has been the coldest or second coldest winter in the last 120 years. The cold weather has affected large parts of our network, Saskatchewan, Manitoba, and northwestern Ontario. The most challenging aspect has been the frequency and duration of the extreme cold temperatures in these regions. For example, Winnipeg had 33 days below -25°C since December 1. In my home town of Saskatoon there have been almost four times as many days below -30°C as compared to a normal winter.

The reality is that, despite the tireless efforts of our operating employees who have been doing everything that's humanly possible, the polar vortex has had a crippling impact on our network. I know the mindset is "winter comes every year, you should be ready for it" and indeed we do what we can to plan and adjust for winter conditions. In fact we have an aggressive winter readiness plan that we share with Transport Canada and other supply chain partners every fall. However, the reality of railroading is that the sort of extreme conditions we have seen this year, which are far outside the norm, have very significant structural consequences for our operations.

When the temperature is forecast to drop below -25°C, we must plan for train length restrictions. This is necessary because in those temperatures we are unable to consistently get air from the front end to the back end of our trains in order to release the brakes. We expect these issues to arise at times during the winter, but normally this occurs for relatively short periods in specific areas. This year we've had to operate with shortened trains for much longer periods over a very significant part of our network.

Operating shorter trains for long periods of time has a dramatic effect on us. When we need to operate many more trains to handle the same volume of traffic, this increases the number of crews required, the number of locomotives required, the number of trains meeting and passing one another. More trains and more meets have a very serious impact on the velocity of our operations.

Frankly, everything is slower in the severe cold and it takes a significant toll on our employees and equipment. I understand Canadian Tire ran out of car batteries in December, so you can imagine what we had to face in terms of the demand for engine parts and wheel change-out inventory. The delays and adjustments caused by the weather inevitably get our network out of sync. Assets are not where they should be, which causes additional delays and adjustments, resulting in a ripple effect across the system.

The slowdown has drastically affected our capacity for the past 10 weeks. While understandably much of the focus has been on grain, the reality is that everything we move has been seriously impacted. Intermodal traffic from west coast ports through Winnipeg to eastern Canada and the U.S. has been hard hit, resulting in plugged terminals and waiting ships. Terminal dwells are triple what they have been in recent years.

Potash shipments from Saskatchewan are also backlogged as are virtually all the other commodities we move. We are not alone in this. I'm sure you'll hear similar issues from my friends at CPR and you'd hear much the same if you were to speak to BNSF across the border. We'll need a sustained break in the weather before our network velocity and dwell times can recover to normal seasonal levels. However, when they do, we have the assets and resources needed to meet the challenge of moving this crop.

I know questions frequently arise regarding rail capacity. I can assure you we have the capacity to meet the demands we're now facing. CN invests over \$2 billion annually to maintain and upgrade our network, our rolling stock, and our systems to ensure we have the capacity required to meet commitments. For example, last year we recognized that our network across the prairies needed more resiliency, so we invested an additional \$100 million between Edmonton and Winnipeg to increase capacity. This included double track and siding extensions. Quite a bit of this investment was made on our prairie north line, which as a result has seen twice as many trains as was the case previously. In addition to the investment in capacity, CN has been doing many things which have positively impacted the reliability of our grain service.

• (1610)

I appreciated that in the emergency debate last week, several MPs mentioned the reliable service we've provided in recent years. Our scheduled grain service, which was introduced in the fall of 2009, was a sea change in the way cars were placed in country elevators and enabled us to average 80% in spotting cars to the promised day of the week since the onset. We've worked hard on maximizing our hopper car fleet velocity. This requires the focus of all participants on the same objective of moving cars through supply chains as quickly and efficiently as possible. Day-to-day communications and engagement with our supply chain partners is key. This is needed to plan and manage flows so as to mitigate congestion and maximize throughput. Communication is also key to minimizing dwell at origin and destination.

We believe there's been a dramatic improvement in communications and coordination in the supply chain and that the anecdotes that were common five years ago about elevators or terminals bringing in crews to handle trains that didn't arrive, and for which they got no explanation, are largely a thing of the past.

Nor have we hesitated to add grain cars to the fleet. Since the harvest we've moved to add 1,000 hopper cars to our western Canada fleet to increase our peak period capacity. Our locomotive fleet is 10% larger than it was a year ago, and our board just approved a new order for additional new high-horsepower locomotives to be delivered this year.

To help with the need for additional crews in winter, CN has trained over 800 management employees as conductors or engineers, and they have been stepping in to help relieve short-term crew shortages in areas of the network impacted by the extreme cold.

As you well know, grain movement is traditionally a highly seasonal business for CN. In most years there is not enough grain to keep us busy in late spring and summer. The variation from peak periods to trough periods has been 80% on average. We recognize this year is different, but the reality is that we cannot build up capacity in a matter of weeks. As I mentioned earlier, as late as late August it did not appear this crop would be above average by such a staggering factor.

It takes six to eight months to hire and train crews, nine to twelve months to order hopper cars or locomotives. Just as no one is expecting new elevators to spring out of the ground to add storage capacity within weeks, it is not realistic to expect us to find significant new capacity overnight.

Nor can we be expected to build capacity based on one year's crop. Rail customers in other sectors often take years of study before they make a major move to increase capacity. In potash, for example, Canpotex is expected to take the better part of five years and up to \$1 billion of investment to expand their export capacity by five million tonnes.

I have spoken with some of you about this situation. I also recently spoke with the agriculture minister in Saskatchewan. I know there is a view that this year's crop is the new normal. There is no question that advances have been made that create good reasons to believe the trend will be upward in the coming years.

As I've indicated, we are not averse to making incremental investments to address increased volume. However, the railways cannot be expected to make major investments based strictly on one year's crop. In addition, we can only move as much volume as can be handled at the ports. In recent months, terminals at Vancouver and Prince Rupert have had empty space because of our weather-related challenges.

However, this is not always the case. Adding assets when it adds to congestion makes no sense. Our spotting program must inevitably reflect both the number of cars that can be unloaded at the ports and the number of empty cars returned to the prairies. This will be essential once things return to normal.

We are very proud of the advances we have made in grain transportation in recent years. We have been very focused on better communications with our customers and trying to break down the distrust that has historically existed. We felt we were making great strides and that we were well positioned to move this record crop. This winter has been a serious setback, and we are not happy with the way all our customers have been impacted.

If this year's crop is the new normal, then the whole grain system will have to adapt. If the government ensures the proper commercial incentives are in place, CN will not hesitate to make the required investments to grow our system in sync with the other components of the supply chain. I can assure you we are doing everything in our power to return to normal operations as quickly as possible and we will remain focused on returning to the record levels we were able to reach last fall.

We are a true backbone of the economy and we are committed to playing our role to help the Canadian grain industry win in world markets.

• (1615)

The Chair: Thank you, Mr. Miller.

I appreciate your good presentation.

I'll now move to CP Rail and Mr. Murphy and Mr. Taylor. I believe Mr. Murphy, the vice-president, will be making the presentation. You have 10 minutes, please.

Mr. Michael Murphy (Vice-President, Government Affairs, Canadian Pacific Railway): Thank you, Mr. Chairman. We appreciate the invitation to appear before you today to discuss the grain supply chain.

In 2013 CP and its supply chain partners moved about 2.6 million carloads of traffic, including 40 million tonnes of grain.

CP is of the view that there has been a lack of practical context on the size of this year's crop. Other parties have made statements that unfairly, and in our view, unrealistically, characterize that the crop would move if not for so-called constraints or other priorities, or poor performance of the railways.

The exceptional order of magnitude of this crop is central to any balanced dialogue.

Here are a few basic facts.

Western Canada produced approximately 80 million tonnes last year and this is 27% above the previous 2008-09 record and 37% above the five-year average, which is 58 million tonnes.

While the production increase is dramatic in itself, the scope of the supply chain challenge and the demand being faced by the supply chain is reflected in the fact that the additional production is almost entirely an exportable surplus.

Such an increase is extraordinary by any measure. So the challenge is to move as much grain as efficiently as possible, to not only exceed that five-year export average but to set another significant export record beyond the one established last year.

I would now like to talk a little about CP's performance to date for this crop year. This is best looked at over three periods: first, August; second, September through November; and finally, December and January.

In August low ending stocks and a late harvest resulted in literally less than 100 outstanding grain requests on CP at month end. In fact, in August, about 4,000 cars, almost 20% of our fleet were stored due to a lack of grain to move. We started storing cars in May and June. This simple fact has been ignored in comparisons drawn by others in reference to this year's performance.

From September through November with the harvest in full force, CP responded with record levels of performance. CP moved 20% more grain and grain products in Canada than the five-year average, and 14% more grain and grain products than last year. This demonstrated the ability for CP and the supply chain as a whole to scale effective capacity in response to strong demand.

In December and January our record run rate was curtailed by extreme weather, principally cold temperatures. Environment Canada recently reported that December's extreme cold, combined with January's 12 days of -30°C temperatures, created an unprecedented low average. To quote them, "If we take the two months and combine them, we find it is the coldest December/January since 1949/1950".

CP has very extensive winter preparations and actions to deal with winter operations; however, sustained cold -25°C is a tipping point for railway operations. We must act on added winter mitigations such as reduced train lengths, and it is extremely challenging for equipment and people. Velocity slows and hence effective capacity goes down. This impacts all parts of the supply chain in North America across multiple railways, broad geography, and all commodities.

Despite the challenging weather, CP remains above both year-over-year and five-year average benchmarks as our grain and grain products volumes from September through January are 17% above the five-year average and 8% more than last year. We are confident, weather permitting, that we will soon return to stronger year-over-year gains on a current basis. I can't emphasize enough how focused the railway is on moving grain right now.

I would also like to talk about sustaining and enhancing system capabilities.

CP is sized in its mobile resources to handle the business at very strong levels as demonstrated through the fall of 2013. With moderation in weather and a return to shipping at these levels through the balance of the current crop year, the grain handling system can move volume at record levels.

Leveraging capacity across multiple corridors and outlets is critical, not only for market value for farmers and merchandisers but also to utilize latent capacity in the system. For example, in addition to strong year-over-year gains to Vancouver, CP supports freight to the U.S. Pacific northwest outlets to supplement Vancouver, a robust Thunder Bay program, the strong return of eastern direct exports, and U.S. destined shipments.

CP will also balance priorities with all customers through active daily collaboration. Directing shipments into the most efficient and fluid corridors to maximize grain flows for the system as a whole will move the most grain.

It is critical that customers continue to manage shipment priorities on a demand pull basis as well; that is, positioning product that will flow rapidly through the system.

● (1620)

Moving more grain with each train, through longer trains, will enhance throughput. As a proactive response to the current crop, CP reviewed customer facility siding lengths across the property to identify opportunities to increase lengths, where practical, above the standard 112-car model to move more grain with each launch. Increased use of multi-car block incentives, which reduce processing and handling, are also evident.

Cycle times and asset utilization must continue to be a key driver for improved grain handling and transportation system performance. A key element to enhance capacity is reducing time to load trains at origin and unload at destination. Actions that bolster velocity include: the prompt loading on placement, timely launches, and more 24-7 operations right across all elements of the system.

Finally, Mr. Chairman, let me move on to discuss future supply chain capabilities. The above actions that we've talked about, which are within CP control, by customers and in collaboration between the two, will sustain and improve near-term system performance this crop year. There are other areas for consideration as we look to the coming crop year and beyond, however.

I'll start with network development. We will continue to work with customers on elevator siding lengths for long train opportunities. This includes ensuring facilities are developed or upgraded to allow spotting and lifting of railcars without interfering with main line operations to sustain over-the-road capacity. Similarly, customer enhancements in existing elevator infrastructure, as well as green-field developments, will continue to be an area of collaboration. CP's ongoing capital commitments to sustaining and enhancing our core network, such as our strategic investments in our north line, Edmonton to Winnipeg, will also contribute to core capabilities in capacity, velocity, and service.

Let me turn to the commercial marketplace. Further steps to establish a fully commercial market should also be considered. Today, the U.S. upper plains are served by high throughput elevators and unit trains similar to Canada. However, in sharp contrast, this market is fully commercial, with freight trading at premiums during peak demand periods and with market-based mechanisms used for allocation of capacity. In Canada, the maximum revenue entitlement is inconsistent with these commercial approaches, as the revenue entitlement earned is the same regardless of overall demand levels.

As a practical matter, grain demand is always in excess of the supply in the fall peak period, in a typical year. During the off-period, in the second half of the crop year, we are storing unused assets.

Simply put, if more railcars are acquired to serve a greater peak demand, whether it's seasonal or for exceptional production, then more railcars are ultimately stored unused during the off-peak. The removal of the MRE would enable market forces, through commercial mechanisms, to determine the handling capacity for peak demand. If the market values more peak capacity, then premiums could be offered to help justify some level of added capacity.

CP has demonstrated capability to move record levels of grain in Canada and our railway has the resources in place to sustain strong year-over-year growth. We are proud of our performance last fall and of the efforts of the CP team in the field since the record setting cold seemed to settle in for much of December and carry through January. Our objective remains to accept new requests every week that exceed past benchmarks. With the cooperation and performance of all supply chain stakeholders we can make the 2013-14 crop year another record year. Looking beyond the current crop year, a fully commercial market would seem a logical consideration for sustaining and growing capabilities.

Thank you, Mr. Chairman.

● (1625)

The Chair: Thank you very much for your timely presentation. It was right on.

Now we're going to go to our committee.

We'll start off with Madam Brosseau for five minutes, please.

Ms. Ruth Ellen Brosseau: Thank you, Mr. Chair.

I'd like to thank our witnesses. I think it's really important that you guys are here to have your voices heard because we've heard a lot of comments from witnesses, and through articles, and just from speaking with farmers. I think this is a great opportunity for you to debunk and have your say.

I'm wondering if you can comment about the changes to grain shipments after the Canadian Wheat Board and how that's changed. There's been a change since then. Has it been easier? Do you have any comments on that subject?

Mr. Michael Murphy: I can start if you want.

We're now into the second year of the process. From our standpoint, it was a step in the commercialization of the marketplace.

As you know, this is the area of our business that's most affected by regulation, so when we looked at the entire supply chain and think about roles that various entities were playing, our view was that the relationships that we have with the grain companies and our ability to work with them to get product moving, we thought was pretty good. Having the board out of the equation, we didn't see that necessarily as going to be a negative. I think last year, which was the first year and people were kind of wondering what the impact might be, was pretty darn successful. From our standpoint, it worked out well. There was no negativity from CP's standpoint.

Ms. Ruth Ellen Brosseau: I don't know if you'd like to comment from the CN.

Mr. David Miller: Generally speaking, I would agree with that. The only area where I suppose there has been a bit of a challenge is that the board recognized the limitations of the system in terms of what realistically could be moved—in the first three months of the year after harvest, for example—and therefore tried to space their sales out through the year to recognize that reality.

When you have a number of companies competing, obviously everybody wants to move as much crop as they can, as fast as they can. Clearly the pressures are on us in the first three months of the year.

That being said, we can only move what we can move, so I'm not sure that in the end it makes a great deal of difference. It does, however, increase the pressure on us, because it does create expectations that we realistically can't meet.

• (1630)

Ms. Ruth Ellen Brosseau: That did play a role when it came to logistics in grain transport and planning. It just seems to me to have been a perfect storm. Not just one thing went wrong; a few things went wrong.

You guys mentioned cold weather, which means you're using smaller cars to move grain now. Can you tell me how many more individuals are shipping their grains—or are there more people doing it now?

Mr. David Miller: No, it's the same number of customers. It's just that we deal with them directly rather than through the board.

Ms. Ruth Ellen Brosseau: Do you think there needs to be in place a special committee or special agency that is responsible for ensuring better communication between all the stakeholders—the rail companies, the shippers, the ports? Do think there's a need to have—

Mr. David Miller: No, we deal directly with our customers in all other sectors. I'm not sure there's any reason that this has to be different. I think communications have improved dramatically in recent years.

Ms. Ruth Ellen Brosseau: How would you say we got here, exactly? What are you doing immediately, right now, to resolve this problem to get grain moving short term, and what measures do you have in place for the long term?

Mr. Michael Murphy: As I was indicating in my remarks, our biggest problem is obviously this extreme cold that we've had. It started early and it settled in, unfortunately. That, for the rail industry, is our toughest obstacle, quite frankly.

All you have to do is look at where we were in September, October. We started to get grain presented to us in quantity in September, even though the grain year starts in August. So in September, October, November, we moved an incredible amount of product. We then were hit with the weather.

So the weather is the biggest obstacle. If we get a sense of our ability...because as I mentioned, we sized the railway to deal with the kind of crop we're looking at here. As David said, we're never going to be able to move the entire crop within the fall peak period. No system is going to be designed to do that. But we're in a position where, once we get a break here, we should be able to get back to the kind of performance levels we were looking at in the fall.

The Chair: Thank you very much, Madam Brosseau.

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

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

When it comes to the Wheat Board, I think it's fair to say that not having a single-desk mandatory wheat board has reinvigorated the wheat sector. Farmers have seeded more than two million new acres of wheat and barley. This is actually a success story. Unfortunately, it's contributed to bottlenecks in the movement of this bumper harvest to port.

I do want to query a few things. When we had our last witnesses here on Monday, I asked a question about the percentage of rail movement of grain, not compared with the harvest this year but compared with last year. The number I got was sort of, well, they're moving actually 5% less, the rail companies are moving 5% less grain than they moved last year.

I heard a couple of numbers from I think Michael Murphy—20% more than the five-year average, and 14% more, or perhaps it was 8% more, grain than last year. I'm wondering if you could just confirm the number for me.

I'm not too sure why there's a disparity there. To me, these are just simple metrics, and the numbers should speak clearly.

Mr. Robert Taylor (Director, Government Affairs, Canadian Pacific Railway): Right.

We're using a September compare. We dropped August because we didn't have grain to move in August. So to make a fair comparison, we're using September to the end of January.

At CP we're 8% over last year, which was a record.

Mr. Pierre Lemieux: So you're using September. Do you know where the minus 5% might have come from? You're just saying it's a different—

Mr. Robert Taylor: That's an industry number, so it obviously includes other railways beyond CP.

I would think they have August included, because last crop year August was a fairly robust month for movement. Because we didn't any grain to move, we dropped August out of that compare.

Mr. Pierre Lemieux: So you're saying you're 8% above last year's September-to-January timeframe.

• (1635)

Mr. Michael Murphy: That's correct.

Mr. Pierre Lemieux: All right. There has also been some discussion about reductions in the numbers of engines and railcars at CP—numbers like 400 locomotives and 2,700 railcars—but I also recognize that CP doesn't operate just in Canada. You also operate in the United States. While one might hear those numbers, they might also unfairly attribute those numbers strictly to Canada. I'm wondering if you could clarify for the committee how those numbers would play out in Canada versus how they would in your operations in the United States.

Mr. Michael Murphy: You're right. Those are system-wide numbers in terms of CP.

The first point to make here is that the fleet size we have is the same as what we were dealing with in the fall when we were moving record levels of grain. That's why I made the comment earlier about having the right-sized fleet. I don't think it's a question of not having the mobile assets that we need to move the crop.

On the locomotive situation specifically, one of the things we talk about is productivity enhancement in terms of how much more productive our locomotive fleet is now than it was before. In our most recent results we talked about a 20% improvement in locomotive productivity. Part of the reason for that is that some of the locomotives that we moved out of the system were our least productive, older locomotives. The fleet is actually in terrific shape, so you're getting greater productivity. Our velocity is up and our train lengths are up, and when you package all that together, we're in much better shape that way.

The size we had in the fall is the same size we would have available now. Our problem isn't the size of the fleet; it's a weather problem.

Mr. Pierre Lemieux: Thank you for that.

Let me just follow up on the weather problem. You were saying that -25°C is a tipping point in terms of, let's call it, efficient operation and in terms of train length and air-brake use. Can you perhaps give the committee an indication of what sort of train length you are moving when you're in the 0°C to -25°C zone, and what length you are moving when you are below that, in the -25°C to -30°C zone? What percentage of cars are you losing on that?

Mr. Robert Taylor: It's quite significant. We run less than 7,000 feet on CP once the winter operating condition kicks in on that subdivision. We're running some trains up to 14,000 feet, so if you do the math, it's quite significant. I can't throw out all the numbers, but it really affects our ability to run long, and also it really affects our velocity. It takes a lot longer to propagate air through a train, and trains have an air-brake system. It takes hours versus minutes, in some cases, to get air through that train. It might take you 45 minutes to build up proper brake-pipe pressure in normal temperatures. That might take five or six hours at temperatures less than -25°C.

Mr. Pierre Lemieux: You're talking about 7,000 feet to 14,000 feet. Is that a 50% difference?

Mr. Robert Taylor: Yes, but that would be the longest train—the longest to the shortest.

The Chair: It's a math question.

Mr. Pierre Lemieux: Well, it is, but it's a valid question

The Chair: Thank you, Mr. Lemieux.

Now we'll move to Mr. Eyking for five minutes.

Hon. Mark Eyking: Thank you, Chair.

Thank you for coming. We wish you had not been asked to come here, but with the crisis in grain handling, all the previous witnesses have pointed their fingers at you guys. That's why you're here.

I guess there were some comments made in the last few days about how there was a sense in September that everybody in the industry knew that the crop was going to be big. The other statement we heard, which I was surprised at, was that this is not the first time we've had a big crop like this. It was mentioned that the crop was a similar size in 1994, and movement was better.

I will just give you two or three questions, and both of you can answer them.

My first immediate question is a question most farmers would be asking. Over the next four months, what are you going to do, more than you are doing now—there is talk of 20 million tonnes that could be sitting in farmers' backyards—to move that volume of grain that needs to be moved out of their yards?

My second question is that we are apparently losing a lot of these markets in Asia because of what's happening at Vancouver. The big story said that some of the ships are going down to Seattle. What is the big bottleneck in Vancouver that you can't get these ships loaded on time? Is it because you can't pull the right quantities of a certain grade of grain?

My third question—because farmers are going to lose billions of dollars unless you do something drastic—is about the other commodities. Are they losing the money? Now you're blaming the cold weather and you can't.... Are they losing billions of dollars? I'm talking about potash and oil. Are they losing billions of dollars as the farmers are because of the problems they're having with the system?

• (1640)

Mr. David Miller: I'll start with your last question.

Take intermodal, for example, which is the most time-sensitive of traffic—that's containers, that's consumer goods—there's no question. There are hits that customers are facing; it's inevitable. I can't begin to quantify it. One can't really compare one commodity to another. There certainly would be similar demurrage charges that some of the other commodities that are not hitting their ships would be facing. There's no question. I would say that all of our customers are taking some hit as a result of the problems that we're facing.

Hon. Mark Eyking: What about the amounts of money that farmers are taking?

Mr. David Miller: Frankly, I really can't comment on that. I'd be guessing.

We're taking a not-insignificant hit as well. I'm not looking for sympathy, but just realistically, particularly because occasionally you hear suggestions that there's some intent here, in terms of our not moving grain or whatever. In terms of the extra costs of the cold weather on our operations, and the money we're losing because of the goods we haven't been able to move, we're taking a hit as well.

Hon. Mark Eyking: With all due respect, sir, I only have five minutes, and I have three questions for both of you, so if you can keep it....

Mr. David Miller: Yes.

In terms of the bottleneck at the coast, the current problem is that we're not getting the grain there the way we need to. In the fall there was not a bottleneck particularly. The terminals were fluid and we were fluid and the grain was moving through very well. When the system's working properly, there is not a significant bottleneck at the coast.

There is the loading in the rain problem that can arise from time to time, but that's getting better.

What will we do in the next four months? As quickly as the weather allows us to, and as we can get our network back in sync the way it should be, we want to ramp right back up to the kinds of levels we were hitting in the fall and move as much of the crop as we can, as quickly as we can.

As I said, we've added 1,000 cars since the fall, and we think we can move a lot of grain if the weather cooperates.

Mr. Michael Murphy: Could I just add briefly to that?

I have a quick comment on the first point you made about this comparison with 1994. I don't think it's a critical point here, but it's a bit much to be looking at that pretty atypical year, where you had a heavy amount of grain pushed to the system right off the get-go in August that year, about 50% higher than the typical August. A lot more grain presented at the railways to move during the beginning of

that crop year than the current crop year, so I think that's why that comparison gets made. I don't think it's a reasonable one.

But on your other questions with respect to the time, and I agree with David, my only other point is about markets to Asia, which are really important for this product area. One of the things that I did talk about is making sure that we do what we can not only at Vancouver, but we're also looking at other corridors. We use the Pacific northwest as well. I think everything we need to do is to keep all of these channels open as much as we can, because that market, obviously, is very important.

From my standpoint, in Vancouver we still have some issues in terms of loading and the weather. I think there's some innovation being brought to bear there. I think more of that needs to happen as well. We talked about 24-7. All of those kinds of things are very specific and directly being addressed today.

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

Now we'll move on to Mr. Payne.

You have five minutes, please.

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

Thank you to the CN and CP people for being here.

You were sitting in the back. One of my constituents, Lynn Jacobson, is a farmer. His is one of many calls I get every day on the grain movement. Some of the complaints, of course, are not just this year, but it seems like almost every year I hear from the farmers saying, "We're not getting the grain moved". Then they were complaining about a monopoly. There are a number of those things.

What I'd like to do is I'd like to just follow up in terms of the length of a train. If you would have a normal standard train—I don't know how many cars would be in a grain train, for example. How many cars would be in that? Then with the bad weather, -25°C, how many railcars would be in that kind of a set-up?

• (1645)

Mr. Robert Taylor: The bulk trains are generally shorter than some of our intermodal trains, so it would depend. It's just having a cascading effect right across the entire network—not only our network but also other railroad networks as well. The same weather is in the Dakotas and right in the grain-origination system, so it's affecting crews, locomotives, trains, right across the system. That's the way I would describe it. But the bulk trains, like grain, are generally shorter in length than are our long intermodals. The average grain train would be in the 7,000s, something like that, and that would be a train that would probably have 130, 140 cars, something like that.

Mr. LaVar Payne: Then in colder weather, obviously, that goes down, or is that the cold?

Mr. Robert Taylor: That would be affected. That would be less than 7,000 feet. But the other very significant impact from these extreme temperatures is velocity reduction, so everything takes a lot longer.

Mr. LaVar Payne: That's right.

Mr. Robert Taylor: The efficiency of the system—and we have an incredibly efficient system—is designed around velocity. The gentleman from Thunder Bay was right. Thunder Bay is a great location for CP because we have a seven- or eight-day cycle time. So we're spinning cars through Thunder Bay in seven or eight days. As soon as you send a car to Vancouver, you're looking at fourteen to fifteen days. If you send it to Quebec City, you're probably looking at twenty-odd days.

So when we talk about maximizing outlets and driving velocity, that's really what we're trying to do. We're trying to put the most throughput through the capacity because no system really wants to be built around inefficiency. You want to maximize your assets. I don't think anybody in the supply chain wants to deploy new, expensive capital until you utilize your existing capital.

Mr. LaVar Payne: Just on that point, though, say, you are already at the right levels. I know that CN has said that they added another thousand cars, so I'm just wondering. You've reduced some of your older engines and cars. Is there any plan to actually increase those volumes? Because it's not just going to be grain, as obviously you're aware. There are all kinds of resource products heading out. Will you be able to take those capacities that are coming? There are going to be expansions in all kinds of areas. But certainly from this point of view, the grain farmers right now are getting in dire shape. I'm just wondering if you're going to be adding further capacity in terms of your engines and cars.

Mr. Michael Murphy: In terms of the size of the fleet, we won't be looking at increasing that in the very short term because we think we're right-sized in terms of being able to move just like we did in the fall with the kind of incredible demand we were faced with, and we were able to do that. I don't want to keep harping on the weather, but that's what's impacting the fluidity here on the network.

Our locomotive fleet is now far more productive than it was before. So that's the advantage you get with that kind of a fleet. It's not a question just of the numbers in there; it's how efficient and how productive these things are.

On the car side, there's an opportunity to think about that because a lot of these cars are older cars in the fleet, as you well know. That's something in a marketplace that may be a little different from the one we're looking at now. Is there an opportunity to think about upgrading on the car fleet? I think that's something we're going to be having a look at as time goes by here.

The Chair: Mr. Payne, you're just right on.

Mr. LaVar Payne: Thank you, Chair.

Thank you, gentlemen.

The Chair: I will move now to Madame Raynault for five minutes, please.

[Translation]

Ms. Francine Raynault (Joliette, NDP): Thank you, Mr. Chair.

We have heard from witnesses who spoke about the problem with grain transportation. They also spoke about the losses, in terms of revenues, for farmers when they have lower quality grains. They also spoke about the fluctuation of grain prices, among other things.

However, one of the witnesses told us that the problem was simply that the rail sector dedicates too few resources to transporting grain. He said that there were not enough locomotives assigned to these operations, and that the teams had to get together to transport the grain. This witnesses added that the lack of competition among rail services was the primary cause of these problems. In January, we saw a 12% drop in the transportation of grain, while there was a 7% increase in the transportation of oil, compared to January of last year.

How do you explain that? This witness was wondering about that.

● (1650)

[English]

Mr. David Miller: We size our fleet, really, based on what we believe the ports can handle. The reason we've increased the number of cars is because, in effect, we saw in the fall that Prince Rupert and Vancouver were able to move more grain through than we had previously thought they were going to be able to. So we said, okay, if they can move the grain, we'd better add more cars.

With regard to the question of January, you can't really compare this January to last January. This is a far more severe month. There were times in January where we had as many as 35 trains sitting because it was too cold to get the air up to get them moving again.

But with regard to crude, first of all, crude is a tiny piece of our business. About 2% of our business is crude. I don't have numbers in front of me. I know that we have a backlog in crude just like we do in other commodities. Whether the absolute number was up, I'm not sure. But if it was up, it was based on a very small number.

Mr. Michael Murphy: I'll just add briefly to that. I agree with the points you just heard. I won't repeat too much, but we think we have the right size of fleet here to be able to move grain.

On the point about competition, that's something we are acutely aware of. There is a lot of competition for the grain business. We compete pretty vigorously with our friends at CN. We could spend a bit of time talking about how grain gets to the railway. I won't take the time to do that right now, but I'd be happy to talk about it.

On the crude side, I'll just give you a quick sense of the numbers. That's a little over 3% of our business. In the case of grain and grain products, it's a little under 20% of our business. Grain and grain products are six times the size of that business. They're really not comparable at all.

Are the growth rates on the crude side going to be looking very large? Of course, because it wasn't a business we were in five years ago.

[*Translation*]

Ms. Francine Raynault: If the same problem happens in September 2014, for example, and we experience a winter as cold as the one you have had out west, what do you plan on doing to fix the situation? What do we have to do so that farmers do not lose their markets, so that Japan does not buy its grain elsewhere and the farmers' products are worth less because of fluctuating prices? They will certainly get an extension to pay back their lines of credit, but interest will go up, which will cost them more.

What do you plan on doing to avoid that? Should more deliveries be made in the fall?

[*English*]

Mr. Michael Murphy: I think what I would say are two things.

One, we would continue to do what we do every year. We haven't talked a lot about how we work with our customers in terms of winter planning, which is a really important exercise we go through every year. Obviously, we would continue to do that.

But in the longer term, in the next crop year and beyond, I also talked about if we have a sense.... I don't think it's a given yet that we know the current crop year size is something that we can accept now as, well, that's the way the business is going to be every year.... Even Agriculture Canada is not forecasting that for next year.

If we make an assumption that we are going to be into a more normal, higher-level crop size, that to me is also part of the incentive to start thinking about a different environment than operating under the current one.... That's something I think you'd want to look at on a longer-term basis going forward.

The Chair: Thank you very much, Madam Raynault.

Now we'll go to Mr. Dreeshen for five minutes, please.

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

As a grain farmer I've heard a lot of this, and of course, you've no doubt heard the testimony. I can assure you the government has heard it as well.

There are just a couple of things that I had heard in your testimony. I believe, Mr. Miller, you're saying that if the government were to make incentives then you might be able to solve this particular problem. There are incentives, but there is also the other side of that as well. I'm not quite sure what you were thinking about at that particular point in time if this is a way to help move more grain because a person has to take a look from your shareholders' point of view as to what they're making at this point in time and what else is expected of you.

I guess there's an opportunity for you to start looking at movement through Thunder Bay, perhaps as soon as it gets warm enough there. Maybe grain companies have to start taking a look at that as an option if you feel that you can't move this particular bottleneck.

I have a couple of questions that I wanted to go through. The first having to do with the grain elevator network. As a farmer I used to be able to haul six or seven loads a day into a small elevator and as soon as we got the big ones, it was down to about four because of the length of time that I was sitting there and the times at which we'd be asked to come and haul.

There was another comment earlier that says you have to take a look at what is happening as the farmers get the grain to the elevators and the prompt loading on placement. I think you're going to find, and I think you have found, that the elevators have their act together because they're running all night. They're going all Sunday. They're going to have those trains ready for you and this is the frustration that they have at this point in time because when there are expected car spots they're not getting them. Of course, it backs up and it's an issue that we have to concern ourselves with.

I guess the other aspect is taking a look at what your operations are like as far as the U.S. is concerned and some of the circumstances that exist there. In the U.S. we're looking at tariff orders, private contracts, long-term guaranteed freight, and short-term guaranteed freight. I believe someone had talked about a market-based demand and supply with respect to those particular items.

When we look at the idea of reciprocal incentives and penalties as far as your freight contracts with American shippers are concerned, could you tell me whether or not that has improved, the reliability and predictability?

You are two of seven class-one railways in the U.S. and you have had significant support from the Government of Canada over a number of years. I'm wondering if you feel that you should perhaps provide at least the same level of service to Canadian shippers despite the lack of competition in the Canadian rail market. I'd like you to talk a little bit about the competition side of it as well.

Thank you.

• (1655)

Mr. David Miller: In terms of competition, the U.S. does have the barge system, which I suppose does make a difference that we don't have. But that aside, the fact that there are more railways in the United States doesn't necessarily mean that there are more railways in particular regions. The U.S. pretty much has two major railways on the western side of the country and two major railways on the eastern side of the country. I'm not sure there's a dramatic difference there.

Mr. Earl Dreeshen: Could you then address the concept of the tariff orders and the private contracts, the different types of contracting situations that are occurring there?

Mr. David Miller: There's no question that there are a lot of things that we can do in the United States that with the revenue cap really would not be realistic here. I mean, you have people bidding for cars there and that sort of thing, which just isn't a realistic option here. You have private fleets owned by some of the grain companies there, which isn't particularly an option here.

The systems are so different. The U.S. system is so much.... It is deregulated to a much greater degree, so it really is difficult to compare the two systems.

I think that's probably the most I could say.

Mr. Earl Dreeshen: Would you care to take a run at that from your side?

Mr. Michael Murphy: Yes. Let me just pick up on the second point that you raised. You used the phrase “reliability and predictability” and caught my attention with that. That's something we've tried to speak about a lot because at CP we do a lot of contracting with customers across our different lines of business. That's not necessarily the case in terms of grain and that's because this marketplace is regulated in a very specific way unlike other lines of business that we have.

That double component that you talked about is precisely what we're always trying to do. How do we increase the visibility on demand? One of the things you're shooting for here is if a customer is looking for greater reliability and predictability, the railway is obviously looking for a much higher visibility on demand.

When we do contracts, both of these elements are in play. You have contracts sometimes where customers are willing to make specific commitments about certain volumes of traffic they want to send our way. That's not always the case and that's up to the customer, but when you're not willing to make any kind of commitment in that regard, it makes it tougher for us, obviously, to get a sense of what it is we're going to have to do.

The government went through, and I won't take too much time, Mr. Chairman—

• (1700)

The Chair: You're over time. Someone may follow up with that in a few minutes.

Madam Brosseau, you have five minutes, please.

Ms. Ruth Ellen Brosseau: Thank you, Mr. Chair.

I would like you to speak more on better planning.

You touched on that, Mr. Murphy, when you talked about winter planning. You also mentioned a different environment in response to the question from my colleague, Madame Raynault. I'm wondering if you can elaborate on that. I don't think I quite understood what you said.

I don't know if you remember. I'll probably have to check the blues.

Mr. Michael Murphy: Okay, we'll start with the first one.

There are a lot of elements to winter planning. Obviously, it's something that we take a lot of time on, because we know we're faced with this every year. We do this in conjunction with our customers, and governments are very engaged with us as well, particularly through Transport Canada. We coordinate with Parks Canada and the B.C. Ministry of Transportation, on avalanche risk and preparedness, for example. We haven't talked a lot about that today but that's another part of our reality. We make decisions with respect to where we're going to locate snow removal equipment along the corridor, and we've beefed that up. That's something we look at regularly. Changes in operating procedures in terms of making sure...because one of the words we didn't talk about is the impact of cold weather, it's really a safety issue. That's one of the key issues for us in terms of... Air, we talk about getting air through the train and that's for braking. Safety is obviously a huge concern there.

There are a lot of elements here. We could go on, but I hope that gives you some sense of—

Ms. Ruth Ellen Brosseau: I understand safety would be top of mind, but I'm sure this isn't the first time we've had cold weather and a lot of snow in Canada. So as to more planning, how do you plan to make sure this does not happen again? More communication?

Mr. Miller, you said you communicated with Minister Ritz. Was that in Saskatoon?

Mr. David Miller: No, that was with regard to the Saskatchewan minister, but that was on a different point.

Ms. Ruth Ellen Brosseau: Do you guys communicate and have you spoken with the minister on this issue? Has he communicated with you?

Mr. David Miller: Absolutely. We've had several meetings with the minister and the deputy minister to—

Ms. Ruth Ellen Brosseau: Also the transport minister?

Mr. David Miller: Both ministers.

Ms. Ruth Ellen Brosseau: Both ministers, okay. That's been constructive?

Mr. David Miller: Absolutely.

It's fine to say that we've had cold weather before, but the reality is that this really has been...you could say this is a one-in-a-hundred-years crop and a one-in-a-hundred-years winter. Hopefully these crops are going to continue. Hopefully these winters are not going to continue. You could look at it in those terms. This crop is that large, and this winter has been that difficult.

Ms. Ruth Ellen Brosseau: We've had several witnesses come to committee, and they've talked a lot about penalties. We know that farmers are being hit hard. Internationally too with our trading partners, we've gotten a black eye because we haven't been able to fulfill some agreements.

I have a son, and we have rules. He has chores to do, and when he doesn't do his chores, I'm doing the dishwasher, I'm making his bed, there are consequences. I know you're not going to want to talk too much about penalties, but that has been brought up a lot by almost everybody we've spoken to. I wonder if you could comment on the Fair Rail Freight Service Act, and maybe penalties and giving more teeth to that act.

We've had a lot of witnesses offer amendments, because it is a bill that was put through the House, and I know that our party had submitted quite a few amendments to it that weren't accepted—that's nothing new. But I wonder if you can comment on the Fair Rail Freight Service Act and also maybe just the fact that we've had witnesses talk about penalties for grain being delivered later than it was supposed to be.

Mr. Robert Taylor: In terms of the Fair Rail Freight Service Act, I think there are a couple of very important elements of that bill that were recognized in its drafting.

One is that service shouldn't be imposed to the benefit of one shipper to the detriment of another. The arbitrator has to consider the network impact, because we run a bus route not a taxi service. That's how we attain 4.1¢ a tonne-mile. We move a tonne of material one mile on average on the railway for 4.1¢. This has been recognized. Without that network provision in that piece of legislation you could have an arbitrator imposing a service to the benefit of shipper A to the detriment of shipper B when the two are side-by-side. We think that's the right approach, and that's one of the amendments being pushed that would be very detrimental.

• (1705)

The Chair: Thank you very much.

We'll now go to Mr. Hoback for five minutes.

Mr. Randy Hoback: Thank you, gentlemen, and thanks for coming in front of the committee.

I agree with Ms. Brosseau, it's nice to have you here to talk about some of the challenges you faced in December and January.

The reality is that those challenges are things that you faced in previous years, and will face in years to come. There are also some new realities that are starting to show up in western Canada. You see potash mines coming in to factor. You see more crude oil coming in, and you know that's going to increase because if we don't see a pipeline, it's going to be moved by rail. So when I hear the arguments that you don't need more locomotives, I disagree with you.

Capacity is the issue here. Even when it's cold, sure, you shorten the trains, I understand that. I used to drive Super Bs on my farm, so I understand how air brakes work. But what you can do is put more smaller trains on, so you need more locomotives to handle that capacity. The reality is that you went and laid off—and I'm going from the notes from the Alberta Federation of Agriculture—4,500 employees and reduced your service by 400 locomotives and 2,700 railcars. Yet, you say you have enough to handle going forward.

I don't see how you can do that or say that when BHP Billiton is coming on, when I see the other potash mine in southern Saskatchewan coming into play. We're going to start growing more corn, which is four times the volume of wheat. All this stuff is going to have to move by rail, so where is your vision? Then I get really excited when you say that you have the capacity today. You've never had the capacity. When I was farming from 2000 to 2004, we always had issues with the trains not showing up on time. Then you'd blame the Wheat Board or somebody else, but the reality is that you never had the capacity then.

I look at this now, and I go back to my farmers, and it's costing them money. We've seen the basis in wheat widen from \$25 to \$80. Why don't you pay that basis widening, because it's your fault that it's widening?

You talk about the increase in volume. I can give you that. But you know what, you haven't kept up from year to date of what you should be moving. The increase in volume would tack onto the end. So when you're saying in August you had a slow season and you were parking cars, that's when that increase in volume would have kicked in, but it's not. When you say you've moved more grain, maybe you have moved more grain, but have you delivered more?

That's the question I ask because I was in Vancouver at the international trade committee, and I saw the ships sitting out in the harbour. They're there. When I talk to my farmers who have oats, for example, they have their little inland elevator filled, they have cars still sitting on their spur, and they're waiting for you guys to move them. Meanwhile, Scandinavia is shipping oats from northern Europe into our markets in the U.S.

So explain it to me. Who should be accountable? Who should be financially accountable for this? I think it's you, but do you disagree?

Mr. David Miller: In terms of growing capacity, as I said, we've added locomotives from last year and we just ordered a bunch more locomotives.

An hon. member: So you're looking at your growth and you're taking it seriously.

Mr. David Miller: We absolutely are taking it seriously.

Mr. Randy Hoback: Let's go to CP, then. You went and did the opposite. Maybe that's efficient. Maybe you're running efficiency at the low cycle, but when you get any type of a bump, you can't handle it.

Mr. Michael Murphy: I'll have to disagree with you because we had record levels of demand placed on us in the fall, between September and November, and we did handle it. That same fleet is still there. We're challenged now because of this extreme, and I think I say—

Mr. Randy Hoback: I'm going to stop you there. You handled it for a couple of months and then coal came in, potash came in. Everything else comes in there, and you can't handle it all. You can juggle it for a month or two, but you can't juggle it for a long period of time.

Mr. Michael Murphy: We handled it right through the period September through November, so it was three months' demand that we were faced with. We also were faced with declining potash volumes during that same period, so—

Mr. Randy Hoback: So you can handle more grain.

Mr. Michael Murphy: And we did. Exactly.

Mr. Randy Hoback: But now you have grain, you have potash. I talked to the potash guys and they're upset now too because they're not getting their product delivered. I have a lumber mill up at Hudson Bay that's going to go down to three days a week. I have a steel mill in Regina. All this stuff is starting to trickle back, not only in the grain sector but in other areas, because you're not taking seriously the growth that's going on in western Canada. You're actually going to do severe damage to the western Canadian economy unless you smarten up.

• (1710)

Mr. Michael Murphy: I'll look at it completely differently and disagree with you—

Mr. Randy Hoback: You look at it from your shareholders' perspective. I respect that. But look at it from the customers...and what's going on in western Canada. You haven't done that. If I asked you today, how are you going to move the volume that you've lost before road bans hit...and flooding in Red River Valley, how are you going to do it? You don't have the capacity. Are you going to move stuff up from the U.S.?

How many cars that belong to the Canadian government are actually down in the U.S. right now moving grain in the U.S.?

Mr. David Miller: We've moved cars up from the U.S. We're not moving cars to the U.S. We've moved cars in the other direction to handle the crop. A lot of this is very competitive business. The potash business is an extremely competitive business. The fact that it's backed up is the reality that we've been facing in the last couple of months, but believe me we're not going to skimp on assets and lose that market share. There's too much in it for us.

Mr. Randy Hoback: But you've got the ability to handle the—

The Chair: Mr. Hoback, we're out of time.

Now I'm going to go to Mr. Zimmer for five minutes, please.

Mr. Bob Zimmer (Prince George—Peace River, CPC): Thank you for appearing before committee today. I know they're hot seats, but we need you here.

To follow up on what my colleague Mr. Hoback is saying, I have an article here from *The Globe and Mail* that was written in November:

CN spokesman Mark Hallman said the backlog of grain at the elevators is a supply chain issue that has nothing to do with the amount of oil being shipped by rail, and more railcars is not the answer.

"Throwing more hopper cars into the supply chain is not going to work. It's like morning rush hour on the freeway. You put too many cars on the road, the road gets plugged and everything else slows to a crawl," he said.

That was before the cold snap, so it kind of goes to what Mr. Hoback is saying that there was a shortage before the cold snap. What's your answer to that, please, both from CN's perspective and CP's?

Mr. David Miller: As I said, we were moving record volumes in the fall. We felt we had our car fleet sized to what the ports could handle. When we saw in the fall that, in fact, it appeared the ports could handle a bit more than we thought they could, that's why we decided to add the cars.

What was said in terms of adding cars to a congested system, that's the reality we deal with. If the ports are congested, adding more cars is the worst thing you can do.

Mr. Bob Zimmer: I thought we just heard that it wasn't congested and that capacity was available.

Mr. David Miller: No, I'm just explaining the statement that was made there. If the ports were congested, adding cars is the worst thing you can do. When we saw that the ports actually could handle a bit more than they had before and that we thought they could, then we made the decision to add cars.

Mr. Bob Zimmer: So would you say the CN spokesman, Mark Hallman—and I don't know who he is other than he's a spokesman—made a correct statement in what he said there? Because, basically, what I'm concerned about is that this is only as big as a set of rails. If

what he said is correct, then we need to do something else. We need more lines; we need something else.

By saying that we don't need to—and that's what we're hearing from both of you—increase line capacity, then we're still not going to be fixing the problem. This problem is going to happen over and over.

As some of my colleagues have said here before, we're in Canada and cold weather typically follows along with the name Canada. It should be nothing new to us. So what happens if this is a prolonged stint of cold weather? Are we going to have the same issues this time next year and the next year following, and following?

Before you answer that, I still don't think we got an answer to the CP question. We had the statement from the Alberta Federation of Agriculture that

said: In fact, CP has reduced engines and railcars by 43% and 35% respectively, taking 400 locomotives and 2,700 railcars out of service at a time when we need to move the biggest grain crop in history to port. Further, CP has reduced staff by 4,500 employees.

Is that true?

Mr. Michael Murphy: With the locomotives—and I went through this earlier—we had a fleet size that we have downsized by taking out our least productive, least efficient locomotives. There was not a lot of value in having those. Some of those weren't being used nearly as well as they could have been and they weren't efficient, so some of those have been taken out, absolutely.

On cars, we've had some cars taken out. I don't think we've had hopper cars, though. Our fleet is still sitting around 18,000 hopper cars.

Mr. Robert Taylor: To put that number in perspective, we have a fleet of 50,000 railcars, so you're talking about 2,700 on 50,000, and they are an assortment. Some are 50 years old.

• (1715)

Mr. Bob Zimmer: Okay.

Do you have any more to say?

Mr. Michael Murphy: The one comment I wanted to add was with respect to western Canada, a high priority area for us. We're a bulk railway and 40% of what we move are bulk commodities. They tend to be located in western Canada, whether it's coal or potash or grain, and grain is the largest of those. We have a high priority in terms of our capital spend. We spend about 20% of revenue—and very few industries do this, if any—on capital every year, and a big priority for us has been in western Canada.

I mentioned our north main line, Edmonton to Winnipeg. Who benefits from that? Obviously, the products we're talking about here, in bulk, are major beneficiaries, though not exclusively. We don't build lines specifically thinking about one product or another all the time, but there's clearly an advantage there for that kind of expenditure.

We just announced that our capital program is even going to be larger in 2014 than it was in 2013, so there's more to come in terms of investment in western Canada. I can get into more detail in terms of where we think we might...because we think there are some advantages in terms of more sidings, and all of that is where we have our line of sight.

The Chair: I'm sorry, but your time is up, Mr. Zimmer.

We'll now move into the third round and we'll go to Madame Raynault for five minutes, please.

[*Translation*]

Ms. Francine Raynault: Thank you, Mr. Chair.

We know that there were record crops in 2013, which is great for our farmers. The weather surely played a role in this. However, we cannot forget that researchers are trying to create new seeds to produce more in order to feed the whole world. Better seeds have an effect on crops and increase the amount of food for humans and animals.

Right now there is a transportation problem because of the cold and everything you mentioned earlier. This question is for the three witnesses. What are your short- and long-term plans to avoid this problem so that farmers never have to go through this again and so that it is easier for you to transport our farmers' grain?

[*English*]

Mr. David Miller: If you're asking can we promise that we're never going to be up against capacity limits in specific times of the year or with specific unusual peaks, I can't say that. You can never size the system to meet every peak demand.

As I said, we're investing well over \$2 billion a year to grow our network, whether it's longer sidings, whether it's more double tracking, whether it's more cars and locomotives. We are looking for ways to grow. It's in our interests to move as much as we possibly can. There's nothing to be gained by us being unable to meet the demand that's out there.

But certainly there are issues with regard to surge capacity and how many cars, locomotives, crews, you can have sitting around on the chance that you may need them for a small piece of the year.

Mr. Michael Murphy: The only thing I would add, Mr. Chairman, is to build on my comment previously about capital expenditures. This is a hugely capital intensive business, maybe more than any other sector.

Our capital program is not just about maintaining what we already have. It's also about dealing with growth. That's an important part of this conversation, because of the importance of bulk commodities, as I mentioned, particularly in western Canada but not exclusively, for us.

We're looking at growth in a number of areas and that's part of why we're spending at a higher level in terms of our capital in our forecast that we've announced for 2014 and beyond. That's something we're going to continue to do.

The Chair: You have a minute and a half, two minutes yet.

[*Translation*]

Ms. Francine Raynault: I think it would be really unfortunate if farmers decided to no longer farm grain or to farm less. Right now they are losing a lot of revenue because they have grain sitting in silos and the quality is deteriorating. If they farm less or are not able to obtain a line of credit for planting crops in 2015, they will go bankrupt. What will they do?

You will have the assets, but no grain to transport. What is the immediate solution? Will you be forced to transport grain from 2013 crops when 2014 crops are ready?

• (1720)

[*English*]

Mr. Michael Murphy: I will add to what I said earlier in terms of dealing with the size of the crop. We have the specific things that I mentioned in terms of the current crop year, and I won't repeat it in the interests of time, but we also are looking ahead to the next crop year and after that. We think there may be opportunities to think about the marketplace differently and to think about a much more commercial marketplace, like we have in the rest of our business.

That's a conversation that we're prepared to have.

The Chair: Okay. Then we'll move on. Thank you, Madame Raynault.

We'll move on to Mr. Hoback for five minutes, please.

Mr. Randy Hoback: Actually, Mr. Chair, I'll share my time with Mr. Dreeshen since it's the last round of questions.

The Chair: Okay.

Mr. Randy Hoback: Surge capacity, Mr. Miller, what is the right number for surge capacity? Right now if you ask farmers about your surge capacity they would probably say that you guys do not have enough surge capacity to handle these high areas where it peaks up and peaks down.

How is that surge capacity calculated? Is it based at the lowest volume across the year or is it somewhere in the middle? What is a reasonable number? What is CN's and what is CP's surge capacity?

Mr. David Miller: I'm not sure there's a magic formula I can give you. The reality is that there's no question that one area where the revenue cap is an issue is in terms of surge capacity. The need in terms of having excess capacity available when there's no chance of being compensated for it under the current system is one place where it is a deterrent. I don't think there's any question about that.

Mr. Randy Hoback: The railcars are owned by the government. So surge capacity for you in the grain sector is just locomotives and people, is that not true?

Mr. David Miller: Well, locomotives—

Mr. Robert Taylor: We have about 6,000 government hopper cars out of a fleet of 18,000, so there's your surge capacity of 6,000.

The Chair: Mr. Dreeshen.

Mr. Earl Dreeshen: Thank you, Mr. Chair.

There are a couple of things I'd like to go back to.

One of them has do with that Thunder Bay traffic I had talked about, as soon as that becomes possible, and taking a look at some of the options that are going to be there.

The other thing is the confidence that you can be able to say that we are going to be able to move this. That's a critical aspect right now.

Quite frankly, as we've heard in testimony, there are people saying that they're going to be growing the kinds of crops that aren't expected to make the same sorts of yields as before. That's driven for a different reason. I have heard of people saying that maybe they're not going to fertilize, and so on. People are taking a look at the advance program and trying to make decisions. What are going to be the right ones if they can't manage their cashflow?

I think it's important that you are able to give the signals that can show where this glut is and how it is moving, and to make sure that is something that people can recognize.

I'd like to get a bit of a commitment. I can't remember whether it's a three-month ruling that you have to have as to where all this is, or whether it's a one-month. Maybe it needs to be a weekly one as to where we're going as far as this glut is concerned.

Can I get a view on that? If it's something that we really need, can we get a commitment on that?

Mr. Robert Taylor: If I may, we're meeting the minister again on February 24. He's asked for some additional information in terms of the ability of the supply chain to move grain through individual corridors, and the like. That's something we're looking at right now. We have been meeting the minister weekly for a little bit. We're skipping one week because of your parliamentary break. So these things are being talked about.

On Thunder Bay, you make some very good points. We were actually talking about Thunder Bay today, about an earlier program into Thunder Bay to try to get some of this grain into empty elevators there.

I would expect to see an earlier program into Thunder Bay this year than last year, and a program into Thunder Bay before ships actually arrive.

Mr. David Miller: In recent years there has not been much of an eastern rail program. Over the winter this year, it's been delayed because of weather issues, but we are definitely looking at trains to Quebec City.

• (1725)

Mr. Earl Dreeshen: Thank you very much.

The Chair: You have another minute.

Mr. Earl Dreeshen: Okay. Well then, thank you, I appreciate that.

We're taking a look at the fact that you can make longer trains if you're heading east with this. So it's all of that. Maybe what I'll do is simply come back to the need for you to be able to give us some confidence that you're actually doing what you say you're going to do.

We still hear the stories that at the elevators, they say they're going to have a fifty-car spot, and they come with eight, and all of these kinds of things. So that's what we're hearing.

How can you suggest there is anything that can be said except that you're not living up to your end of the deal? We have to know where these things are coming. You can always tell us about the cold weather, and we know that and we understand it. But as soon as the sun starts shining, you're going to have to make sure that you can show us that there are things happening.

If you want to comment, if you have any time, I'd appreciate it.

The Chair: You have a few seconds.

Mr. David Miller: There's no question we recognize that we're under the gun, and we're under the gun in a number of other areas. So we certainly recognize that and we're prepared to move on that.

In terms of the numbers, it's all on our website. It's all public, so people will know what the backlog is and what we're doing per week, so they'll be able to judge us. We expect those numbers to go up significantly.

In terms of our performance on spotting cars, we think that before we ran into all these problems in December, our record was pretty good. Under our scheduled grain program, we were hitting 80% to the day. Not that many years ago we weren't hitting 80% to the week, so we really do feel there has been a significant change.

The Chair: Before I move to the last one, I want to take the chairman's prerogative.

You made a comment, Mr. Miller, at the start. You said when the weather straightens out that you'll have the capacity to meet the demand. Can you clarify that? I would have read that to say you're actually going to be able to meet the demand that's out there. I don't know, in fact, based on what I'm hearing, if that is the case.

Mr. David Miller: We will be able to move the kind of volume that we were moving in the fall. We will be able to get the crop moved. It's not going to move immediately. We're going to be going full bore through the summer, which we haven't done in recent years. I certainly can't say there won't be some carry-over, considering the size of the crop, but we will be able to move the grain that's out there.

The Chair: Mr. Eyking.

Hon. Mark Eyking: Thank you, Chair, and thanks for giving me another round.

As we close up here, gentlemen, we're hoping that you guys get the message that we have to get the grain moving. This freight rail act that came in last year apparently didn't work. It didn't work for various reasons. It was supposed to work to help everybody work together and get the stuff moving.

I don't know; I just look at it from the outside. There are only two things that I think could help the situation. If you had more farmers on your board of directors, that would make sure they had some sort of priority over the coal or potash or the other products that are being moved. But the other thing is that there's going to have to be a stick here. I know you people don't like to hear it. I don't know if you want to comment on it, but penalties make people function better. If a ship's turned around and we lose the sale to Japan, the farmers should not be having it coming out of their pockets. It should be coming out of your pockets.

I wonder if you have any comment on the government imposing some sort of a penalty on you people if you don't pull up your socks.

Mr. Michael Murphy: Well, I can say we're already under a pretty significant level of regulation, particularly in this marketplace. There are lots of regulatory remedies, tools that are available to all of our customers to use, regulatory tools, and that includes right up to and including the new act that was passed last June. I don't—

Hon. Mark Eyking: Mr. Murphy, if I may, what was mentioned yesterday by various commodity groups is that there seems to be a better stick or something in the United States that makes the railroads more accountable for making sure that farmers' products are moving.

Mr. Michael Murphy: It's a completely different environment in the U.S. It's one that operates on commercial principles, as opposed to what we do here. They don't have an MRE type of environment as we do. That's a pretty obvious example of the difference. They deal with it as you're doing with other commodities. It's not a system that has a heavier regulatory burden, if that's your implication. It's just, in fact, the opposite.

• (1730)

Hon. Mark Eyking: It's not really a licence as much as penalties.

Mr. Michael Murphy: It's the opposite.

Penalties are something that we have in negotiated agreements with a number of customers. That's just part of the reality. We do that today. People make commitments to us, and we make commitments to them, and we have reciprocal penalties in a number of contracts today. That's not terribly unusual for us. The issue, though, becomes whether you can negotiate something that allows for the two parties to come to an agreement. We're always ready to discuss that with every one of our customers.

Hon. Mark Eyking: Yes, but when that Japanese boat goes to Seattle, it's not coming out your pocket; it's coming out of the farmers' pockets. That's the whole problem here. You guys aren't losing; the farmers are losing here. So what's the incentive? If there were some sort of way you guys had it come out of your pocket, then maybe things would change. Maybe we would have new locomotives here by now. Maybe it wouldn't be a different system.

Mr. David Miller: I could say a couple of things.

First of all, I'm not sure there are any penalties that would have made a significant difference in terms of what we're facing this winter, and most penalty clauses would have *force majeure* provisions, which likely would have been invoked.

The second thing is about the working of the act. We have service agreements with a number of customers that were negotiated before the act was passed. I'm not aware of any customer, certainly in the grain sector, who's come to us since the act was passed asking to negotiate a service agreement. Regarding the question of whether or not the act is effective, it's tough to determine when, in fact, nobody has really used it.

The Chair: Okay, I'm going to bring it to an end. We're at 5:30.

I want to thank the witnesses for coming out. We will be putting a report together at the end, when we come back after.

I appreciate, again, all of the witnesses on a subject that's really important.

Thank you very much.

The meeting is adjourned.

Published under the authority of the Speaker of
the House of Commons

SPEAKER'S PERMISSION

Reproduction of the proceedings of the House of Commons and its Committees, in whole or in part and in any medium, is hereby permitted provided that the reproduction is accurate and is not presented as official. This permission does not extend to reproduction, distribution or use for commercial purpose of financial gain. Reproduction or use outside this permission or without authorization may be treated as copyright infringement in accordance with the *Copyright Act*. Authorization may be obtained on written application to the Office of the Speaker of the House of Commons.

Reproduction in accordance with this permission does not constitute publication under the authority of the House of Commons. The absolute privilege that applies to the proceedings of the House of Commons does not extend to these permitted reproductions. Where a reproduction includes briefs to a Committee of the House of Commons, authorization for reproduction may be required from the authors in accordance with the *Copyright Act*.

Nothing in this permission abrogates or derogates from the privileges, powers, immunities and rights of the House of Commons and its Committees. For greater certainty, this permission does not affect the prohibition against impeaching or questioning the proceedings of the House of Commons in courts or otherwise. The House of Commons retains the right and privilege to find users in contempt of Parliament if a reproduction or use is not in accordance with this permission.

Also available on the Parliament of Canada Web Site at the following address: <http://www.parl.gc.ca>

Publié en conformité de l'autorité
du Président de la Chambre des communes

PERMISSION DU PRÉSIDENT

Il est permis de reproduire les délibérations de la Chambre et de ses comités, en tout ou en partie, sur n'importe quel support, pourvu que la reproduction soit exacte et qu'elle ne soit pas présentée comme version officielle. Il n'est toutefois pas permis de reproduire, de distribuer ou d'utiliser les délibérations à des fins commerciales visant la réalisation d'un profit financier. Toute reproduction ou utilisation non permise ou non formellement autorisée peut être considérée comme une violation du droit d'auteur aux termes de la *Loi sur le droit d'auteur*. Une autorisation formelle peut être obtenue sur présentation d'une demande écrite au Bureau du Président de la Chambre.

La reproduction conforme à la présente permission ne constitue pas une publication sous l'autorité de la Chambre. Le privilège absolu qui s'applique aux délibérations de la Chambre ne s'étend pas aux reproductions permises. Lorsqu'une reproduction comprend des mémoires présentés à un comité de la Chambre, il peut être nécessaire d'obtenir de leurs auteurs l'autorisation de les reproduire, conformément à la *Loi sur le droit d'auteur*.

La présente permission ne porte pas atteinte aux privilèges, pouvoirs, immunités et droits de la Chambre et de ses comités. Il est entendu que cette permission ne touche pas l'interdiction de contester ou de mettre en cause les délibérations de la Chambre devant les tribunaux ou autrement. La Chambre conserve le droit et le privilège de déclarer l'utilisateur coupable d'outrage au Parlement lorsque la reproduction ou l'utilisation n'est pas conforme à la présente permission.

Aussi disponible sur le site Web du Parlement du Canada à l'adresse suivante : <http://www.parl.gc.ca>