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Chair

Mr. Merv Tweed

Standing Committee on Agriculture and Agri-Food

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•(0850)

[English]

The Chair (Mr. Merv Tweed (Brandon—Souris, CPC)): Good morning, everyone. Welcome to the Standing Committee on Agriculture and Agri-Food, meeting 58.

Our orders of the day are pursuant to Standing Order 108(2). We have the study of agricultural and agrifood products supply chain—grains and oilseeds.

Joining us today as witnesses we have, from Pulse Canada, Mr. Gordon Bacon, chief executive officer; and from Quorum Corporation, Mark Hemmes, president. Welcome.

I know for one of you it's a first appearance here, so we appreciate that.

I'll start with Mr. Hemmes, please.

Mr. Mark Hemmes (President, Quorum Corporation): Thank you, Mr. Chair, and good morning to the standing committee. I would like to thank you for the invitation to appear before you today.

I will address two subjects: the current performance of the prairie grain handling and transportation system, or the GHTS, as we refer to it, and then speak generally on the subject of system performance measures and their use and importance to both government and industry.

Before I begin my statement, though, I'd like to introduce myself, our company, and its role in the grain and transportation industry. I am Mark Hemmes, president of Quorum Corporation, which is one of the independent subsidiaries of the Quorum Group of Companies, of which I am also a founding partner. I have spent over 35 years involved in the transportation and logistics sector, including 23 years with Canadian National, where I held senior management positions in the marketing and operations functions.

I live and work in Edmonton, Alberta, where Quorum is based. Quorum has been under contract with Agriculture and Agri-food Canada and Transport Canada since 2001 to act as the grain monitor. We're set up as an arm's-length monitor for Canada's prairie GHTS. In that role we report to government, and by extension to the industry, on changes in the efficiency, reliability, structure, and operation of the grain handling and transportation system, as well as what the impacts are on producers.

First, on the topic of the performance of the grain handling and transportation system, over the eleven and a half years that we've been monitoring the GHTS, we've seen significant change, as borne out through the roughly 240 measures that we manage.

Some important indicators of that change include the following.

The proportion of cereal grains that were marketed under the mandate of the Canadian Wheat Board has fallen from 68% to less than 56%, continuing a trend of diversification into crops such as canola and peas.

On the time that grain remains within the system, one of the key performance measurements that we use in the monitoring program has fallen to just over 47 days, from a high that reached over 80 about 10 years ago. The number of elevators has dropped from about 1,200 to just over 350, and the size and the ability for loading 100-plus cars has also been dramatically increased. At the same time, elevator churn ratios have improved significantly, to 6.3 times annually, on average, from as low as 3.7 times.

One key area of focus for both the program and the shippers of grain is railway performance, and the program tracks that in two ways: one, by measuring the total cycle time, and two, by the loaded transit time. Both measures gauge how efficiently the railways utilize their fleets. Railway car cycles, for instance, have fallen to under 14 days from over 21 days 10 years ago.

An important measure for the GHTS performance is loaded transit time. It has fallen from a high of over eight days to under six days—a 25% improvement. This productivity improvement benefits the railway in the form of reduced capital costs, as fewer assets can be used to move the same volume of traffic, or through increased revenues, as a fixed asset fleet can move more traffic. The shippers benefit to the extent that the railways should be able to make more empty cars available for loading with a fixed fleet.

A measure more important, though, to grain shippers is the consistency or the reliability of the service. While the ratio we use to gauge that has improved as well—falling from 0.55 to 0.41—it must be viewed in the proper context, because in a practical sense, this means that transit time varies considerably around this average six-day transit. To plan for this variation, a shipper who gets an average transit time of six days actually needs to be prepared for a variation of between three and ten days, excluding periods of extraordinary disruption when that transit time can be longer. That kind of variability makes planning logistics very challenging for all the grain stakeholders.

I would also note that the cost of service inconsistency accrues directly to the shipper and ultimately to the producer.

Overall, we can safely state that the prairie GHTS has seen significant performance improvements over the last 12 years. That said, there are periods where one part of the supply chain or another experiences a regression in performance, and when that occurs it can extend for long periods, adding costs to the system and damage to Canada's trading reputation.

Real change takes time to show itself. While we've seen improvement in a number of measures over the last four to five quarters, there remain areas of concern among stakeholders, such as vessel time and demurrage at port, the consistency of rail service, and the availability of railcars in the country, which is an area that we do not presently measure.

● (0855)

Now a few words about the current crop year and the performance that has been seen in the new post-single-desk era. While much of the base data we use in the monitoring program is not available to us yet, there are some indicators we can follow. Most significantly, the three major western ports have experienced higher overall volumes so far this year—about 5% in Vancouver, 16% in Prince Rupert, and about 20% in Thunder Bay. Also, two grain companies have reported to us that the current crop year has allowed them the ability to increase unit train loading to slightly over 80%, which is a 10% increase over last year.

I have a few quick words on Churchill. The total movement in 2012 is estimated at 430,000 metric tonnes. That's about 19% below the five-year average of approximately 500,000 tonnes annually. Part of the cause is their shipping season started more slowly than normal, as the industry adjusted to new logistics plans and alternatives. This delay has been an impediment for Churchill this year. It hurts when the shipping season is already so short. A positive for this year's movement to Churchill is the diversification of shippers, as four shippers used the facilities this year, exporting wheat, durum, barley, and canola.

With regard to the system's performance this year, it is too soon to say that the system is trending toward continued improvement based on the last 15 weeks, or that improvements that we have seen are a direct result of the removal of the single desk. Exceptionally good harvest conditions and a mild fall period have contributed to the ease of movement. Add to this the exceptional market conditions, high grain prices, and the drought in the U.S., and you can see more than a few reasons why this year might constitute a distorted benchmark for future comparison. Nonetheless, we are off to a good start.

Now a few words on measures programs in general. First, I would say that Quorum appreciates the role we have been given over the last eleven and a half years in providing relevant data and intelligence to government and industry. We feel this is vital for the continued improvement and competitive success of the industry. By now it is probably cliché to say this, but the Canadian grain supply chain is at a pinnacle of change. We have never seen as many significant initiatives, events, and challenges happening almost simultaneously as we see right now: the rail service review and its impending regulatory changes, the removal of the single desk pending changes to the Canada Grain Act, industry consolidation, as well as the entry of new entities into this market.

The GMP has also seen a transition from the simple provision of base measures 10 years ago for just a select few in government to a broadly used historical compendium of facts and figures. It is used extensively by the full range of stakeholders, from producers and producer groups to grain companies, railways, academics, bankers, and exporters. Those who are directly involved in the supply chain use the measures as benchmarks and to understand their competitive position in relation to others. Those on the periphery most often look to understand the performance and the competitive position of the Canadian supply chain and its various parts.

We have also noticed over the last 11 years that as industry has gradually transitioned to a more commercial environment, the demands of both government and industry have been maintained, and in some cases increased, to have available data on grain supply chain performance. In order for industry stakeholders to become more competitive in the global marketplace, it is essential that they fully understand their position in it. These are best accomplished by having easy access to data and statistics on the markets in which they operate and the relative performance of their supply chains.

An example can be seen in the U.S., where several government agencies support and operate a myriad of data and statistical programs—the USDA and its subordinate groups, such as GIPSA, the Surface Transportation Board, and the Federal Railroad Administration, to name a few—provide exceptional, current, and historically detailed statistical services, which are available through the Internet, that cover everything from market volumes and grain prices, to railway and shipping line performance, to freight rates and costs, and country and terminal utilization levels. These are used by all industry stakeholders so that they can better understand their competitive position.

This is the type of information that provides the necessary edge for competing in world markets and can make the GHTS as a whole more efficient.

In the course of our work, we had the good fortune to spend a great deal of time with a broad cross-section of the stakeholder community. What we hear from them is an emphatic desire for more frequent and timely reporting of the GMP measures. We have also heard from shippers on areas of concern that we do not currently measure. One of the prevalent items is that of access to rail capacity. The supply of railcars continues to be a subject of consternation, and one example of the areas we do not presently measure in the program.

• (0900)

Mr. Chairman, this concludes my formal remarks. It's a pleasure and honour to be given this opportunity to share some of what we do with you, and I look forward to any questions the members may have.

The Chair: Thank you.

Mr. Bacon, welcome.

Mr. Gordon Bacon (Chief Executive Officer, Pulse Canada): Thank you, Mr. Chairman.

Good morning, Mr. Chairman. Good morning, members of the committee. I have asked the clerk to circulate a one-page diagram, which I'll make brief reference to during my presentation.

Success in the pulse industry is measured in a number of ways, but for any business the bottom line is the bottom line. Profitability is the measure by which every business can gauge its success.

At the macro level, the field crop supply chain has three elements. The crop is grown, the crop is moved, and the crop is used. So grow, move, use. Using that grow-move-use model, I want to highlight where the opportunities are to look at what can be done to make the Canadian egg supply chain more profitable. During my comments I'll address Pulse Canada's view on the role of the federal government in addressing challenges and issues and in creating the opportunities to improve the competitiveness and profitability of Canadian agriculture.

An overarching theme in grow-move-use supply chains is continual improvement. What you do now will never be good enough if you want to continue to be competitive into the future. Even in areas where we may see ourselves as the world's leader, the challenge is to identify what we can do to be even more effective.

If you go to the first page, the second slide, on the bottom of the diagram we talk a bit about efficiency at the farm level. Efficiency at the farm level is related to yield—controlling the variability of yield and optimizing efficiencies on inputs, including machinery. Because diseases and pests continually adapt, genetics and the focus on crop genetic improvement and inputs need to keep pace on a continual basis. We want to have increasingly safe products from Canadian agriculture and we want to make continual improvements to our production practices.

The question for the federal government is to outline a vision for your role in the partnership of investing in crop development. Research is a long-term investment, and while funding can be allocated in five-year blocks, the vision needs to be laid out for the next 20 years.

From a regulatory perspective, the question of the federal government is what additional things need to be done to ensure that Canadians have ongoing access to new technology. An example is the role of the PMRA in registering new crop protection products and the role of PMRA in working with other regulators around the world to ensure that what can be used in Canada will result in crops that will be accepted in other markets.

In our view, resourcing questions exist at the PMRA that need to be addressed. The positive changes of Canada's involvement in global joint reviews, changes to policy regarding registration of generic chemicals, and the collaboration undertaken by PMRA and EPA in the Regulatory Cooperation Council are all really good examples, but they have created demands at the PMRA that need to be addressed if the agency is to keep pace with the demands that we're now putting on it to be part of a modern chemical registration system.

Let's move to the third slide.

The “move” part of the equation, or what we've labelled “efficient distribution”, will mean something different to everyone. If you're a railway, you'll have metrics that speak to gross ton miles, cars processed for switching hour, and car velocity. If you're a port, you'll look at things like terminal unload capacity utilization, out-of-car time, and average days at berth. The grain monitor report that Mark is the author for reports measures such as car cycle time and transit time. If you're a shipper, the measures that matter most are car order fulfillment, car spotting performance, transit time variability, and overall responsiveness.

In other words, of what a shipper has ordered, how much did the railway allocate? Of what the railway allocated, how much did the railway deliver? When did the railway deliver it, and did they deliver it when they said they would? Then, when the shipper releases the product, did the railway get it to the destination within a predictable timeframe? And during all of these important interactions, did the railway communicate with the shippers to ensure that any changes could be accounted for down the supply chain?

All of these measures are important and reveal something about efficiency to the specific stakeholders looking at the measure. And while each stakeholder expects to see maximum efficiency within their operations, we know that in order to ensure the overall system is putting products on the right vessels, at the right time, and without delay, we can't be looking at each operation in isolation of the others.

After all, there's a customer on the other end of the supply chain that cares about one thing only: did Canadians deliver the product when they said they would get it to them, and get it there on time? If we're doing that consistently and reliably and doing it within a reasonable timeframe and at a reasonable price, Canadian exporters will be competitive in the global marketplace.

● (0905)

The government committed to tabling a bill that should go a long way to supporting that goal. With rail being central to movement of products in this country, establishing service-level agreements is key to ensuring that expectations and commitments between railways and their customers are defined, agreed upon, and upheld. This in turn will help ensure that we can enhance the predictability with which we make a sales commitment.

But service-level agreements are only one tool in the tool box. Across the system, supply chain stakeholders have to be vigilant in the search for ongoing improvements. Greater predictability and meaningful commitments between railways and their customers will allow for improved communication with downstream supply chain partners, and we have to encourage greater collaboration across the whole supply chain. All players will need to embrace the idea that we need to take collaboration to the next level.

Pulse Canada believes that the federal government has an important role to play, and we were pleased to hear Minister Ritz's announcement on Tuesday of this week of the new mandate for the crop logistics working group to improve the performance of the grain industry's supply chain by focusing on innovation, building industry capacity, and increasing stakeholder collaboration. Perhaps most importantly, performance measurement will be a priority. This is essential for the industry and is the key role for the Government of Canada as we plan for a future that includes an enhanced legislative environment and a greater emphasis on continuous improvement from all. We need to ensure that we're measuring the right things and that they're telling us something meaningful about the overall competitiveness of Canadian companies in the export business.

Pulse Canada is committed to working with the federal government and all stakeholders to ensure that the right tools are in place. We're committed to ensuring that the industry has the capacity to use the tools and has forums in place to continue the search for ongoing improvement. We're committed to ensuring that measurement systems become more integrated, report more

frequently, and report the measures that matter most. Longer trains and more gross ton miles don't mean anything if the shippers aren't getting cars when they're committed, and record unloads at port don't mean anything if vessels continue to be backlogged at anchorage. Most certainly, if we're not fulfilling customer orders on time, none of these efforts or measures matter.

Let me be clear: the theme in "move" is that we're not there yet. We know that new solutions are being introduced, and we are anticipating some of them from the federal government. We know that a number of different groups are collecting a wide range of measures, but we simply aren't there yet.

Getting there is a process; it's not a one-shot deal. We need to continuously gather facts and evidence on performance. We need to assemble the right players and then have them analyze the evidence and look for ways of continuous improvement, as we did with the rail freight service review. We need to test those solutions in the real world, and we need to ensure that the right measures are in place so we can tell if the solutions are leading to improvement. The bottom line is that everything we do ought to create a measurable improvement in performance of the system.

The final point to make on this slide is on the issue of access to markets. The government plays the lead role in signing trade agreements and in working to find bilateral and multilateral solutions to the many issues that impact trade.

Mr. Chairman, as I'm running out of time, I'll just make one final, quick comment on the last slide, on "use". The Canadian pulse industry is proud to be the world's largest producer and exporter of pulses. The challenge in front of us is to ensure that we have a strategy that ensures we maintain that enviable position. In addition to growing a crop that has the attributes that farmers need, we need to grow crops that have the attributes that consumers want. Attributes desired by consumers around the world include food that's healthy, nutritious, and, as consumers are increasingly interested in knowing, produced in a sustainable manner.

Mr. Chairman, there are clear examples of where the federal government needs to play a leadership role and clear examples of where government can partner with industry through programs like Growing Forward 2. It's through programs like Growing Forward 2 that we hope to take our strategic plan and work plan, partner with the government, and put it to work for the betterment of the industry.

With that, Mr. Chairman, I'll conclude my remarks.

● (0910)

The Chair: Thank you.

Mr. Allen.

Mr. Malcolm Allen (Welland, NDP): Thank you, Chair. Thank you to both of you for being here today.

Mr. Hemmes, you mentioned, and I think Mr. Bacon carried on with, the theme of measuring things. How do we figure out whether we're doing as well as we need to be doing? If you don't measure it, you really don't know. It becomes anecdotal evidence, which is a wonderful story around the coffee table, but not necessarily worth anything at the end of the day when you're trying to accomplish something.

Of course, one of the things we constantly hear about—I think Mr. Bacon actually was articulating that to a degree—is railcars. You said we don't actually measure that at this particular moment in time. It's not part of the mandate that was given to you to do. Is it something you should be doing?

Mr. Mark Hemmes: I couldn't agree with you more. We measure the performance of the railways in how they move the cars, how they deliver it, and the consistency of service, but we do not measure the supply of railcars. It's commonly referred to as order fulfillment. I think we believe we should be measuring how many cars were ordered by customers, how many orders were cancelled by customers, how many cars were committed to by the railways, and then how well they actually performed when it came to delivering those cars, both the number of cars and the reliability with which they delivered them. For instance, did they deliver them on the day they said they would? That's what I think we should be measuring.

Mr. Malcolm Allen: Mr. Bacon, do you want to comment further on the railcar issue? You don't get a lot of time, clearly, so let me just give you an opportunity to spend an extra couple of minutes talking about that. It's extremely important for the committee to hear the issue, and clearly your organization now has a strategic plan for how you'd like to see things move forward. Perhaps you might want to articulate some of that for us.

I'll be happy to share some of my time with you. How's that?

Mr. Gordon Bacon: Well, I agree with Mark's comment in terms of a key measurement element that we can add to that. As I said, once the cars are filled and ready for pickup, then we need to continue to monitor, as we are now, looking at transit time by different corridors.

Our supply chain, especially in pulse and special crops, is very complicated. It's a move that involves steamship lines, it involves container lines, it involves transloading facilities at port position. When we have problems—and I like to use the example of a comparison to air traffic. It's like trying to make connections through multiple airports. When you have a problem early on in the voyage, it has ripple effects on down the line. We want to be measuring all of these elements together. I'm looking at vessel rollovers of containers. We want to be looking at cancellation of container bookings on through.

The key theme is that the focus shouldn't be on any one particular element. The railways clearly play a key role because of the movement to port. But our focus is not about simply looking at one element; it's about looking at all of these elements integrated together. I think this is the challenge.

The question the committee is asking is about the role of the federal government. Our view is that the federal government can play a very important role in monitoring system performance so that we're continuing to focus on becoming better.

Mr. Malcolm Allen: I appreciate that. Ultimately it's a holistic system. You're going to get from point A to point B, wherever that end user is. Some of it is internal to the country; a lot of it is external to the country. As you're suggesting, certain modes of transportation can only take it so far, whether we're trucking it, training it, or shipping it in some form of container.

It reminds me of what Toyota did in the 1950s, when Mr. Toyota actually came to North America. He didn't go to Ford's Dearborn plant; he went to the grocery store. He witnessed the fact that when somebody takes a can of Campbell's soup off the shelf, another one materializes, and that became “just in time”. That's how he developed “just in time”. He didn't learn it from Ford in the 1950s; he learned it from the grocery store in the U.S.

There are things about how the value chain works that we can actually look to, and other chains where they actually can move things and have that throughput. At the end of the day, this is really about throughput and how we manage to do that, and it's about interconnectivity, which is complicated; it's not simple. We all need to be engaged in it. I thank you for the sense that we have a role to play as policy-makers, not in doing it, but in measuring it and then saying, “You know what, we can do better if we do it differently”, in talking to the players.

Do you see, either one of you, because I'm probably running out of time...or have I run out of time, Mr. Chair?

● (0915)

The Chair: You have, but you can put your question.

Mr. Malcolm Allen: Do either one of you see any immediate challenges now or down the road as we try to find a way to make this throughput actually become a reality? It's not quite there yet.

Mr. Mark Hemmes: I don't know whether there's enough time to start on that.

Voices: Oh, oh!

Mr. Malcolm Allen: I think the chair just said my time is up, Mr. Hemmes. Throw out an idea. We don't need the actual analysis. You can send us that.

Mr. Mark Hemmes: Right now we go through ebbs and flows, the peaks and valleys, where we go from good performance to bad performance. One of the real tests, as we go into winter, for instance, in the grain industry is that the snow will fall, the trains will start to bog down, and there will be derailments. Come spring, we'll find landslides and all sorts of challenges for the railways. On the west coast we'll have wind; we'll have rain that will inhibit loading and will delay ships.

The one thing that we can't always measure or monitor or understand is how all of those external things have an impact on our supply chain. How can you be prepared for it, and what's the right level of preparation? I think one of our biggest challenges is to make sure there's enough surge capacity within the system so we can recover from those events quickly. Historically, that has been our biggest downfall. When you have one domino fall, as Gordon said, the whole thing can crash in, and then we go for months and months where it just never recovers. I see that as one of our weak points. We've got to be really good at what we do, because we're not the low-cost provider; we are the quality provider in what we do.

I think that's it, in general, and then you can dive into the other....

The Chair: Thank you.

It's interesting that you've mentioned the climate and the way things are changing. As someone who travels a lot in the wintertime, I know that you get almost so that you start to expect the delays. It's no one cause. It's either weather or luggage or time delay. It makes it very challenging, I can see.

Mr. Lemieux.

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

I'd like to thank Gordon and Mark for being here. I'd also like to thank you for really focusing your comments on the supply chain. I thought that was really well done. We got a whole 10 minutes of different aspects of the supply chain, which is exactly what we're studying. That's much appreciated.

I wanted to ask a question about contamination of product, because in the supply chain a number of the processes you were talking about are common to all products. For example, when you look at trucks, railcars, elevators, conveyor belts, they're all moving different product. I know there's a concern between, for example, organic farmers and organic product, that it gets contaminated with non-organic product. Then, of course, there is the GM product as well, which would be separate from non-organic.

I'm wondering if you could talk to me or explain to the committee how that works, how is it that things can move through the system with, let's say, a low risk of contamination or cross-contamination, and, secondly, what you think the penalty might be on the system for whatever mechanisms you're going to tell us about. Is that a worthwhile price to pay, and is that where innovation can play a role? There are lots of questions there.

• (0920)

Mr. Gordon Bacon: Yes, that's a huge area. I'll maybe focus in on one area, again where I think the federal government can be playing a lead role in this.

We actually have the Canada Grains Council semi-annual meeting on right now, just down the street. Following that, Thursday afternoon and Friday, we have the grain industry round table. And a low-level presence policy and Canada's position, both domestically and then also taking a leadership position on the international market, is key to this.

The solution has to be that we can play a leadership role in defining reasonable and tolerable levels for all of these products. I'm

going to speak specifically about low-level presence policy. It simply is not possible to guarantee zero. We have to find...respecting human safety and environmental safety in all of our priorities. As someone in the food industry, I can say it is at the top of the list. But we have to recognize that from a government regulation perspective, most of our market access problems are not related to health or safety; they're regulatory gaps, where one regulatory body, we'll say the European Union, has not moved through regulatory approvals of a product that might have already received approval in Canada or the United States.

Because we can't ensure that there is never cross-contamination, what we have to do is work very hard to make sure that the regulations are up to date—

Mr. Pierre Lemieux: I'm sorry, and this is great, but let me jump in here with a supplementary question.

I think you're right. It's almost impossible to 100% guarantee zero contamination all the time. How is that handled now? Is it very subjective, whereby someone sees a bit of cross-contamination and says we're not going to worry about it this time, but next time we might, or another country might worry about it and that's what injects uncertainty into the supply chain, the fact that there are different answers depending on the judgment of a regulatory body or an inspector, depending on a number of different factors that aren't necessarily in black and white?

Mr. Gordon Bacon: Mark may weigh in here. From a company's perspective, the reputation and continued operation and liabilities for problems are so enormous that there is a lot of focus put on ensuring that there isn't contamination. This is in everybody's interest along the supply chain.

Even with all of the due diligence and care that's taken, we have had examples where dust from the crop that was handled previously by equipment... With measurement sophistication being able to detect things down to parts per billion, and if in the absence of a regulation that defines an acceptable level the tolerance level is zero, we can almost go through and find that you will find some residue, which again is not a health or a safety concern; it's a regulatory gap.

Mark, I don't know if you have comments.

Mr. Mark Hemmes: The specifics of LLP and everything are outside of my bailiwick, but it is something that we've studied and it's something that we've watched.

I don't have a lot to add to what Gordon had to say, but I would say that the focus has to be at the beginning of the supply chain, and currently it is. But as Gordon said, sometimes with dust in a railcar, for instance, from a previous load, you end up with a little bit of GMO. I think that's probably what happened in the flax case. You don't know. It comes into the system.

I think the zero tolerance issue is what makes it almost impossible.

Mr. Pierre Lemieux: Yes, it's untenable really.

As I say, I can think of multiple places in the supply chain where you're using common transportation containers. For example, a truck that moves product from the farm gate to the first elevator would be used again the next day at a different farm with different product, so the whole thing has to be purged. Was it 100% completely purged or was there a little bit stuck in the corner or stuck in a conveyor belt? And then the whole system gets repeated at an elevator, where you're using conveyor belts to load up bins. Then do you completely purge the bin to take in something else? What if it was not completely purged?

So there are entry points here. I'm sure the industry is well aware of it, and certainly it's good to know your view on low-level presence.

I have had a meeting with a number of different.... Well, I meet often with farm groups and farm organizations, and there was one sector that was very concerned that if low-level presence was undertaken as a policy, that in fact would sort of condone a certain level of contamination. I want to know what your comments might be on that. I don't know if you hear what they're trying to say. They're trying to say that if low-level presence becomes a policy and it becomes sort of the *modus operandi*, then in a sense it somewhat condones a certain level of cross-contamination. There might not be any feedback reporting mechanisms to the issuer, like the farm gate. It could be a particular elevator saying, "This was your level of cross-contamination", because it's all within the bounds now.

I didn't agree with them, but I would like to know what your thoughts are on that aspect.

• (0925)

The Chair: As brief as you can be, please.

Mr. Gordon Bacon: Safety is number one. What we are talking about are tolerance levels that are realistic. Even in something like gluten-free foods, there are tolerance levels, because you can never ensure zero.

I wouldn't look at it as condoning. It's ensuring that you have margins that are well within safety boundaries, but respecting and understanding that you can never ensure zero. The only way you ensure zero is by just not going there at all.

I think it's safety first, but levels that are reasonable based on those safety guidelines.

Mr. Pierre Lemieux: Yes, based on science.

Thank you.

The Chair: Thank you.

Mr. Valeriote.

Mr. Frank Valeriote (Guelph, Lib.): Thank you, Mr. Chair.

Thank you, Mark.

Gordon, you're practically a member of the committee, honorary at least.

I have three questions, one to Mark and two to Gordon.

Everyone has expressed concern about the rail service review and the lack of action. We've heard about the damaged cars that are being used and that are hurting the producers and farmers. We know about the late arrival of these cars, and it's a concern to all of us.

Yet we keep hearing that something is forthcoming from the government. We don't know what it is. It's kind of like a cat and mouse game. Maybe Pierre knows when it's coming and hasn't the liberty to tell us yet, but something is necessary.

Could you tell us what your expectations are, after I get through my next two questions?

That's the first question for you: what are your expectations, what do you expect to see in this legislation that will be supposedly coming down?

The second question is with respect to value-added. I was reading an article a couple of weeks ago in the *Peace Country Sun*—it might have been last week actually—by Alina Konevski, about canola out west, the new seeds, and the new crushers that are being built. I began thinking about how much value-added there really is in the grain industry. We heard that when we were getting rid of the Wheat Board; we heard that this was going to be an opportunity for all these new companies to start up and to start production that they otherwise had been unable to produce and manufacture. For instance, Alliance Grain Traders said they were going to have a pasta plant, and suddenly that evaporated. What's happening in that area?

Thirdly, Gordon, on your page 2, under "Use", it talks about competitive pricing and diverse revenue streams. One thing that isn't there is getting paid—actually getting paid.

I understand with the proposed amendments in Bill C-45 that bonding will no longer be required and that people can seek third-party industry to make sure they're paid. I see getting paid and bonding as a necessity.

Can you clarify? Will people be required to have security so that they actually do get paid, or will it be some option that they get third-party insurance? I'm concerned that if we give the option, very soon we're going to have people coming before us saying, "We're not getting paid". I'd like you to clarify that issue.

Mark, can you go ahead first on the rail?

Mr. Mark Hemmes: In our role as the grain monitor, we strive to be neutral. I will try to give a balanced perspective.

Basically, I will echo what I have heard from myriad people in the stakeholder community. First, from the railways' perspective, they don't expect any kind of regulation. From the shippers' perspective, I will echo one of their constant refrains about finding balanced accountability between railways and shippers. Right now the railways have the right to charge all sorts of penalties and demurrage, and the shippers basically have none. If there is non-performance in the case of the railways, they are not there.

Penalties have to be specific to certain cases. They cannot be unilateral. In the case of what has been recommended for the service-level agreements, there is a real solid foundation for having individual agreements between shippers and the railways, having them on a case-by-case basis, and having them be enforceable. I think that is what shippers would like, and I think that is reasonable.

You made a comment about damaged cars. To pay credit where credit is due, 10 years ago it was a huge issue. I would say that in the last two to three years it has been far less of an issue, because the railways have invested a fair bit of money in fixing things like gates and hatches and the like. So we have not seen that kind of damage.

I know one elevator in particular that said they spent \$50,000 a year on duct tape and glue to fix hatches and gates and stuff like that. That is not the case anymore.

● (0930)

Mr. Gordon Bacon: On rail service review expectations, the pulse industry was part of the coalition of rail shippers. I think there was really an unprecedented level of collaboration between automotive, fertilizer, chemical, forestry products, and agriculture to all come to an agreement. There was an unprecedented level of unanimity in addressing the shared concerns.

That coalition of rail shippers went so far as to even make suggested specific wording changes as part of the legislation. Our expectations were fairly clearly outlined in what the coalition of rail shippers put forward. You could spend a lot of time going into that.

On the value-added side, there are dynamic and huge international food markets. Many companies have announced plans to do things, and sometimes they move ahead on time and sometimes they are delayed. One thing I would point out, because I am not involved at a company level, so I don't have that sort of inside information, is the story of the level of knowledge you have to have to make a smart investment.

One thing I would like to cite is the milling work we are doing at the Canadian International Grains Institute with the pulse industry. That work is of huge interest to the food companies. I am fortunate enough to visit food companies in China, the United States, Europe, and the Middle East. If you're going to make an investment in a processing company or look at including pulses in a range of foods, you have to understand a whole lot of food science things. In the pulse industry, we are really trying to move from a product that was sold on the basis of colour, size, and shape to one that is now an ingredient that has to have functional characteristics.

My advice, when I'm asked by some companies, is that I don't think we have the full amount of information to fully understand where the new opportunities are. Yes, we have a lot of investment going into fractionation plants, and there's huge demand. But I think there are also opportunities in flour milling, which is a lower-cost processing technology. We have had food companies say that they know they can do it with fractionated product, which is quite high in price relative to what it might be if they could do it with flour.

There's a lot of work going on that I think is a prerequisite to really understanding in our industry the kind of investment that should be made, because you are looking for what is cost-effective.

On the bonding side, Pulse Canada has left comments on bonding to the grower groups and to the trade. When I spoke to the committee last time, I was in my Canadian Special Crops Association hat.

As I understand the amendments, grain companies would be required to carry insurance to insure payment to farmers. It is a mandatory program. It just moves from bonding to insurance. That's my understanding of what the Grain Commission has proposed.

The Chair: Mr. Richards.

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

Thank you to both of you for being here with us this morning.

I'll start with you, Mr. Bacon. In addition to your role as CEO at Pulse Canada, I understand you're also the co-chair of the crop logistics working group. That's something that our government established last year to enable the agriculture industry to have an opportunity to provide its perspective on supply chain logistics. That was obviously particularly in light of the rail freight service review and obviously our introduction of marketing freedom for our wheat and barley farmers.

I was wondering if you could just tell me a little bit more about the working group and how it contributes, or has contributed, to the development of stronger logistics in the grain supply chain.

● (0935)

Mr. Gordon Bacon: There are two parts to that question. The first go-round of the crop logistics working group, and I did have the honour of co-chairing it in its first iteration, was to be focusing on issues that included producer cars and the transformation away from the Canadian Wheat Board's role to an open market system. We had a subcommittee that took a look at that.

We had a subcommittee that was set up to look at service-level agreements and bring all of agriculture together. That was almost in preparation for the facilitated discussions that Jim Dinning coordinated. I think that too was very successful.

The third area of focus was to take this initial look at performance measurements. That was where we started looking at what the ports were doing, the measurements that they were doing, what the railways were doing, and what certain shippers were doing. That's really where we found just a lack of integration across.... The methodologies for collecting numbers were different, and that was in part a learning process in terms of bringing everybody together.

I think that was the focus of the crop logistics working group in its first iteration. I think what the minister announced...and I have only had a chance to have a brief discussion—I was asked to be co-chair, and was glad to take it again—with the new deputy minister, Suzanne Vinet. We spoke very briefly last night about this.

The role is really about finding efficiencies and optimizing costs in our transportation system. It's all about competitiveness. It's a venue for collaboration of all of these stakeholders to work on improving efficiency. I want to emphasize that it's efficiencies not at one element of the chain but really from the farmer right through to the customer.

I just want to tell one story that I think really puts a lot of emphasis on it. It's about Colombia. It's a market that's important for wheat. It's a market that is important for pulses.

This has come from one importer, so you can argue that the importer's perspective was biased, but I've been down there many times, and the comment is very common. Our competition to get product into Colombia comes out of the gulf, which is a lot closer, and they can bring in a lot smaller vessels. The challenge that Canadians have, even when we had a temporary trade advantage with Colombia because of the Canada-Colombia trade agreement, is our reliability of supply. If you're an importer, it's all about whether the vessel will arrive when you want it to.

Going back to your question about the crop logistics working group, that is really going to be the measure: have we gotten product to customers when they've expected it, and have we done it in a cost-effective manner?

Mr. Blake Richards: Thank you.

I guess it would be fair to say that you think the working group certainly has value, that you're pleased to see it in its second iteration moving forward, and you think it will offer some value for farmers.

Mr. Gordon Bacon: Yes, because the system is never good enough. We can never be comfortable to sit on our laurels. So yes, I am passionate about getting in there and saying, "So what are we going to do now to make it better?" It has to provide value for farmers.

As Mark said, we're not the lowest-cost production. We're not the lowest-cost transportation system in the world. We have to keep focusing on squeezing out additional efficiencies. I don't believe anybody has ever said publicly "That's good enough". That's not an attitude you can really prosper with in the business community.

Mr. Blake Richards: Okay.

Moving to a different area, I think it was last week that Mr. Ritz announced a little more than \$800,000 in new financial support for health research and international marketing for the pulse industry.

Could you just tell us a little bit about the industry's ongoing efforts in this regard, particularly what you see as the relationship between health research, successful marketing, and a strong industry?

Mr. Gordon Bacon: Yes, and I'll refer to the slide.

Of course, I also get passionate about the opportunity for pulses in addressing health and nutrition issues. Whether we're talking about

Canadian communities or whether we're talking internationally, diabetes and cardiovascular disease are two of our largest health care costs in Canada. They're two of the four United Nations priorities for non-communicable diseases.

The research funding that was announced, which is being spent at the University of Toronto, the University of Guelph, at the Richardson Centre in Manitoba, at CIGI, is really to further our knowledge. We're actually in the process of pursuing health claims for lentils and blood sugar control—this would be the first blood sugar control health claim on any food product in North America—and also for beans in relation to cardiovascular disease. We want to expand that to other pulses.

I think what we are also trying to do in this research is identify what the specific compounds in pulse crops are that are giving this cardio-protective effect. That circles right back to the very beginning of saying plant breeding.... Do we now have something we have identified that's of value, that's important to consumers, not to farmers alone but to consumers as well? This becomes the whole value chain of understanding what is of value at the consumer level, and then bringing that as a signal back to the plant breeding activity.

I think it's an example where I would say yes, this is the role the government can play. It is to foster innovative research, and then also to see where that research can play back down the supply chain to the production level.

• (0940)

The Chair: Thank you.

Mr. Atamanenko.

Mr. Alex Atamanenko (British Columbia Southern Interior, NDP): Thank you very much, gentlemen, for being here.

I'm glad you touched on the health aspect, Blake. That triggered a question, so thank you.

Mr. Blake Richards: I'm glad to be of service.

Mr. Alex Atamanenko: It's nice that we can cooperate.

I met with some folks from the horticulture association and the packers this week. One of the things we talked about was their desire to label their products, fruits and vegetables—and let's put pulses in the same category—as healthy options for Canadians. It's my understanding that currently we have labels on packages that show nutritional content, but we don't have it on, for example, fresh fruit. If you want to buy a package of dried peas, we don't have it on that. They would like to see the consumer able to go to the supermarket and look at a bin of apples, or bulk pulses or other things, and see what the nutritional content is. That would be a way of promoting these fruits and vegetables, the beans and peas, and all those other things that are good for our health.

I'm wondering what comments either of you have on that and whether you feel we should be going forward with this soon. What's been happening, for example, in your working group? Maybe we'll start with that question.

Mr. Gordon Bacon: On the labelling side, as an industry we are also making investments to improve the level of knowledge in order to provide scientific evidence about the nutritional value, the scientific evidence on the health outcome value. We think it's very important, and we are very supportive of strict labelling requirements that are put on food so that we are not misleading consumers through misleading labelling. We've made investments to improve the knowledge we have about protein quality in pulses, to add more pulses to the list of crops that could be considered as a good source of protein.

The question is, are there knowledge gaps we need to invest in, to address, so that we can have the kind of nutritional information that's there? I'm very supportive of educating the consumer, because we do have a lot of healthy food options—not only pulses—from Canadian horticulture, from Canadian oilseeds, from Canadian cereals and pulses. I think part of the focus on the health care perspective is to put more emphasis on food.

Mr. Alex Atamanenko: You would support an initiative like that, then, obviously.

Mr. Gordon Bacon: Yes. I don't know specifically.... We do have nutrition labelling on cans of pulses, on dry packs of pulses. We are working closely with Health Canada to more closely align the regulation systems we have, because there's a lot of food movement across the borders. We're very supportive of alignment across regulatory agencies, reflecting cultural differences in food consumption. I understand that. But I think a collaborative approach to addressing food regulations and labelling is something that's worth considering.

The Chair: I have to interrupt here due to time, but I do thank our guests.

The only comment I would ask for—and maybe you could submit it in writing, Mr. Hemmes—would be your thoughts as to why all these years we've never measured the rail side of it. Is there a reason?

Mr. Mark Hemmes: Yes. If you were to go back to 11 years ago, it would have been a very difficult data set to put together that would have been telling.... In the 11 years since then, railways have pretty much mechanized and systematized the car order process. It would be a much simpler thing to do today than it would have been 11 years ago. I would point to that as being the primary reason.

The secondary reason is a great reluctance on the part of the railways to share that kind of information.

The Chair: Thank you very much. I appreciate your comments.

We're going to take a brief recess of two minutes and welcome our new guests to the table.

• (0945) _____ (Pause) _____

• (0950)

The Chair: Welcome back to part two of our meeting.

Joining us from the Canadian Federation of Agriculture is Humphrey Banack, second vice-president, and from the Canadian Fertilizer Institute, Roger Larson, president, and Robert Godfrey, senior manager of policy.

You've obviously been here before, so you know the routine.

Mr. Banack, would you like to start, please? Then we'll move to questions.

Mr. Humphrey Banack (Second Vice-President, Canadian Federation of Agriculture): It's a pleasure to be here this morning to address the committee again. It hasn't been that long since we were here talking about the Canadian Grain Commission.

For those of you who haven't seen me here before, my family and I farm 4,500 acres of grains and oilseeds in east-central Alberta. This grain supply chain is very, very important to our operation. We can grow it, but we have to be able to market it and get it to the customer.

I'm here today on behalf of the Canadian Federation of Agriculture. I would like to thank the standing committee for today's invitation and for including our organization in your study of the grains and oilseeds supply chain.

Established in 1935, the Canadian Federation of Agriculture is Canada's largest general farm organization, representing, coast to coast, over 200,000 Canadian farmers. The CFA represents provincial general farm organizations, as well as national and interprovincial commodity organizations from every province.

We've been asked today to discuss impediments that farmers face in producing and marketing their grain and to identify ways in which the Government of Canada can be of assistance.

As in any economic sector, farmers are interested in managing financially viable farm businesses and participating fully in the value chain for their commodity. Today I would like to discuss two main challenges grains and oilseeds farmers face in this regard: high transportation costs, and production and cost risks.

Transportation remains one of the largest costs for farmers when marketing their grain. In costs on our farm this year for marketing our grain, for rail it will be \$160,000, our second-largest input cost behind fertilizer. On the prairies, grain travels an average of 1,400 kilometres to reach a port position and then overseas to its final destination. With the closure of grain elevators and the rail line abandonment in recent years, farmers now have fewer options when transporting their grain. In most cases, rail is the only shipping option available. Depending on where your farm is located, there is only one rail line to select.

The rail freight service review panel pointed out that one of the biggest challenges faced by grain farmers and shippers is the market power exerted by railways and the resulting imbalance in the commercial relationships between the railways and other stakeholders in the industry. Rail service continues to be an issue for the industry. We look forward to this legislation being introduced soon. The right to a service-level agreement and a dispute resolution procedure can result in improved, dependable rail service to industry and more predictability in grain shipments.

While the review examined the issues of rail service, it did not address the costs contained therein. The mandate of the service review explicitly excluded cost- or price-related issues, including freight rates, the revenue cap, ancillary charges, and competitive access rates.

As provided for in the Canada Transportation Act, the CFA supports a full railway transportation costing review. The current measures used to calculate the revenue cap were developed in 1992 and no longer reflect the actual costs of the railways or the realities of the grain handling and transportation system.

The current calculation used by the Canadian Transportation Agency only accounts for inflation. It does not account for any efficiency gains made by the rail companies or for actual system costs. Examples of these changes include: the consolidation of primary elevators and the establishment of high-throughput elevators; multi-car incentive blocks; rail line abandonment; and technological advancements. As a result, western farmers have been paying hundreds of millions of dollars more per year to transport their grain than could be expected under competitive market conditions.

The government originally indicated that they would consider a cost review after the completion of the service review. With the service review largely complete, the CFA calls on the Government of Canada to perform a full rail transportation costing review. To be meaningful, a legislated change in the rail revenues methodology is also required to account for the efficiency gains and cost savings made by railway companies.

Another area of transportation that is of keen interest for farmers is producer cars. Producer cars have been an economically viable alternative to the mainline railways, allowing farmers to bypass the in-country elevators and save on elevation and handling costs.

In response, local communities have rallied together to raise funds to purchase rail lines slated for discontinuance. Short-line railways have allowed access for elevators to reopen, for producer car loading facilities to develop, and for railcar delivery to continue to smaller centres. Farmers have maintained the ability to influence the movement of their grain and sustain their local communities through their tax dollars, employment, and value-added industries. Depending on the location, the freight rate differential, the trucking incentive, and the grain delivered, farmers can save somewhere between \$700 and \$1,000 per car.

• (0955)

On our farm alone we will load three to five producer cars annually, and we feel that this option provides tangible competition recognized by the major grain companies in our area. While we

appreciate that the right to producer cars is enshrined in the Canada Grain Act, we fear that the recent changes in the grain marketing system that once made producer cars an economic and convenient alternative will quickly disappear.

Additionally, the expected changes to Canadian Grain Commission activities and user fees will further complicate the process, requiring us to negotiate the use and absorb the cost of a third-party provider, likely increasing farmers' costs. The Government of Canada has previously stated that short-line railways and inland terminals will continue to play an important role in transporting western Canadian grain to market, and it will work with industry to monitor anti-competitive behaviour. This is important in protecting the farmers' role in the value chain, and a formal process should be established for monitoring their use.

To start, requiring mainline railways to offer multi-car block incentive rates to producers and car shippers would create competition and maintain the economic viability of producer cars. Secondly, agricultural markets are increasingly volatile and uncertain. With imperfect information and limited control over the markets, farmers are managing increased production and cost risks associated with producing their crop. How farmers manage these risks is critical to the success of their operations. It is essential that the suite of business risk management programs available be effective and work for their farm.

With the changes to the current BRM programs announced in Whitehorse this past September, the CFA had serious concerns about the future effectiveness of the AgriStability program and the programming suite as a whole. The removal of AgriStability's tier 2, while limiting reference margins to the greater of one's allowable expenses or historic margin, is expected to have significant implications for Canadian agriculture's ability to manage risk in the future. These cuts are particularly significant to the grains and oilseeds sector given the recent period of relatively high prices.

That being said, we would like to request that a formal study be undertaken on the potential implications of the recent changes so that industry and government are better informed and able to address industry's risk management needs as effectively as possible moving forward. Despite the substantive nature of these cuts, little information is available on the potential impacts they could have on our industry.

In addition, based on estimates of historical data, the cuts to BRM programming could see annual savings upwards of \$400 million. Meanwhile, increased expenditures in non-BRM programming are expected to be in the range of \$80 million each year, based on the reported 50% increase. This represents a significant loss of investment into Canadian agriculture as a whole, be it in terms of industry stability or proactive investments into innovation. We hope the federal government will provide assurances that the entirety of these savings will be reinvested into agricultural innovation and competitiveness moving forward.

I would also like to discuss the Canadian on-farm food safety program. With financing under Growing Forward, government and industry have worked together to develop a HACCP-based OFFS program. While Canadian farmers already produce high-quality, safe food, consumers are increasingly demanding proof and specialized certification. Significant work and resources have been invested into the development of the OFFS program, and the infrastructure now exists to proceed. Additional attention is now required to promote the importance of this program to farmers and customers and to ensure it is readily available in the future.

In conclusion, farmers are the key drivers of food production in Canada and play a unique role in the agriculture supply chain. Initiating a railway grain transportation costing review and ensuring proper investment in BRM and agriculture programs will assist in lowering farmers' costs, contribute to more viable farm operations, and ensure a healthy grains and oilseeds sector.

Thank you again for this opportunity.

The Chair: Thank you.

Mr. Larson, welcome.

Mr. Roger Larson (President, Canadian Fertilizer Institute): Thank you, Mr. Tweed.

Mr. Chair and members of Parliament, my name is Roger Larson. I'm the president of the Canadian Fertilizer Institute. I'd like to provide a very brief introduction, and Robert Godfrey will be covering our major points.

CFI is a not-for-profit industry association. We represent the manufacturers, wholesalers, importers, and retail distributors of nitrogen, phosphate, potash, and sulphur fertilizers. With facilities located across Canada, our growing industry contributes \$12 billion annually to Canada's economy and employs 12,000 Canadians, mainly in rural Canada, I would add.

We are very pleased to be here today to speak to this committee about how the fertilizer supply chain supports the agriculture industry.

The fertilizer supply chain is global and markets are driven globally by farmers around the world. Canadian farmers have access

to abundant, high-quality fertilizers made in Canada or imported through many of our 46 member companies. Supplying Canadian farmers is a large part of our industry's goal.

Global customers also demand access to our products. Our supply chain is often focused on world markets as we look to growing our industry by investing in the Canadian economy and creating new value-added skilled jobs, mainly in rural Canada.

Today, I would like to highlight three points.

First, the fertilizer industry is committed to voluntary industry programs for safety, security, and environmental protection.

Second, fertilizer supply chain logistics—trucks, trains, ports, and ships—are critical to getting farmers the fertilizer essential to meeting global food demand and to feeding nine billion people.

Third, the Canadian fertilizer industry is investing heavily to ensure that fertilizer supply will meet future global demand. Our member companies are investing \$15 billion in potash; over \$3 billion in nitrogen, which has been announced; and over \$600 million in our terminals at ports.

I would like to note that we thank Minister Gerry Ritz for the department contributing \$700,000 to support our efforts to help farmers use 4R nutrient stewardship to reduce on-farm greenhouse gases.

I would like to highlight that on Monday of this week, the Canadian fertilizer industry signed a memorandum of understanding with the Government of Prince Edward Island—two major farm groups and a major watershed group—on 4R nutrient stewardship to improve farm fertilizer use. This MOU is a cornerstone of CFI's commitment to agriculture innovation.

With that, I'd like to turn it over to Robert to explain what 4R nutrient stewardship is.

● (1000)

Mr. Robert Godfrey (Senior Manager Policy, Canadian Fertilizer Institute): Good morning.

The Canadian fertilizer industry believes in managing our supply chain, from the production facility through the retail system to the farmer's field.

Our industry, in conjunction with our global partners, has developed an innovative science-based approach to best management practices for fertilizer application called 4R nutrient stewardship. That means the right source, at the right rate, at the right time, and at the right place. This concept helps farmers and the public understand how right management practices for fertilizer improve farm profitability while reducing losses of nutrients to the air and water. This concept drives at the efficient use of our products to ensure that the right product is being applied at the right time of the year at the right optimal rate in the right place, away from water and other environmentally sensitive areas.

The Government of Canada, and in particular the Department of Agriculture and Agri-food, can go farther in integrating this program, 4R nutrient stewardship, into its nutrient management policies and communications with farmers, researchers, provinces, and other governments. We believe the federal government has a continuing role in supporting soil science research and 4R nutrient stewardship programs.

Our supply chain also presents challenges relative to the safety and security of Canadians, and we take this seriously. We have developed codes of practice for ammonia and ammonium nitrate to ensure that our products do not cause harm to our employees, our customers, or people in our communities. The Government of Canada should recognize both of these industry-developed codes. In particular, the codes should be recognized in government programs and regulations.

Moving on, I'd like to speak to our fertilizer supply chain logistics. Our industry is globally competitive. Our high-quality product is in demand all over the world. In 2010-11, CFI members produced over 25 million metric tonnes of fertilizer and exported more than 20 million tonnes to over 60 countries worldwide. We export about 80% of our production.

Our production locations are based on proximity to raw materials, such as natural gas and mineral deposits, access to water and rail transportation, and markets. Saskatchewan alone accounts for more than 30% of world potash production and 45% of world potash trade. Four of our five largest offshore importers are located in Asia, with China, India, Indonesia, and Malaysia accounting for 50% of Canadian potash exports outside of North America.

Natural Resources Canada recently cited potash as the number one valued mineral in Canada, worth over \$5 billion in exports. Canadian nitrogen fertilizer production was valued at \$2.5 billion in 2011, with over half of it exported. Couple this with over \$4.6 billion worth of Canadian farm gate fertilizer sales yearly and it paints a picture of a competitive and demanding global market for our products.

Our members rely on a strong supply chain to move product from our manufacturing facilities, primarily by railway, through marine and U.S. ports and then around the globe. Our members also import about one million tonnes of fertilizer, primarily by ship to eastern Canada. About six million tonnes of fertilizer are shipped by trucks all across North America. We deliver plant nutrients to our farm customers, who are also competing in global markets and are helping to feed the growing world population. Whether they are located in eastern Canada or eastern Asia, our product needs to move in a timely and efficient manner.

We understand that the government intends to bring forward legislation before the end of this fall sitting to improve overall rail service, and we are encouraged by this news. We recommend that the government immediately proceed with this legislation and urge the members of this committee to ensure that this bill will provide rail customers with three things.

First is the right to commercially negotiate service-level agreements. Second is a dispute resolution mechanism to backstop the commercial process, complete with negotiations, based on commercial terms and supported by mediation and arbitration, that will permit rail customers to achieve service-level agreements. Last is a dispute resolution mechanism, complete with internal escalation of disputes, again backstopped by mediation and arbitration that will allow rail customers to enforce their service-level agreements.

The last point I want to cover is the Canadian fertilizer industry and their investments. Since 2003, the Canadian potash industry has committed over \$15 billion, as Roger mentioned, to announced major capital projects, and about \$600 million to Canada's ports.

● (1005)

The Canadian nitrogen industry has just recently announced plans for nearly \$3 billion worth of new investment, with significant further investments still pending. Our members are investing in expansions and new facilities, rail sidings, railcars, trucks, and their terminals in Canada's ports. These investments are creating jobs and making our products more abundantly available for Canadian as well as global farming customers. These investments are capital-intensive. These are challenging economic times to be attracting new capital investment, convincing companies to make long-term commitments that require decades to earn a return to their shareholders.

The accelerated capital cost allowance, or ACCA, is due to expire on December 31, 2013. The ACCA has been beneficial. It is an important consideration when businesses choose where to make capital investments. Since being introduced in 2007, it has been instrumental in assisting Canadian manufacturers in making investments in the new technologies, equipment, and the internal supply chains that they have needed to survive the recession and grow. Since 2007 the Canadian manufacturers and exporters estimates that the ACCA has generated an estimated total of \$3.1 billion in additional investment by Canadian industry. CFI recommends that the ACCA for manufacturing and processing machinery and equipment be extended, with consideration that it be made a permanent part of Canada's tax system.

In closing, I want to remind the committee of our three key points. First, the government needs to support voluntary industry programs for safety, security, and environmental protection. Second, fertilizer supply chain logistics of trucks, trains, ports, and ships are critical to getting farmers the fertilizer essential to meeting global demand for food. Government policies need to ensure efficient and effective transportation service. Last, the Canadian fertilizer industry is investing heavily to ensure that fertilizer supply will meet future global demand, with \$15 billion in announced investment in potash, nearly \$3 billion to date in nitrogen, and \$600 million in Canada's ports. Government fiscal policy needs to support a healthy investment climate.

Thank you for allowing us to speak today.

●(1010)

The Chair: Thank you very much.

Unbeknownst to you, there has been a bell call for a vote in the House. I'm going to advise members that we won't return because of our time restrictions.

I would also advise other committee members to watch their notices with regard to meetings next week.

Thank you. I appreciate your time, and sorry for the inconvenience. Obviously, you have valuable information.

Thank you very much.

The meeting is adjourned.

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