



HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

Standing Committee on Agriculture and Agri- Food

AGRI • NUMBER 014 • 2nd SESSION • 41st PARLIAMENT

EVIDENCE

Monday, February 10, 2014

—
Chair

Mr. Bev Shipley

Standing Committee on Agriculture and Agri-Food

Monday, February 10, 2014

• (1535)

[English]

The Chair (Mr. Bev Shipley (Lambton—Kent—Middlesex, CPC)): I want to welcome everyone here today for the 14th meeting of the committee. Pursuant to Standing Order 108(2), we are undertaking a study of the grain logistics system in Canada.

We have a number of witnesses today, and they are on video conference.

I think before we start, colleagues, we should always have congratulations and recognition of a birth within our organization. Mark Eyking is a new grandfather. Over the weekend his daughter and son-in-law had a little one.

Congratulations to you, even though that likely goes back a few years. All the best to you.

Hon. Mark Eyking (Sydney—Victoria, Lib.): Thank you, Chair. As my dad said, you can never have enough hands on the farm, and we have another set. Thank you very much.

The Chair: Today, colleagues, I want to welcome via video conference from Winnipeg, Greg Cherewyk, chief operating officer from Pulse Canada, and also from the Western Grain Elevator Association, Wade Sobkowich, executive director, and John Heimbecker, director.

Each group will have seven minutes.

I'll turn it over to you. Please go ahead, Greg.

Mr. Greg Cherewyk (Chief Operating Officer, Pulse Canada): Thank you Mr. Chairman, and thanks to the committee for the opportunity to appear today as you address what is without question the single most important issue facing the agriculture industry.

This afternoon you are going to hear from a key group of stakeholders. Each witness is going to provide you with some important insights into the impact of this year's poor supply chain performance on that group's membership. I know that Wade, with the WGEA, will provide a great deal of data that will help us get a handle on the magnitude of the situation from the grain companies' perspective. Allison, of the Grain Growers of Canada, will later on this afternoon no doubt shed some light on how growers are being impacted by the system's inability to move grain off the farm this year. Rick, with the Canadian Canola Growers Association, will again a little bit later be able to talk about how farmers are managing cashflow, when they are less than 90 days from hitting the fields.

But let's begin with some of the very big numbers that set the stage. Year to date, we are 51,000 cars behind, meaning that 4.5

million tonnes of grains, oilseeds, pulses, and special crops have not moved to market according to plan. There are currently more than 35 vessels in Vancouver waiting for product. Agriculture and Agri-Food Canada is forecasting a 22-million tonne carry-over of grains and oilseeds this year.

These numbers tell you that all agricultural sectors have been hit hard this year, and the pulse and special crop industry is no exception. Year to date, participants in our performance measurement program have received 64% of their orders for hopper cars and 61% of orders for boxcars. Bear in mind that these are averages and thus mask experiences of shippers on a week-to-week basis. During the first 25 weeks of the current grain year, the railways provided participants in our program with no cars to meet orders 46% of the time and only supplied up to 80% of orders 61% of the time. As a result, pea shipments during the first four months of the 2013-14 shipping season were only at 739,000 tonnes, and at that pace they will fall 500,000 tonnes short of export expectations. Lentil shipments were only at 170,000 tonnes at the end of November, and at that pace we'll be more than a million tonnes short of this year's target.

As frightening as they are, these abysmal order fulfillment rates, resulting in massive railcar shortfall figures leading to enormous carry-outs, tend to hide the reality of the situation for individual companies and their buyers.

Take Simpson Seeds of Moose Jaw, Saskatchewan, for example—one of the first family-owned pulse and special crops processors in the business. They employ 100 people, serve 4,000 farmers, and export to more than 70 countries worldwide. In the month of January, Simpson Seeds was nearly shut out on hopper car orders and only received their January 6 hopper car orders in the week of January 27. With no railcars for nearly a month, they have been forced to shut down their processing plants, but continue to carry the full cost of their 100 employees.

Let's not forget the customer on the other end. Packaging and canning companies worldwide have been threatening to cancel Simpson's contracts. It is only a matter of time before the threats become a reality for Canadian suppliers such as Simpson. Only last week, Bloomberg News reported that Japanese wheat buyers are turning to U.S. wheat after two months of late shipments from Canada.

While every bit of this information is critical as we assess the impact of our transportation system's failure to meet the needs of its users, it is really only serving to confirm what you already know to be the case: it's bad out there and it's going to get worse until some very real and concrete actions are taken by our two national railways.

In the short term, Canadian farmers, processors, and exporters need to know with certainty what will be moved in the next six months. They don't need a plan; they need a firm commitment. The size of the crop and the nature of the demand has been known since September 2013. The expectation from the pulse industry is that by now a plan should be in place to meet that growth in demand.

In the medium term, Canadian farmers, processors, and exporters expect the capacity will be in place to move increasing volumes of Canadian grains, oilseeds, pulses, and special crops. Massive investments are being made to expand productive capacity in this country. These investments need to be matched with commensurate investments in our ability to market and move this production.

In the long term, Canadian farmers, processors, and exporters along with their colleagues and counterparts from the mining, forestry, fertilizer, chemical and other industries expect to see transportation system capacity that matches their industries' plans to grow—capacity for what we produce today, capacity for our planned growth tomorrow, and capacity that can surge to meet demand when it's needed. These are mandatory requirements for an economic growth strategy.

Peter Hall, vice-president and chief economist of Export Development Canada, called attention to this in June 2013, long before agriculture's record harvest was off the field, when he said:

Transportation infrastructure is key to facilitating...growth, but insufficient rail track capacity is a key limiter. ...we may be running short of the means to realizing the growth that is already coming our way.

• (1540)

The first step in addressing this issue is to embrace section 5 of our national transportation policy, which currently says that:

...a competitive, economic and efficient national transportation system that meets the highest practicable safety and security standards and contributes to a sustainable environment and makes the best use of all modes of transportation at the lowest total cost is essential to serve the needs of its users, advance the well-being of Canadians and enable competitiveness and economic growth in both urban and rural areas throughout Canada.

Our starting point must be an agreement that the system is here to serve the needs of its users. Today, the primary focus is on ensuring that the system is configured in the most profitable way for the railway, and the evidence is in the headlines of the business sections of our national newspapers. While the users of our system are experiencing massive shortfalls, the railways continue to create greater efficiencies and drive greater returns for shareholders.

We must make the needs of the users of the system in Canada our priority from this day forward. If we don't, we're answering the question that the Simpson Seeds CFO recently asked the senior management team, and that was, why are we considering more capital investments when we can't meet our current commitments?

Thank you.

The Chair: Thank you for staying on time. I appreciate it very much.

We'll move now to the Western Grain Elevator Association.

Wade, are you going to do the presentation?

Mr. Wade Sobkowich (Executive Director, Western Grain Elevator Association): Yes, I will. Can you hear me all right?

The Chair: Thank you very much. You're doing well.

You have seven minutes, please.

Mr. Wade Sobkowich: Thanks for giving the WGEA the opportunity to appear before you.

We're going to focus our opening comments on the general state of grain logistics today.

As Greg mentioned, total railcar shortfall is at an unprecedented level of 51,000 railcars. This represents 4.6 million tonnes of grain that grain companies have put orders in for, which haven't been filled. It's important to note that over 50% of the shortfall is in non-regulated corridors.

In the fall period, in the very best week, the railways spotted somewhere between 9,500 and 10,000 railcars. Since mid-December, the railways are providing about half that number.

Since the beginning of the crop year, grain shipping is down about 5% over last year. This decline will grow significantly if we stay with current performance levels.

Country stock positions are at approximately 3.5 million tonnes, which is the absolute limit of the system's working capacity. Grain elevators are now only able to accept deliveries after they load out.

Producers are experiencing very serious challenges in delivering. Some grain companies will not accept non-contracted deliveries, and few new contracts are likely to be offered until the rail backlog shows some sign of clearing. Companies cannot do more business until old contracts have been fulfilled.

Partially filled vessels continue to be held at anchor. We have 17 vessels waiting at Prince Rupert, and 37 in Vancouver, and several in the St. Lawrence. Again, these are unprecedented numbers. This comes with vessel demurrage and an inability to execute on contracts with end-use customers.

Vessel demurrage is between \$11,000 and \$25,000 per day. We estimate the total vessel demurrage paid in the crop year to date at over \$25 million. Those are direct costs incurred by the grain companies, with no recourse.

There is significant untapped port terminal unload capacity in Vancouver, Prince Rupert, and Thunder Bay. The overall capacity of the grain industry to handle unloads is about 14,000 railcars per week. The potential exists to do more, but as Greg alluded to, it's difficult to justify capital expenditures for quicker unloading when rail capacity remains flat, at best.

Typical carry-out of stock from one crop year to the next is usually about five million tonnes. If rail capacity remains at today's level, the grain industry is going to experience a carry-out of over 30 million tonnes. If the railways could somehow return to the level of 10,000 railcars per week, our carry-out will be 23 million tonnes.

Price per tonne at today's value can be averaged at \$275 per tonne, so a value of a 23-million tonne carry-out is \$6.5 billion. If the railways carry on as they have and we end up with a 30-million tonne carry-out, that value is \$8.5 billion not paid to farmers.

What are the grain companies doing? We're doing our best to use the limited railcars provided to move grain as efficiently as possible. Cars are being loaded and unloaded seven days a week, 24 hours per day in some cases, as presented at the port terminals. Country and port facilities have the capacity to handle much more.

While they try to bring in farmers' grain on a first-contracted, first-in basis, they also have to bring in the right grain to match the vessels waiting at port.

Here are some facts. We're not going to get out of this situation until we produce a low volume crop. We're going to see the quality of this crop's quality deteriorate over time. Opportunities are being lost and customers are turning to other countries for a reliable supply, and railway share prices keep rising.

What is apparent is that the railways do not have a process for forecasting the demand and movement of grain. They neither solicit an aggregate demand number, nor do they request demand forecasts by corridor.

We can only conclude that—unlike what we see in competitive industries—demand forecasting is not a key factor in the railway's decision-making process on planning supply.

I have two solutions on what we see in the short-term. Number one, additional rail capacity is needed. We've heard the argument that the railways simply cannot add capacity. One cannot force more cars on the freeway to solve the problem is what they say.

• (1545)

In actuality, CPR has decreased their workforce by 4,200 people, railcars by 2,700, and locomotives by 400 since 2012. CN took similar steps during their period of operating-ratio decline in the early 2000s.

This is a very important point that I'm about to make next. It's a statistic that you should keep at the forefront of your minds as the discussion goes on. During the first quarter of the current crop year, the industry exported 7.4 million tonnes of grain. In 1994, 20 years ago, the industry exported 8.7 million tonnes. Both railways have the means and ability to increase capacity.

The second thing we need is better planning from the railways and significantly better communications of those plans. We require an accurate allocation plan, with a reliable number of cars, accurate placement, pickup, delivery, and recovery plans.

We've heard the railways make statements with respect to capacity that one does not build a church for Easter Sunday. However, it's a fundamental of any business that any company must build excess capacity to service the needs of a growing marketplace. Railways are

a provider of service to customers. They should not be allowed to dictate the fashion in which Canadian shippers and exporters market their products to the world. It is a fact that shippers do not have competitive options, and a fact that adequate regulations do not exist to hold the railways accountable to carrying surplus capacity.

If Canada expects to grow exports of potash, and coal, and oil, and grain, then there must be a competitive or regulatory rail environment to require the railways to provide added capacity and better service. It is imperative that the railways be made accountable to shippers. This is not a novel concept, and exists in all other parts of the value chain.

The subject of railway accountability has been the subject of numerous submissions before several parliamentary committees. However, in a year of larger-than-average production, which we expect might be the trend of the future, this lack of accountability exposes the industry to a state of crisis that must be addressed.

Thank you.

The Chair: Thank you very much for being on time and for your presentation.

I'd like to now turn to Levi Wood, president of the Western Canadian Wheat Growers Association, also in Regina.

Thank you very much. Please go ahead, Levi.

Mr. Levi Wood (President, Western Canadian Wheat Growers Association): Thank you, Mr. Chairman and members of the committee, for the opportunity to speak with you this afternoon concerning the grain logistics system in Canada.

My name is Levi Wood, and I'm the president of the Canadian wheat growers. For those of you who aren't familiar with our group, we're a voluntary farm organization that is member-based and has been a strong advocate for opening competitive markets in the grain system for the past 44 years. Our members consist of farmers from across the three prairie provinces and into the Peace River region of B.C.

My personal situation is that we operate a 19,000-acre grain farm at Pense, Saskatchewan, which is just outside Regina. On that farm we traditionally grow durum wheat, winter wheat, canola, and lentils.

Prairie grain farmers are highly dependent on the rail system. Over 70% of our grain is shipped out by rail in either raw or processed form. The balance is fed to livestock or processed and consumed locally. Rail is therefore an essential service for western grain farmers. Shutdowns of rail service, even for a day or two, can have a significant negative impact on the western economy.

In our view, this current backlog of rail shipments—40,000 railcars at last count—is not due to a shortage of railcars; there are enough grain cars to move this crop to port. There is also sufficient throughput at the port facilities. In fact, grain stocks at port elevators are currently below average. The grain monitor, put out by Quorum Corporation, has confirmed that railcars are being unloaded at port on a timely basis and that there are no unusual constraints to vessel loading.

The problem, to our mind, is quite simply that the railways have dedicated far too few resources to shipping grain. They have not assigned a sufficient number of locomotives and crews to meet or even come close to meeting market demand. The key cause of this rail service problem is the lack of competition in rail and the lack of alternative options for us on the farm. With only two main carriers, there is not the competitive discipline that you see in other industries or even in other facets of the grain business. In competitive industries, service is good because customers are free to take their business elsewhere. Unfortunately, in the prairie grain business, farmers and shippers do not have that option. For the most part, grain shippers are captive.

For example, there are more than 340 grain elevators on the prairies, yet only six elevator locations are served by both railroads, CN and CP. An additional 22 elevators are situated within 30 kilometres of an interchange with the other main carrier. Under the current interswitching provisions of the Canada Transportation Act, this means that the shipper has the ability to access the other railway, with the originating carrier obliged to move loaded railcars to the other railway at a prescribed rate. The interswitching provision brings an element of competition into the rail sector. We understand that rail service has been good at those elevators that have access to both railways or are within the 30-kilometre interswitching distance. It is for this reason that our group, the wheat growers, is proposing to amend the act to extend the interswitching distance from 30 to 120 kilometres.

Some are suggesting that getting rid of the railway revenue cap will bring about a necessary improvement in service. Our fear at this time is that giving the railways rate freedom would allow them to jack up freight rates without any material improvement in service. As noted, farmers and shippers are largely captive, so the railways could still count on hauling almost as much grain as they do today, but extract a higher price for it. Yes, you might see an increase in trucking and more grain fed to livestock, but the main effect of eliminating the railway cap would be to present farmers with a much higher freight bill and lower overall farm-gate returns. Truck transportation is not currently, especially over long distances, a sufficient competitor to the rail service.

Having said this, we at the wheat growers are recommending that the revenue cap formula be modified so that the railways have greater incentive to add more shipping capacity during the peak post-harvest shipping period. In a typical year, farmers want to move as much grain as possible around the harvest time, because of their cashflow needs and the need to reduce storage costs. Generally speaking, it is also good to get as much grain as possible moved into the global system before the Australian crop starts to come off in January.

Today, the wheat growers have released our proposal for an incentive-based revenue cap and are pleased to share it with you.

Another measure we would like to see is a strengthening of the act to ensure that shippers can negotiate service agreements with the railways that include effective performance provisions. Performance standards related to car order fulfillment, spotting, pickup, and delivery need to be specified by contract, with penalties in place for non-performance.

- (1550)

While such performance standards and penalties should be negotiated between shippers and railways, shippers must have access to a quick arbitration process that adequately accounts for the imbalance in their negotiating position.

Lastly, the wheat growers recommend that governments, both federal and provincial, take action to ensure more oil moves by pipeline rather than by rail. Scarce railway shipping capacity that is now being used to transport oil should be reserved for those commodities such as grain, fertilizer, lumber, and coal, where there is no economically sound alternative. Moving oil by pipeline is certainly safer than by rail and can be done at a lower cost.

We note that in January of this year Canadian rail shipments of grain were down 12% year-over-year from last year, whereas shipments of petroleum and petroleum products are up 7%. This suggests to us that the capacity to move more grain is available. It's simply a case of the railways choosing to do so.

We recognize that these measures we are recommending are mid-to long-term solutions and do not address the current transportation backlog. Quite frankly, we do not know what levers are available; however, we ask the government, and the Parliament of Canada, to take whatever steps are necessary to encourage or compel the railways to clear up the grain-shipping backlog as soon as possible.

In summary, we offer the following recommendations.

First, expand interswitching distances from 30 kilometres to 120 kilometres.

Second, adopt an incentive-based revenue cap.

Third, strengthen the act so that shippers can negotiate contractual service agreements with the railways that include performance provisions.

Fourth, ensure pipelines are approved quickly so that more rail capacity can be devoted to shipping grain and other bulk commodities.

Finally, we ask you to take whatever measures are necessary to clear up this backlog.

Thank you for the opportunity to share our views right now. I look forward to your questions.

• (1555)

The Chair: Thank you very much, Levi. I appreciate it.

Good presentations. Now I'll turn to my colleagues on the committee.

The first colleague will be Madam Brosseau for five minutes.

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

I'd like to thank our witnesses for their presentations today.

Last week we had the opportunity to debate this in the House. I'm sure you were probably listening to the emergency debate. This is not an easy question to answer. It's not black and white, and I don't think this is a partisan issue because we all know the importance of it, and the gravity and the impact it has, not just on our farmers but on all the other industries locally.

I know a few of you have touched on what needs to be done in the short term.

Mr. Wood, you mentioned more competition. Presently, what we have is kind of a duopoly.

I was wondering if the other witnesses can comment on the current situation with CN and CP, on maybe opening it up to more competition.

Mr. Wade Sobkowich: Maybe I'll start, and let Greg and John jump in if they want.

Thanks for the question. We think added competition is ideally the solution that you would want in an ideal world. The problem is this. How do you get to effective competition, given the structure of the system? When you're an elevator planted in the middle of Saskatchewan and you have a CN line running up to your facility, you don't even have a duopoly. You're beholden to a monopoly. It is very difficult to get to a situation of true competition. That's why we tend to look for regulatory solutions. If you can't figure out how to get to a truly competitive environment because of the nature of the rail industry, then we need to simulate that balance that we would otherwise see by propping up the system with regulation. That's why we've been proposing regulatory solutions as opposed to.... Because if you could truly get an open marketplace in the rail industry the way it exists today, it would be there already.

Ms. Ruth Ellen Brosseau: Farmers have worked very hard and we've had this bumper crop and....

Sorry, do you have more to add?

Mr. Wade Sobkowich: No, I was just looking to Greg or John to see if they wanted to add more to my response.

Ms. Ruth Ellen Brosseau: Do you have anything else to add?

Mr. John Heimbecker (Director, Western Grain Elevator Association): No.

Mr. Greg Cherewyk: No.

Ms. Ruth Ellen Brosseau: Right now, if you had two suggestions, two concrete steps, to get grain moving right now what would they be?

Mr. Wade Sobkowich: Unfortunately, we find ourselves in a situation without any regulatory levers today. Really, the only tool that's available to us is to file a level of service complaint with the agency. Unfortunately, that's after the fact, so the problem has to have already occurred, the damage has to have already been done, and then you can go to the agency and file a level of service complaint to try to prove that the railways provide adequate service. Once you get a decision from the agency you can take it to court to get compensation of damages, if you can get through all that and be successful.

In the short term, I'm not sure if there are any levers the government can pull, but we need to somehow figure out how to compel the railways to add capacity for grain. That's the bottom line.

• (1600)

Ms. Ruth Ellen Brosseau: What about tougher penalties? I've talked to some farmers and some people have said the government needs to get a bigger stick to whack companies with when they're not moving and they're not fulfilling their duties. Would you agree that tougher penalties are something the government could look at?

Mr. Wade Sobkowich: Yes, I think that's one thing that should be looked at. There isn't one silver bullet here. We could make a whole list of changes to the Canada Transportation Act, but I don't view those as short-term solutions. Those are on a medium- to longer-term track.

But, yes, ideally we would make some significant changes to the Canada Transportation Act.

Mr. Greg Cherewyk: Let's not forget that you had the most significant and exhaustive review of rail freight service this country has ever held only two years ago. The panel met with over 80 different stakeholder groups and read over 140 submissions from stakeholders across the country and they came up with an exhaustive list of recommendations. The needs of shippers haven't changed much from 2008 to 2010 to today. They still demand performance standards, they still demand that railways make commitments according to those standards, they still demand that they be held accountable when they fail to meet those standards, and they still demand that we have quick and inexpensive dispute resolution mechanisms in place. Those needs haven't changed since the time the panel made its findings known.

The crisis we face right now is more than just simply not having an effective communication protocol or effective performance measures or effective dispute resolution mechanisms in place. It's about capacity. If we don't have capacity, all those other things don't matter, and that's what needs to be addressed immediately. You need a plan in place for the next six months that will...not a plan, you need commitments in place for the next six months that describe exactly what will be done to get this crop moving.

The Chair: Thank you very much, Madam Brosseau.

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

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

I want to thank our witnesses for being part of this study. It's very important that the things you're saying today are heard, not only by this committee but also by Canadians who are following the work of the agriculture committee. There definitely is a huge problem in the movement of grain, but it's always good to hear from the stakeholders themselves and to have a better understanding of the magnitude of what you're facing.

I wanted to take perhaps a higher-level view. Certainly I think grain is moving. If one had a very superficial look at the issue, one would say no grain is moving at all, but I don't think that's the case. Grain is moving. What are the railways achieving, perhaps not compared to the record crop this year, but compared to what was moved last year? That might be a good benchmark for comparison purposes.

I'm wondering if each of you might be able to comment on that when you look at your sector. How are the railways performing in general this year versus last year in terms of tonnage?

Mr. Wade Sobkowich: Perhaps I could start again.

They're moving about 5% less than last year at the same time, but our crop is 33% larger. The railways don't do demand forecasting, so they don't size their capacity to take into account the size of the crop, and therein lies the problem.

Mr. Pierre Lemieux: Okay.

Would anyone else like to comment on that?

Mr. John Heimbecker: It's John Heimbecker. I'd just like to add to that, please.

Because it was 5% less than last year, we shouldn't assume they did a good job last year.

Mr. Pierre Lemieux: All right, fair enough. Anyone else?

Levi.

Mr. Levi Wood: Just in terms of that, Wade did a good job, obviously, of clarifying how much they're actually moving. I think what's important though is that there were a number of challenges for crop development on the prairies last year, if we're talking about 2012. This year was considerably more than last year, but I would certainly suggest that with improved agronomics, improved investment in our distributing facilities and that kind of thing, and especially if western Canadians move more into higher yielding crops, if corn started to grab an impact, the challenge for members is that these yields are going to be increasing in the next few years.

•(1605)

Mr. Pierre Lemieux: Actually, I will just ask more of a side question here because it's not related to the exact issue at hand. There was of course the potential of a rail strike. We gave notice of motion of legislation to prevent the strike, order workers back to work, if the strike should have happened. Fortunately, a temporary agreement was reached.

I'm wondering what your thoughts were on that. What do you think a strike would have done for your situations today?

Let me start with Greg.

Mr. Greg Cherewyk: I think quite obviously it would have been catastrophic for our sector. While the grain industry is suffering and while we're 50,000 carloads behind—and I think CN comprised some 47% of that shortfall—to have management running trains would be nothing short of catastrophic. In a sector like the pulse industry, the impact that we feel first when we have a work stoppage is that the majority of small to medium-sized processors are typically last in the queue in terms of service. They have historically received no service during strike periods.

I don't know what more I can add.

Mr. Pierre Lemieux: No, that's good. I'm asking the question because I don't want to assume what your response would be. I'd actually like to hear what your response would be. How would a rail strike affect your situation if it were to come to pass?

Wade, how about you?

Mr. Wade Sobkowich: Just like Greg said, it would have made a devastating situation catastrophic. We are 4.6 million tonnes behind in shipping; we're 51,000 railcars behind in shipping. It would have amplified the current problems we're experiencing. Again, it would have made a devastating situation catastrophic.

Mr. Pierre Lemieux: Levi, is there anything you want to add?

Mr. Levi Wood: From a farm perspective, I echo their comments in terms of how damaging it would have been. A strike at that time, when we are basically 50,000 cars behind, which is essentially more than a month at the best capacity at harvest period, would be a problem because I think that every day we lose now moving grain just results in more backlogs, more penalties, and more grain that is just going to end up sitting in the ground and being held over. I think it would exacerbate the issues that way, and also there are some cashflow constraints, I would say, happening on farms in some cases, especially when you see these contracts that are staying out longer and not being delivered on during the contracted period. I would echo their comments that any delay would have been very problematic.

Mr. Pierre Lemieux: Thank you. That was our read as well.

Mr. John Heimbecker: I wonder if I could just add something to that.

The Chair: You'll have to maybe get it picked up on the next question.

I'll be going to Mr. Eyking for five minutes, please.

Hon. Mark Eyking: Thank you, Chair.

Thank you, guests, for coming on this short notice.

Yes, the situation is a crisis. For the government to pat themselves on the back about the rail strike that never even happened, I think we have to look at how we get the grain moving presently.

The numbers are big. You have a \$7-billion crop out there, and you're going to lose \$2 billion. It says here, \$1.2 billion from wheat and \$800 million from canola. These are big numbers.

When I look at the different summations that are here today, the reality is that last June there was a signal that this was going to be a big crop. With the single-desk selling gone, and it states here in an article—

An hon. member: I wouldn't worry about it.

Hon. Mark Eyking: It states that “nobody is coordinating grain sales, transportation”—

An hon. member: Why do you ask that...?

Hon. Mark Eyking: Chair, do I have the floor?

• (1610)

The Chair: You do.

Hon. Mark Eyking: Can you ask the Conservatives to hold back a bit there? They'll have another round. They're using up my precious five minutes.

The Chair: They'll have their turn. Go ahead.

Hon. Mark Eyking: The reality here is that you're losing customers. There was already a mention that you're losing customers in Japan, in China. It's unbelievable. We're even losing customers in the United States. There was a report out that General Mills couldn't even get enough oats from us up here.

At the end of the day, last June the writing was on the wall. There was going to be a big crop. There was some concern. The railway act had no teeth in it so come fall there was nothing in place. There was no monitoring. There were no teeth. In many articles you read that farmers are not happy with the study and the monitoring process that has been put in place. That's not really going to help the grain to move.

I guess my question is this. As soon as the ships have to start waiting because they can't get the grain they need, shouldn't that be where the bell should ring and the government says, okay, look, the farmers are not getting their products to market, they're losing every week that the prices are dropping? Shouldn't there be some sort of watchdog or something with more teeth in it that would automatically hold people accountable if the customers are not getting their product? That's my first question.

My second question is what are the repercussions besides the \$2 billion you're going to lose this year? What are the repercussions of losing all those customers? You mentioned how the Australian grains are going to be coming on. The next thing is Argentina. You are losing those customers. What are the repercussions of trying to get your customers back, even if they ever fix this railroad problem?

I'll just leave it to whoever wants to answer.

Mr. Wade Sobkowich: I'll start.

Thanks for the question.

First of all, I should point out that we have a grain monitor, who does measure certain things in the grain industry that we find very valuable, so there are some measurements in place but you can't have too much good information. The more information we can have, the better we can map out a solution here.

In terms of the impact, when you lose customers, that's the worst type of impact. We want to try to ensure that we're not further damaging our reputation and also to begin the climb to improving our reputation as a reliable supplier. In terms of reputation, losing sales is very difficult to quantify, but it's a major product of the situation we're in. We really need to get our minds together and figure out how to stop that from happening further.

Mr. John Heimbecker: I'm just wondering if I could add to that, please.

I don't think it's necessarily fair to say that we knew in June this was going to be a crop of the magnitude that it was. In fact, I would suggest that in June it was the exact opposite. It was very wet and we were very late in seeding. It's probably fair to say that in late July or early August we finally saw that the crop was going to come off.

But I think what's more important to understand is that the size of the crop this year is not the problem that we experienced in the fall. I would argue that the vast majority of the sales—for instance, in Vancouver—were done long before we even knew that there was a bumper crop coming on. The bumper crop is now the problem, but it wasn't before.

In fact, the railway car offerings made during the fall have never been enough. Nine or ten thousand cars have never been enough to handle the requirements of the shippers and the farmers. It's important that we don't get too focused on the big crop, because it wasn't a question.... That's not what happened this fall. We couldn't even move what we had sold and that had nothing to do with the large crop.

The other thing I would say in terms of losing customers in the long term is that it's not only about losing the customers. It's that Canadian grain becomes devalued over time when our ability to execute is called into question. So it's not necessarily the case that the Philippines won't buy from us. We just have a devalued grain, and that never changes at all. In fact, that's what we're experiencing today. As the price falls, Canadian grain continues to be more and more devalued because we can't execute.

The Chair: Thank you very much.

I did give you a little extra time, so now we'll move on to Mr. Payne.

Thank you, Mr. Eyking.

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

Thanks to the witnesses for coming to us by video conference today to talk about this important subject, which we debated in the House of Commons late last week.

Certainly, both parties across the way have talked about how great the single desk was with the Canadian Wheat Board, so I'm wondering if the problem we have with movement of grain would have been any different with the Canadian Wheat Board. Any one of you, please jump in on that. In fact, all of you can give me a comment.

Mr. Levi Wood: Certainly from my perspective, I would suggest that the Canadian Wheat Board not being...*[Technical Difficulty—Editor]*...this crop has essentially zero impact on the backlog. A year ago, we went through the first year without the monopoly, and I would suggest that the grain transportation was fairly smooth. Things generally went well under that scenario.

The other thing is that the Wheat Board was only focused on wheat and barley. If we're looking at it in terms of that, this backlog affects every commodity group, not just those things that the Wheat Board handled. I would say at this point that I think the grain companies are sophisticated businesses, and between them, the railroad, and the port facilities, there can be adequate market factors involved. I think that in this case there's no need at all for the Wheat Board monopoly in this scenario.

• (1615)

Mr. LaVar Payne: Your comments, Wade or John?

Mr. John Heimbecker: I'd also like to point out that the Wheat Board, over the years that it was involved in transportation, also paid a demurrage. I think that if they were sitting around here today they could tell you that they were always been frustrated with rail performance. They always were, and they would in fact be frustrated today, because the railways' non-performance at critical times in the Canadian grain industry's need to move has been going on for years and years.

This is not a one-time thing. They've underperformed in the harvests...*[Technical Difficulty—Editor]*...for many, many years. The amount of studies that have gone on for years and years in focusing on this should be proof. As I've said before, the Wheat Board is not here, but they would tell you that they have paid many millions in demurrage over the years for railway non-performance.

Mr. LaVar Payne: Wade, did you want to make any comments, or John?

Mr. Wade Sobkowich: Sure. John said it and Levi said it. The only thing I would add is that with the Wheat Board in place, we were running two logistic systems: one for wheat, and one for all other commodities. It got awkward when you had two logistic systems that sometimes tripped over each other.

Today, companies are managing their own pipelines. The lines of accountability are pretty clear. I would argue that we would have a less efficient system if we were running two logistic systems instead of one.

Mr. LaVar Payne: I have a couple of other questions.

Levi, you talked about how there are enough grain cars out there, and you also talked about the port elevators not being full.

Do you have any idea what the percentage is of grain in the port elevators? How do you see us having enough grain cars for CN and CP to be able to deliver the product?

Mr. Levi Wood: You know, I just do not have that number right in front of me. We did have it before the capacity.

Just echoing the comments of Mark Hemmes of Quorum Corporation, he says that we're actually unloading fast enough and that we are actually turning the cars fast enough.

I think what's happening is that—and it's been suggested to us by other industry stakeholders—the challenge is more with engines and crews. That was indicated by the railways. So the challenge is.... Yes, more cars would be better, but I think possibly the solution is turning those cars faster and getting them moving in a more efficient manner. Until we have the crews and the engine capacity.... We can have more cars, but until they move more efficiently—I think that's really the challenge at this point.

Mr. LaVar Payne: Thank you. Is that Wade?

Mr. John Heimbecker: It's John Heimbecker.

I would just say that Levi didn't have all the facts. I also represent a western grain terminal and we're running at about 55% of capacity right now. That is to say, 45% is available space and I would suggest to you that probably that's simply a proxy for the port of Vancouver.

The Chair: Your time is up, Mr. Payne.

We'll go to Madame Raynault, for five minutes.

[Translation]

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

My question is for all of the witnesses.

You said that there are now 51,000 fewer cars, that means 51,000 cars that are not working. Unless I am mistaken, the goal was to give rail companies the opportunity to make more profits before having to pay royalties.

Would we have the problems we are seeing now in grain transportation if rail companies had not laid off workers?

• (1620)

[English]

Mr. Wade Sobkowich: I'll start once again.

The 51,000 cars do not refer to physical cars that exist but to the number of orders that have been placed that haven't been filled, so it's important to be clear on what the 51,000 cars represents.

The railways have cut back on crews, they've cut back on locomotives, and they have cut back on the number of cars in their fleets in total, in order to reduce their costs and improve their returns to shareholders. We believe that the railways have the ability to reinvest in crews, locomotives, and railcars, to return additional capacity to the fleet. Yes, it'll mean their shareholders won't have as high a return next quarter, but we think that they need to do that anyway.

Mr. Greg Cherewyk: If you look at whether or not they're interested in doing that, I would point to their fourth quarter earnings call transcript where they suggest that the record crop presents lots of opportunities to basically move grain more efficiently. Furthermore, they say:

...it's going to be one of the crop years where we don't have the peakiness that we've had in the past.

We'll probably have some large carryover and with an average crop..., we're going to see strong movement [of grain] throughout the year.

All of that is codespeak for being very happy to smooth out the demand of the grain industry over the course of the next year and into the following year as well.

[*Translation*]

Ms. Francine Raynault: You talked about bumper crops. However, we know that, the longer grain is stocked, the more its quality decreases. Producers will therefore get less money for their grain because it will be of lesser quality. Countries that usually purchase the grain will no longer want it because it will be of inferior quality than expected.

What could we do to ensure that our farmers can deliver their grain at its optimal quality?

My question is for either one of the witnesses.

[*English*]

Mr. Wade Sobkowich: I might as well stay with the current process and answer first here.

Farmers...[*Technical difficulty—Editor*]...to maintain cool and dry conditions for their product that's protected by the elements, so that...[*Technical difficulty—Editor*]...tries to preserve as much quality as possible. That's what they're doing right now. They're storing their product to that effect on-farm as much as possible.

It's true that as time goes on the overall crop quality will degrade in value, or reduce in value, but we still deliver the product that the customers order. Right now a farmer might be storing a No. 1 red spring wheat, let's say. Over time, as sprout damage occurs, as mildew is created on the kernel, the quality of that grain could degrade to a No. 2 or a No. 3 or a Canada feed. But when the customer buys product, they're still buying a No. 1, a No. 2, a No. 3, or a Canada feed, so they're still getting what they paid for. It's just that the value returned to the farmer will go down over time if the quality of his crop diminishes over time.

Mr. Levi Wood: I would totally agree with Wade's comments. I think the real challenge is not so much...

We can usually find markets, depending on what grade of crop we have, you know, if that grade falls. The real challenge is that it directly impacts the return that farmers get at their level.

That loss is unfortunate, because it's potentially a loss that if we were able to take advantage of some of these opportunities, if we were able to move more grain at a time.... That's revenue that comes right out of the bottom line on most farms in western Canada. That's a loss that potentially, if we had some more transportation...[*Technical difficulty—Editor*]...could certainly be avoided in some cases.

Obviously some grain gets held over by choice and every farmer makes their own decision, but generally speaking, I think if we could be more efficient in our transportation system, we would be certainly able to capitalize on our export sales and also return as much consumer surplus as exists there to farmers.

• (1625)

The Chair: Mr. Zimmer, you have five minutes, please.

Mr. Bob Zimmer (Prince George—Peace River, CPC): Thanks to all of you for appearing before committee today on an issue that is

very important to, I think, definitely my constituents in the Prince George—Peace River area. We have the B.C. Peace, so we actually farm grain in British Columbia. Not many people know that, but we do.

This issue really crosses a couple of boundaries for me. We have mills that literally are under suspension in terms of production because they don't have access to enough railcars. So it isn't just an agriculture problem. I'd say this is an industrial problem that our rail companies need to answer for.

I have a question for you, John. You represent a port too, correct?

Mr. John Heimbecker: Yes, that's correct. Actually, I'm...[*Technical difficulty—Editor*]...in pretty much all the ports in Canada as it relates to grain.

Mr. Bob Zimmer: Okay. You'll be the perfect guy to answer this, then.

You've talked about this at length, but I guess just to get down to brass tacks on the specifics, what do you think is necessary to alleviate the current situation?

Before you answer you that, there are a couple of things I want to ask. First, is this an issue of timeliness? Is there the same amount of shortage of cars generally speaking 365 days a year, or is this a seasonal shortage from a ports perspective? You see it all year long.

As well, logistically, do you see this as a rail capacity issue? Do you see it as an engine crew issue? What is your perspective on that?

Mr. John Heimbecker: Maybe I'll start with the last one and then go back up.

From my perspective, but I think the WGEA would agree, we think it's both...[*Technical difficulty—Editor*]...and crew. It's just not enough to add railcars to a system unless you have...[*Technical difficulty—Editor*]...crews and engines to pull those cars.

So I don't think it's just one. I think it's all three.

Mr. Bob Zimmer: Sorry, can you repeat what you just said? We're having a transmission problem, and it cut off part of your wording. You said something about crews and....

Mr. John Heimbecker: It would be my view as P&H, but also the view of the WGEA, that it's not just a railcar issue. It's a power issue, it's a crew issue, and it's a railcar issue. It's all combined. You really can't have one without the other.

In terms of the 365-day-a-year problem, if you look over time, I would say we don't have the car shortages every day of the year, although I would say that the last few years the shortages have been much more chronic. The bigger question is when the world is demanding Canadian grain, which is typically during our fall period, and when the producers demand of us as grain companies to take the grain...[*Technical difficulty—Editor*]...buy the grain, the railways have never, ever been able to meet that demand.

So this whole issue that it's a bumper crop, as I mentioned before, is a small part of the problem, which is that the railways have never serviced the needs of Canadian customers and of the farmers and of the grain companies during the harvest period.

Mr. Bob Zimmer: Can you be prescriptive? You say it's a car-crew-power issue. I understand the demand when somebody wants.... When I want to go buy something, I want to go buy it. I don't want to have to wait, or can't wait sometimes two months to go purchase that food. But you said car-crew-power. Can you quantify that? Is it 1,000 cars more? To me, when you ask that, because I think you also said that there is capacity there, is it not a rail capacity issue as well? Do we need more rail? Can you quantify what you're saying there?

Mr. John Heimbecker: I guess the quantification would be 1,000 cars divided by the amount of weeks since we started that count, which I don't have, unfortunately. But I would say that railways have always argued that they don't want to carry excess assets during the slow times in order to service the peak demand times. Our view or at least my view and the WGEA's view is that they should do that. Most industries do it and they should do it.

I would argue, in fact, that they don't even have enough assets to service anywhere close to what we need during the peak time.

• (1630)

Mr. Bob Zimmer: I think you stated previously, too, that the percentages are actually down, because you said this is not a bumper-crop issue. Even with the bumper crop, it's somewhat irrelevant when they're still behind. Is that correct, John?

Mr. John Heimbecker: Yes, for instance, I can only speak for my company in this, but we had signaled our demand for cars for Vancouver, for instance, in June and July, basically based on an average-sized crop. In June, Vancouver was already more or less sold out. That is to say the demand from customers had already been at capacity and our assumption of what the car supply was going to be was already considered. A big crop came in and it's not as though all of a sudden we were able to ramp up and try to sell another two million or three million tonnes into that slot. Again, the railway couldn't even service the demand that was required based on what we would consider a regular-sized crop.

The Chair: Thank you very much to our witnesses. I'm sorry, Mr. Zimmer, but we're out of time.

I want to thank our witnesses from Pulse Canada, Greg, and also from the Western Grain Elevator Association, Wade and John, for participating, and also Levi on video conference. You've been very helpful.

We're going to take a minute because we have to switch you guys off and get onto a video conference in Prince Albert, Saskatchewan. Thank you very much.

• _____ (Pause) _____
•

The Chair: I'd like to call the committee back, please, as we get started on our second round regarding the grain logistics system in Canada. We're studying this over a two-day period, and it's pretty intense.

We welcome our witnesses. First of all I'd like to welcome from the Canadian Canola Growers Association, Rick White, who is the general manager. Welcome. Also, we have the Grain Growers of Canada, Allison Ammeter, director, and also Janet Krayden, analyst. Also on video conference from Prince Albert, Saskatchewan, as an individual, is Stuart Person.

I welcome each of our witnesses. We have seven minutes each, so I will start with Mr. White, please.

• (1635)

Mr. Rick White (General Manager, Canadian Canola Growers Association): Thank you, Mr. Chairman.

Good afternoon to the members of the committee. Thank you for inviting me here today to speak to you about the grain logistics system here in Canada.

CCGA represents 43,000 canola growers and is governed by a board of directors who are farmers. We represent all provinces from Ontario west to B.C. With 85% to 90% of canola grown in Canada being shipped to export market by rail, canola growers rely heavily on the service of Canada's railways to market their grain. The competitiveness of our industry, which contributes \$19 billion annually to the Canadian economy, is highly dependent on the railways' providing timely and efficient service.

This year the canola industry celebrated a milestone. Our goal of reaching 15 million tonnes of production by 2015 was well surpassed when canola farmers harvested a record 18 million tonnes of canola this fall. This, coupled with relatively high prices for canola, meant that canola farmers were feeling very optimistic about their future this fall. However, to fully realize the economic benefits of this bumper crop, farmers required the opportunity to market their crops, and unfortunately, this is an opportunity they have not been able to fully realize this year.

Canada's railways are the linchpin in our grain handling and transportation system, and this year they have failed. The inability of the railways to incrementally respond to the service demand is troubling and has had serious implications for farmers. We are now in a situation where most country elevators are congested and not accepting deliveries, while terminals are under capacity and vessels are waiting offshore to be loaded. Many farmers with contracted grain for the fall of 2013 have been told that they will not be able to deliver their crop until spring or summer of 2014 at the earliest. Farmers with uncontracted grain may not be able to deliver their grain before the next crop is harvested.

This situation is causing serious cashflow issues for many farmers. CCGA is an administrator of Agriculture and Agri-Food Canada's advance payment program, and we are seeing evidence of this cashflow crunch reflected in the current demand for cash advances. This year we have seen a substantial increase in the total amount of money advanced to farmers compared to last year.

The inability of producers to deliver their crops to the country elevators is costing farmers in other ways as well. The backlog means prices have fallen, basis levels have widened, and opportunities for sales have been lost. Equally concerning, particularly over the long run, is the impact our underperforming logistics system has on our industry's reputation as a consistent and reliable supplier of canola. Farmers and the entire canola industry are gravely concerned that our competitiveness in the global market is being seriously undermined by our inability to deliver on our sales commitments. Clearly, real solutions are urgently required to address this issue, and CCGA continues to advocate for reciprocal penalties to bring a framework of accountability into the commercial relationship between the shippers and the railways.

In the Canadian rail system, the railways have established loading and unloading performance benchmarks that grain shippers are financially accountable to through the use of penalties. These penalties have been quite effective in holding grain shippers accountable for their performance. However, on the reciprocal side, the railways are not subject to the same types of penalties for providing poor service once they have committed to spotting cars. This creates a very unbalanced system that does not provide the railways with adequate incentive to meet service.

Performance measurements should be established for the railways that are as well defined and measurable as they are for grain shippers. CCGA proposes that through legislation—because it won't happen voluntarily—the railways be subject to performance penalties in circumstances where they have failed to perform. Issues with rail service have plagued the grain industry for years and directly impact the bottom line of Canadian farmers. While solutions have been proposed and even implemented in the past, they have not been able to resolve the ongoing issues associated with poor rail service. Legislated, reciprocal penalties are the only way we see these issues being remedied in a meaningful and lasting way.

This will not help many farmers who need help immediately to address their cashflow needs and allow them to get next year's crop planted. In the short term, the government could help farmers by increasing the limit on the cash advance program and applying the limit in the same way as the \$100,000 interest-free limit is applied, with overlap between program years.

• (1640)

This would allow farmers who are already at or near the current \$400,000 maximum under the program to take a new advance that would be applied against the crop they will be planting this spring. This change would be at low cost to the government and would go a long way towards easing the marketing problems many farmers are currently facing.

In closing, canola and the agricultural sector are poised to continue to increase yields and volumes into the future. The canola

industry has set a new goal of producing 26 million tonnes by 2025. That's a 40% increase over this year's record production.

A reliable and efficient rail system will play a fundamental role in our ability to reach this goal. Strengthening and modernizing the contractual relationship between grain shippers and the railways is how a more functional, responsive, and reliable system will be created.

Thank you for the opportunity to speak to you today. I look forward to your questions.

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

Now I would like to move to the Grain Growers of Canada.

I think Allison Ammeter is going to present. You have seven minutes, please.

Ms. Allison Ammeter (Director, Grain Growers of Canada): Thank you very much for inviting me to present at this transportation panel. I truly appreciate it.

My name is Allison Ammeter, and I am a Grain Growers of Canada director, and vice-president of the Alberta Pulse Growers commission.

Grain Growers of Canada provides a strong national voice for over 50,000 active and successful grain, oilseed, and pulse producers through its 14 provincial and regional grower groups. We represent wheat, durum, barley, canola, oats, corn, soybeans, beans, lentils, rye, and triticale farmers from across Canada.

My husband and I farm 2,300 acres on a third-generation farm near Sylvan Lake, about halfway between Calgary and Edmonton. With our three children, we grow peas, fava beans, wheat, barley, canola, and oats.

Last year Canadian farmers grew a record crop. You have heard that over and over. We had a significant increase in yield. They said there was 75 million tonnes, which was a 33% increase over the year before. Some of the contributing factors to our bumper crop were a buoyant farm economy, improved genetics, use of new and effective fungicides, good agronomics, and treatments of micronutrients in fertilizer application, which we expect to have again this year.

Last year we had amazing weather too.

While those crops are always weather-dependent, because of these new technologies and better and more sustainable farming practices, there is no doubt that farmers' yields will continue to increase, which is really good news for farmers and for the Canadian economy.

But today after the most successful harvest in Canadian history, we can't move our grain.

I would like to explain to you how a grain farmer's cashflow works. I think understanding the very basic method of our cashflow is critical.

In the spring we go out and purchase a large number of what we call inputs—seed, chemicals, and fertilizer, generally on a line-of-credit type of loan. We don't get paid when we put our seed in the ground. We do not get paid when we fertilize our seed. We do not get paid if we have to go out and spray or we have to go out and do any kind of field operations. We don't get paid when we go out in the fall and spend a month or whatever it is harvesting that crop even though we're putting \$1,000 worth of fuel into a combine each day. We don't get paid for any of that.

We get paid when we take our crop to either the elevator or the end user. That's when we get a cheque. So in a year like this when our crops are largely sitting in our bins or in grain piles, we have no cheques. That's cashflow.

Elevators cannot get enough rail shipping to move grain and oilseeds to port right now. Port terminals in Vancouver are 50% empty. Ships are waiting in port to be loaded and sent to export destinations.

Carry-over stocks for several of the grains will be large due to this backlog. In many cases farmers may not be paid for last year's harvest until after spring planting, translating into lost sales and a really serious cashflow issue for many farmers at a time when we need money to start paying for that new spring seeding cost.

Regarding all of this, I'd like to highlight a few items.

There is Canada's export reputation. While last year's harvest continues to sit idle on our farm and in our country's elevators due to challenges with rail service performance and capacity, Canada's international reputation as an export nation is being affected.

I know you have all heard about the ship last week. It was a Japanese ship. It sat empty in the harbour in Vancouver waiting to be filled. They got fed up. They went down to Seattle, and they filled the ship with American wheat.

We should never have lost that sale, and we don't know if we'll lose more sales because of that. We are concerned that important relationships our industry has worked hard to build as an export nation are being compromised because of the challenges with grain movement.

Secondary processing sectors of our economy, such as food processors, mills, and maltsters are also being affected by this capacity issue as they require a consistent supply of product. This supply bottleneck has the potential of slowing down all of Canada's economic growth.

We have collaborative solutions. Grain Growers of Canada has seen recommendations for actions such as enhancing measurement and reporting, as announced last Monday. They will keep all the parties taking the necessary actions to address the issues that are causing the backlog.

• (1645)

We also support the leadership of Pulse Canada—the study that Greg Cherewyk was talking about—and their project partners to strive for greater measurement in rail service supply chain efficiency over the next five years. This work will provide effective data to help communicate shippers' long-standing rail service issues that hinder grain farmers' market access.

At Grain Growers of Canada we are talking to the railways, to the grain companies, and to the government. We are encouraging better communication and better coordination in order to get the grain moving. We are asking railways about their plan to deal with the backlog this year and also asking about their plan to deal with growth in grains, pulses, and oilseeds in the future.

Grain Growers continues to press for a short-term plan, interim measures, and long-term solutions, now and through the 2015 rail service review. This review simply must increase competitiveness and efficiency in our industry.

We were really pleased with the federal government's Fair Rail Freight Service Act. However, without amendment, there is a lack of balanced accountability. Poor railway service must have consequences.

There's an economic reality. Recent railway earnings show record profits. A large portion of the railways' profits this year came from Canadian farmers' record crops. While farmers are not direct customers of the railways, we are paying the price as the penalties and the shipping demurrage charged to the exporters is passed on to our bottom line. The price we are offered gets lower and lower as grain companies signal they cannot move our grain. You'll hear this called the price basis.

Rail transportation is so important to our Canadian economy, and in turn, moving grain is important to the railway's own sustainability as a transportation provider. We want to encourage the railways to reinvest their profits into railcars, engines, hiring, and better communications processes with the elevators. Solutions like these can only improve transportation logistics and address the need for better and more efficient movement during peak seasons.

Gearing up to alleviate the grain backlog needs to translate into long-term service solutions for the future. We need to ensure that this situation does not happen again and that rail service can keep pace with the expanding business that farmers and Canada's thriving economy are providing.

In closing, Canada is at risk of losing more exports with the ongoing delays. We are facing the toughest competition in the export market that we have ever had in the grain industry. With new emerging export rivals, we need immediate solutions to maintain our market share. Our reputation as a reliable export nation is in question.

Thank you for letting me speak to you today. It is an honour, and I really appreciate the opportunity to present to you, as a farmer, on behalf of the Grain Growers of Canada.

I welcome your questions.

The Chair: Thank you very much for your presentation. Well done.

I will now move to video conference. From Prince Albert, Saskatchewan, we have Mr. Stuart Person.

I hope you have been able to hear everything. I should have checked sooner, but I didn't hear that you didn't.

You have seven minutes, please.

Are we coming through okay?

Mr. Stuart Person (Business Advisor, Agriculture, MNP LLP, As an Individual): It's a little choppy on my end. If I am choppy, let me know.

• (1650)

The Chair: Sure, thank you very much.

Mr. Stuart Person: Good afternoon, Mr. Chairman, honourable members of the committee, special guests, and fellow witnesses. Thank you for the opportunity to speak today on behalf of our MNP agri-teams, located in more than 40 offices across Canada, serving in excess of 7,000 grain producers and farm families.

My name is Stuart Person. I'm both a partner in MNP and a partner in my family's grain farm located near Canwood, Saskatchewan. In the short time I have to speak today, I want to focus on the financial impact that the crisis has had and is going to continue to have on our producers in western Canada. Some of my comments will be echoing comments made previously, but I still think...*[Technical difficulty—Editor]*...and I plan to expand on them a bit.

I hope you can take my message today and pass it on to the railroads and the line companies and make sure they understand the situation. This is important to us.

I'm going to focus on three specific costs that all producers affected by this will have to incur as a result of the current grain transportation crisis. The first cost is lost revenue or reduced profitability. I look at them together. Producers are seeing negative basis levels of up to \$100 per tonne on some commodities, simply because the line companies are not in a position to purchase and handle our grain.

If we were to assume that half the tonnage produced in western Canada this year will be subjected to these discounts, the numbers are absolutely staggering. It's billions of dollars lost, if we are forced to sell our grain under the existing circumstances. In some cases, this

is calculating out to more than a 50% price discount from the daily or futures market price being offered for the grain.

Can everybody still hear me okay?

The Chair: You're okay.

Mr. Stuart Person: To speak more in terms of farm profitability, the average costs of production have risen to over \$300 per acre in some areas of the prairies. If our farm families were to sell our grain in today's environment, we'd be lucky to average enough revenue to simply break even, and that is after harvesting a bumper crop, as others have mentioned. Any producer who suffered production issues this year will be well into the red and in some cases relying on AgriStability for assistance. This is gut-wrenching when producers can see that futures prices are offering excellent returns, if only they could cash in on those prices. The only thing holding them back right now is logistics.

The second cost I want to talk about is added interest costs. This has been alluded to previously already. Grain producers are going to face extreme difficulty with managing cashflow. Those who cannot pay back their input loans by the agreed-upon deadlines will face penalties in the form of outrageous interest rates being retroactively applied to their balances. In addition, many farm families will be unable to meet other loan payment options on capital purchases, which will increase their interest costs, and in some extreme cases, could result in forced liquidation or seizure—none of which we want to see.

The third cost I want to mention is additional handling and spoilage costs. If not stored properly, grain is a perishable commodity. A significant amount of grain was stored in grain bags and on the ground this past year due to the bumper crop. These storage mechanisms are not long term and need to be dealt with before spring, in many cases to avoid the risk of significant spoilage.

Spoiled grain in most cases becomes worth little to no revenue, resulting in a direct hit to the bottom line. In addition, many producers are going to have to move the grain stored in bags or on the ground to bins, and that's assuming they actually have bins to move them to. This will result in fuel, transportation, shrinkage, and possibly some drying costs, all of which will raise their costs and negatively affect the bottom line.

It should also be noted that this is not likely going to be a one-year issue. Estimates are that 20 million tonnes of grain will likely carry over to next year. So if our farm families produce an average crop in 2014, the situation will be exactly the same as it is this year, assuming no change in the logistical situation. What if our producers actually harvest another bumper crop? Where will we be then?

I have some conclusions and recommendations. They're very simple. I don't think there's anything too complex here. First of all, in the short term, we need a solution to be investigated and implemented. The easiest one is just to get the grain moving. If there's...*[Technical difficulty—Editor]*...government support. Financially, just get our grain moving so that we can sell it, we can get the cash, and we can pay our bills.

Barring that—and I really do think that the short-term solution is going to be a tough one—as the canola growers indicated before... [Technical difficulty—Editor]...some mechanisms out of the cash advance system. I would like to recommend that we review and look at making the full \$400,000 interest free. I would like you guys to review that and see if it's possible to increase it, because \$400,000 is not significant for a large grain operation anymore. You could possibly look at something like \$200 per acre per farm to cover at least the inputs to get these guys through until next year. Also look at extending the deadline for repayment for the 2013 and 2014 cash advances to bridge this gap that we're looking at, as mentioned previously.

• (1655)

On the long-term side, I'd like to make a couple of recommendations. We need to look at the overall grain movement capacity and align that with expected average production figures in the future, as mentioned previously. This will allow for more competition in the grain logistics business in Canada. Specifically I still think we can achieve a lot by taking a closer look at the Port of Churchill and finding a way to make better use of that line and port.

The third one is that I really think you need to put some sort of accountability into place such that the railroads have to be accountable to us and to the line companies and the citizens of this country. The lack of delivery results should result in penalties that can be paid back to producers to equalize our losses incurred when we face situations like this.

I would also like to point out that CN and CP have known about this problem for four months now. As far as I can see, they haven't done anything about it. They may be working on it behind the scenes, but I have not been informed as to what they've done to make it better.

There is one other thing I'd like you to consider when reviewing the entire grain logistics system. It's always interesting to consider how you would do it, if you were to step back and have to rebuild the system from scratch. Rather than what we have today, what would you do if you had to start over and how would that impact your decision on what alternative measures might be out there for us to move grain or increase capacity to get grain out of our country?

With that, I'll thank you for your time. I hope I've provided some beneficial information on this extremely important topic for our industry and I look forward to your questions.

The Chair: Thank you very much, Stuart, we appreciate your presentation.

Now we'll go to witnesses.

I would ask Madam Brosseau, first of all, to start, for five minutes please.

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

I'd like to once again thank our witnesses for sharing some solutions about what to do moving forward.

There have been supporters of the Wheat Board who have said they did have a job and a role to play. Moving forward, do we need a special team, a group mandated to help with the logistics? We've had

bumper crops before, this isn't new. We've had bumper crops in the past but we've never experienced such a backlog like this before. I'm not saying to bring back the Wheat Board, but is there a need to have a group in charge to deal with logistics to make sure that this does not happen again?

Maybe we could start with Allison or the canola oil, Mr. White?

Ms. Allison Ammeter: There is absolutely a need for it. The Wheat Board was a single desk that pooled the buying of grain. It really wasn't a transportation board. That is kind of a red herring.

But there is a need for a group that manages transportation and that is what Greg Cherewyk with Pulse Canada was talking about. They've had a project in place since 2007. They started out by trying to get a handle on it and then they brought together all of the different shippers and port authorities and everybody else together. They've been studying it and they are working towards this 2015 set of guidelines and measurements and consequences. We need a body that establishes consequences.

Ms. Ruth Ellen Brosseau: Kind of like a big stick....

Ms. Allison Ammeter: A big stick.... A carrot and a stick....

Ms. Ruth Ellen Brosseau: We have to make sure that gets into our recommendations; we've got to whack them.

But I think everybody has a role to play in this. We need to be at the table, not just thinking what to do in the next few weeks but with a long-term vision for transporting our grain. The government has done an amazing job opening up markets. But what I've heard and what we know is that this has impacts right now, and also damages our long-term reputation internationally. When you buy anything, you want to make sure it's quality and you trust that company. There's been a bottleneck recently with the transport of our grain. Farmers aren't getting paid and we're not getting it to market. We need to play a leadership role showing we do have a plan and this is how we're going to fix it to make sure this doesn't happen again.

That makes me think of the Fair Rail Freight Service Act. Do you have any amendments you would like to bring to that piece of legislation? We've had some witnesses say it's not working, it's not as effective as it could be. Do you have anything you could submit to the committee amendment-wise that could make this piece of legislation better? I don't know if any witnesses have something to bring.

• (1700)

Mr. Rick White: We made at least five recommendations under Bill C-58, when the Canada Transportation Act was last open, to accommodate the service level agreement clauses. One of the key ones was to have financial accountability built into it, i.e., contractual arrangements that had financial penalties for both parties, both the shipper and the railway. None of those amendments were made.

Ms. Ruth Ellen Brosseau: They never made it into the report? Oh.

Mr. Rick White: Those pieces were not put into it.

The service level agreement legislation is a great framework, but we need to go back to it now, review those earlier recommendations, and revisit whether or not that would have helped the situation. I think it would have. Again, in my presentation I articulated the need for financial incentives for the railways to perform. That is missing right now. They won't negotiate it. It needs to be legislated. That's why it needs to be put in place in the CTA in the 2015 review.

Ms. Ruth Ellen Brosseau: Okay.

Mr. Person, do you have anything you would like to add?

Mr. Stuart Person: I do not think bringing the Wheat Board back would do any good, and it's an unrelated issue. Last year was the first year without the Wheat Board and we moved our grain just fine. It is a logistics issue. It's between the railroads and the line companies. At this point it's looking as if the railroads are the guilty party.

I agree you need to put some sort of oversight committee in place, whether that's private or public, and there should be penalties put in place for lack of delivery. If you look at the United States system, those grain shipping companies are self-regulating because there are penalties. They fear the U.S. government. They do not want to be forced with more regulations.

I have had discussions with the gentleman from Edmonton, Mark Hemmes who works for Quorum, and he says those grain shipping companies regularly send cheques to their customers for lack of performance. The only reason they are willing to do that is that they don't want the U.S. government coming in and telling them to smarten up. Obviously the U.S. government has some sort of big stick they can wave, and I think we need something similar.

The Chair: Thank you very much, Madam Brosseau.

We'll now move to Mr. Hoback.

You have five minutes, please.

Mr. Randy Hoback (Prince Albert, CPC): Thank you, Chair.

Thank you, gentlemen and ladies, for being here this afternoon. It's always good to have farmers and people representing the farming community in front of the ag committee.

I often think about this when I look at the days when I was farming. I can remember the days when we loaded trucks on a Friday and a Saturday, had them go off to North Battleford, only to find out the train didn't show up, and then we'd try to figure out what do we do with 10 or 15 trucks sitting at a grain elevator that's already full. I definitely know what it feels like, and it looks as if it's going on again, even more so.

In the nineties, we made our system more efficient. We got rid of branch lines, got rid of the small town elevators, went to these high-throughput 100-car spots, 125-car spots, to gain efficiencies. In the canola sector, I think we even did more. We went to the next level. We did more processing on the prairies. With the crush plants we've added over the last five years, a substantial amount of volume goes through crush.

I'm curious. When we just look at the movement of grain, I know it's a problem, but when I talk to other people, for example, a plywood plant up on Hudson Bay, they have a problem. They're going down to three days now instead of five days of work. We

talked to members of a steel mill in Regina that has given layoff notices because their steel's sitting in the yard instead of going to the customer.

Coming back to the canola oil side of things, what's the oil movement like as far as the crush plants are concerned? Are we going to see some slowdown there because of oil not moving after it's been crushed?

● (1705)

Mr. Rick White: It is effecting canola oil movement as well. There are a couple of plants in particular that have had to cut back on crush. You'll see, if you look at the statistics, crush here to date is a little bit behind last year. There's no reason for that other than they're having difficulty, even on the tanker side. It's not only seed coming in the front door, but it's getting the oil out the back door in the tankers. That's a commercial movement and that is problematic as well. So yes, it is having a negative impact on the crush.

Mr. Randy Hoback: Let's just follow this through the system then. Here we have a scenario.... One of the other scenarios I'm facing with a lot of producers in the area is that they grow lots of oats. Those oats aren't going to the west coast. They are actually going to the U.S. The story I'm hearing is that there's one mill down there that is actually sourcing oats from out of North America into Europe because they can't get oats from 500 miles north of them.

Ms. Ammeter, are you hearing the same types of stories?

Ms. Allison Ammeter: We have oats on our farm.

The futures price on oats this week, I think it was Wednesday or Thursday when I looked at it, was \$4.75. It was higher than it had been in five years. We can't sell them for anywhere near \$2.50 anywhere near us because they can't move them. So they've made the basis just super wide.

Mr. Randy Hoback: In fact, if we looked at the producer cars—it would be nice to have CGC in here—I think producer cars that are on order are somewhere in the excess of 10,000 producer cars, which is a reflection of the basis widening so much. Farmers say, "Okay, I'm going to load it myself and save some of that handle."

Let's trickle that through.

Mr. Person, you work with a lot of farmers out of your accounting firm, MNP, out of Prince Albert. I know you handle a lot of accounts. You touched on the cashflow situation, but I'm kind of concerned because road bans are going to be hitting here in a month or month and a half. A combination of fertilizer has to be put onto farm, plus grain has to be moved within the next month or month and a half. How do you see the cashflow going into spring's planting season, which really, when you start looking at the days, isn't that far away? How would you say that is represented right across the number of customers you deal with?

Mr. Stuart Person: A lot of producers that are going to significant...[*Technical difficulty*].

But you know what, Mr. Hoback? The situation right now is that if you haven't contracted grain you won't be able to ship it until some time after harvest. This is what we're being told from the line companies at this point. You have a lot of grain sitting there that won't be movable, whether you wanted to move it or not, road bans or no road bans. The road bans will be a problem because we can probably only ship grain for about another month to month and a half, and then we're shut down for a month to a month and a half while the frost is coming out. Even once we get into summer it sounds like the system is still quite congested, unless something significant happens between now and then to end the situation.

Does that answer your question?

Mr. Randy Hoback: Yes it does.

You kind of touched on a little bit about the cashflow. I know the FCC has gone around talking to their customers saying that they're going to give them some help. I know their biggest problem is trying to figure out a date to extend loans out to. Do you extend it out for two months, or six months, or eight months, or is this something that has to be extended out for a year?

I know, Mr. White, you talked about the cash advance program, looking at that and how we can maximize that.

One concern I have is the AgriInvest accounts, Mr. Person. Are they being liquidated now? This is the rainy day fund. Is that actually being used? Because it is pouring out there right now....

Mr. Stuart Person: The AgriInvest account would be a nice fund to dip into if you needed it. The problem is that with the system we're in right now, they just haven't been around long enough to accumulate to anything significant. It's too bad we don't have a bit of a higher cap on those. Right now we're capped at about \$15,000 per farm. If you look at that on a 5,000 to 10,000 acre farm, even if they've been maxing it out for the last few years, we're not going to see a significant source of cash there.

It would help, but really what we need is an increase in the cash advance limits, especially for our big producers to get their hands on money, to get them through. Yes, we need FCC, Scotiabank, and anyone else who's been financing for input loans from last year to push those deadlines probably well into the summer, if not into next fall, without this 18% interest being applied, because that's going to be absolutely devastating. You're talking about adding 20% to your input costs just because you weren't able to pay those off by the required—

Mr. Randy Hoback: Even if you had a contract sitting there that would have paid it off if they would have taken delivery of it—

The Chair: Thank you, Mr. Hoback. Your time is up.

Those were good questions.

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

• (1710)

Hon. Mark Eyking: Thank you, Chair, and guests, thank you very much for coming.

We heard quite a bit this afternoon about the situation out in the prairies. When I was out there last fall, there was nothing better than seeing farms with good crops. The prices were good and everything

looked good. I think if this committee were to visit them now, we'd find a bunch of angry farmers out there.

The reality we're hearing today is that this could be a norm. Allison, I think you mentioned how our farmers are doing a great job with new varieties. This could be a norm. This could be the normal crop that we're going to have in the future. Then for that to be a normal crop, I think it was mentioned there could be 20 million tonnes carried over? This is unbelievable.

I guess it has been brought up again and again that there are no teeth in this railroad act, and because there are no teeth, the railroads are not really taking the government seriously. When you look at the U.S., somehow there's an understanding that the U.S. government has teeth, whether it's a hidden threat or whatever, and the railroads take them seriously.

I'm afraid that these rail companies are not going to switch overnight. They're not going to switch over the next couple of weeks because either they have commitments from other products or they're not going to bring in new locomotives overnight.

Sometimes I'm fearful that maybe some of their locomotives will be heading south more. What's stopping them because many of them have lines down to the United States? So you know, it could get worse unless that stick.... The NDP said we need that stick and they have to be fined millions of dollars if they don't do their job.

I wanted to talk a little bit more, Mr. White, about something I think you alluded to. You mentioned frameworks and various things, but you know, unless somebody says, "Okay, guys, the boats are waiting out there and it's going to cost the railroads a million dollars a day", unless they hear that or know that, the railroads are not going to change. I don't see them changing. I think that's my first question. What is the stick going to be, and how much should it be?

Mr. Rick White: I think the stick needs to be built into the contract because right now there's a lack of accountability. There are major players in the chain, starting with the farmer and then the shipper, the grain company itself, then the railway, to the terminal, and onto the boat. That contractual chain needs to be all linked up with reciprocal penalties between each one of those parties, each link in the chain, with each one being accountable to the other, with actual penalties and repercussions for not living up to the commitments under the contract.

So if the ships are waiting and the railways are at fault, the ship demurrage comes and sticks to the railways. If the grain companies are beholden to the farmer, then the grain companies hold the railway accountable. That whole chain needs to be tightened up with reciprocal penalties all the way through it to bring accountability to the system. I think that is the stick that is required.

Hon. Mark Eyking: My second question is this. Tomorrow's the budget and the agriculture piece is going to come out there. I hope the grain just moves in the next couple of months and everybody has empty bins in the spring, but I'm afraid that's not going to happen and the value of the grain is going to go down. There are going to be unhappy customers.

I guess the government's going to have to have more money put into the agriculture budget in order to somehow help these farmers get through. It's bad enough if you lose a crop with crop insurance in the field, but if you have it all harvested and brought in and stored, the cost is even higher.

I know there are various programs that the government has, some with the provinces, but at the end of the day, is that really going to be putting enough cash in their pockets if they have to dump that grain going forward?

Maybe Stuart can answer that too.

Mr. Stuart Person: In terms of programming, the...*[Technical difficulty—Editor]*...program has been cut back a bit since the last go-around. The timing couldn't be worse, I guess, if you're a producer who's facing this exact situation. That program may have put some money in. I'm not saying the changes were all bad, but at the same time, it won't be the same level of compensation coming through there.

Really, the program that you need to look at, at the moment, is the cash advance program for the situation we're in. I still think there's potential for profits to be made if we can get things moving and get these wide basis levels removed. I really think every farm in western Canada that had the bumper crop will make excellent money, if we could just get the grain moving and get the price that the futures are offering.

● (1715)

The Chair: Thank you, Mr. Eyking, for your questions.

I'll move now to Mr. Dreeshen for five minutes, please.

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

Thank you to all of the witnesses.

I'd like to tie in a little bit to what we had heard earlier from Mr. Heimbecker regarding port issues and take a look at some of the issues that are there, and also kind of tie in to what has been said about cashflow issues, because there are two or three different aspects to this. We have local processors who have or are going to have cashflow issues. We have shippers who, if there's no turnaround, are in the same situation because they are only making money when they are elevating grain and doing that type of thing. Of course, there are farmers who have cashflow issues as well.

I think one of the things we've talked about has, of course, been taking a look at the flexibility that there is around cash advances, but with a small amount—or 40% is the last number I had heard—of people taking cash advances.

Mr. White, your organization is responsible for that. The first thing I'd like to ask you on that side of it is about the process as far as applying for cash advances. You need to get the details—because those details haven't come to your organization—so you can manage them. I'm wondering if you have found any efficiencies as to your ability to get those cash advances out quicker.

Mr. Rick White: Thank you very much for the question. It's a great opportunity to explain that process.

When a farmer wants to take an advance on the program, they come to us as one of the major administrators of the program. We offer several different ways that a farmer can apply. They can phone us and talk to a person, and in about 15 minutes the person, one of our account managers within CCGA, will take down the information over the phone. The farmer gives the information, we fax that to them immediately, get the signature, and it's faxed back. That is a very quick and painless process, and we can sometimes have a cheque, if the farmer phones in today, in his or her account tomorrow. It's a maximum of five business days.

Our turnaround times have improved greatly. They can log in and do our online application process 24 hours a day, 7 days a week. They can download the applications off our website if they want to do them by hand. We offer everything, back and forth service, by fax. We can take fax signatures now. This is all in an effort over the last number of years to improve the service and get that money the farmers want and deserve through the program into their hands as quickly as possible. So we've made very strong increases in our levels of services, and we've been administering the program for almost 30 years now.

Mr. Earl Dreeshen: Thank you very much for that. I think that's an important aspect of it.

The other aspect, and something that was mentioned, is the fact that farmers are dealing with lines of credit as well. These are important aspects, and that was one of the things that was discussed earlier about it being a dual year, 2013 and 2014 crop years, and trying to get some sort of a match there. But I'm sure you'll be able to kind of tie those things in if that's a decision that is made in order to help out under those circumstances.

There is another aspect dealing with the railways, and I've always said this. I know I heard earlier today that maybe in June they didn't quite know what the crops were going to be, but it's hard to get lost when you're driving a train. If you're taking a look at the kinds of crops that we had in July and August, I think there should have been some thought that we were going to have these issues. If the grain companies hadn't already brought it to their attention, I think it was important for that.

We're trying to find some solutions to this. We've talked about other commodities, potash, coal, oil, and other kinds of products that are being shipped at this point in time. But the grain sector is one that is losing a great amount at this point because of the fact that they're just widening the basis because there are no opportunities for sales. Do you see any types of cooperations that could exist between the different shippers of different types of commodities that you might, as an organization, want to be able to talk to them about?

Mr. Rick White: I guess as shippers we do belong—and grain growers belong as well—to the Coalition of Rail Shippers. That is a multi-commodity and cross-industry group of shippers who have gotten together for a number of years now to discuss rail issues in a cooperative effort, to figure out what's happening to the shippers and what can the shippers do about some of the service that is coming about.

That level of cooperation is very high among that group, coming up with ideas and solutions that work for everybody and going forward to the railways with a united voice, going forward to members of Parliament with a united voice, to give some clear direction from a shipper's perspective. That coordination effort is there and it continues to be there, and we still are actively involved with the Coalition of Rail Shippers.

• (1720)

Mr. Earl Dreeshen: Okay, thank you.

The Chair: Thank you, Mr. Dreeshen.

Now I'll go to Madame Raynault for five minutes, please.

[*Translation*]

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

I am very moved by the problems facing farmers. I have been a farmer myself and have had to take out a line of credit in the spring to restart my business. I am very moved by what you have said. I know all about the financial worries you will face over the next few weeks. If the grain harvested in the fall is not sold now, you and other farmers will lose significant amounts of money because grain quality will have decreased due to periods in storage.

If you have to rely on lines of credit and loans for longer and therefore pay more interest, will you be able to make ends meet and start planting a new crop this spring or in spring 2015? Your debt will increase while the satisfaction you get from farming may decrease.

What do you think? I would like to repeat what you said earlier so that people know what is happening. We often idealize life on the farm or on the land, but there are problems and concerns that can also touch your family.

Mr. White or Ms. Ammeter, would you like to answer?

[*English*]

Ms. Allison Ammeter: I would love to speak to that, thank you.

I see a deeper issue here. We're here to talk about the trains and the cashflow and cash advances and the solutions, but I would have to add that if this continues, it's not just farmers. If farmers have a very restricted cashflow, we're going to concentrate on getting a crop in and paying the basics. You're going to find that in the small towns around the prairies the restaurants are going to suffer because there's not going to be a lot of disposable income, the car dealerships, the bowling alleys, the clothing stores. Pick one, right? You will find that it is not just the farmers who will struggle if we're short on cash, not because we need a handout but because we're in a crunch of money because our product can't be sold. It is going to start affecting the entire economy. When you start seeing things like processing plants that can't get supply laying off employees, this is serious. This is a crisis that very quickly could become a catastrophe.

In answer to your question, I've heard people talk about not planting their crop. I hope that doesn't happen. I've heard people talk about planting a crop and putting very little fertilizer with it. I hope that doesn't happen. I've heard people finding very creative loans. There are a lot of people suggesting a lot of things, but it's a crazy amount of money to put in a new crop. We rely on the previous

harvest to pay for it, so there are a lot of ideas being talked about. This is February. Ask me that question again in April. I'm really hoping in April we'll say, wow, did they ever come through, and all that grain moved.

[*Translation*]

Ms. Francine Raynault: We heard earlier that plants would not receive the canola they need to make oil. Plants will be affected also because they will not have access to their base product, the harvested product they need for production. Will this automatically lead to additional costs for consumers?

• (1725)

[*English*]

Mr. Rick White: Sooner or later the product has to move, so I guess in terms of our reference to rail service when it comes to the export of oil I'm just trying to articulate that there are problems, even with the commercial movement. There's still movement going out of those facilities. There is still oil being exported, but it's the opportunity that we're being held back from, from expanding that, hitting the market hard when the market is paying for it. We are completely hamstrung right now at average, and we're facing everything but average, not only from a farmer's perspective but from a processor's perspective, and from goods from other industries' perspective as well.

Things are moving, but if we can't move canola oil into the U.S. market, for example, they'll be happy to fill the store shelves with soybean oil. That's a huge opportunity cost for Canadian farmers.

The Chair: Thank you very much, Madame Raynault.

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

Mr. Pierre Lemieux: Thanks very much, Chair.

What I'm going to do is finish my previous comment, because the chair so rudely cut me off in the last round. I won't ask you the same question about what impact a strike would have, because it was clear from our earlier witnesses that a strike would have a devastating and catastrophic effect on a situation that is already bad. What I want to say is that we as the government obviously agree with you, which is why we put forward the notice of legislation so quickly. We realize the impact a strike would have on you and on other sectors of the economy.

I want to ask a question about rail caps. On the one side of the argument, they keep rates reasonable and known to farmers; but on the other side of the equation, they could actually undervalue, from a rail point of view, the shipment of grain versus the shipment of other commodities that might pay more for a locomotive to pull cars.

I want to ask your opinion, Allison, on these caps on agricultural products. Do you think they are a good idea? Do you think they might in fact be having an adverse effect right now—I don't have an answer to this question—when a rail company might perhaps earn more revenue from shipping other commodities in other types of cars?

Ms. Allison Ammeter: No, we as grain growers do not feel that the revenue entitlement—it's really an entitlement, not a cap—is a constraint for grain movements. It's not limiting them. They can haul as much grain as they want. Actually, it's only about 50% of the corridors that even have a cap.

Mr. Pierre Lemieux: I'm coming at it from a slightly different perspective.

Ms. Allison Ammeter: Oh, did I miss the question?

Mr. Pierre Lemieux: I'm coming at it from this perspective. If a locomotive can pull, say, 200 cars and it has a choice of pulling, for the sake of simplicity, 200 grain cars or 200 oil tankers, and it gets more money for pulling oil, would the cap in that case be having an adverse effect on cars being made available for rail shipments?

Ms. Allison Ammeter: Do you want to take this?

Mr. Rick White: Yes, sure.

I think I understand the question.

On the issue we've looked at as growers—whether the revenue cap has any bearing on the level of service we're getting—we've come to the conclusion that it has not. We're around the table of the Coalition of Rail Shippers. They pay full-blown commercial rates. They pay through the nose for some of their movements, just as they pay through the nose for commercial shipments of oil from crushers in Canada into the U.S. They pay dearly for that.

We are all experiencing the same low level of performance from the railways. We see no correlation between the revenue cap on grain movement and commercial movements that pay a lot more money. We're all getting very poor service.

In our opinion, the revenue cap is adequate revenue for the railways to get the job done, but as a monopoly they have a profit-maximization scenario aiming to minimize their cost of movement all the time, whether the revenue is there or not. The revenue just allows them to charge what the market will bear, and that will not significantly impact their day-to-day decisions on what gets moved, in our view.

Ms. Allison Ammeter: I would agree.

Mr. Pierre Lemieux: If there is greater profit, you would think that would lead to a business decision in favour of the sector of the economy that offers them greater profit.

Ms. Allison Ammeter: You would think it would.

Mr. Pierre Lemieux: It would be, you would think, just an average sort of business decision.

Mr. Rick White: You would think so, but in that case grain would be the last commodity to move. We wouldn't get any grain movement. We'd have oil, we'd have cars, we'd have forest products,

we'd have everything else moving and no grain. But that doesn't occur, and it's all because of the common level of carrier obligations under the Canada Transportation Act, that the railways must provide suitable and adequate accommodation for all.

● (1730)

Mr. Pierre Lemieux: Okay. Let me ask a question about farmer payments and the way they work.

Allison, you were explaining that the farmers are paid when they move their product to market—or it goes to the grain elevators and they can move it off to the markets. I'm assuming that year to year that system generally works—generally. You're able to pay off your loans. You're able to take out a new loan for the next growing year.

This is my question. We heard before that really the rail companies were underperforming last year by 5% in rail movement or ability to move tonnage, putting aside any comparison with the crop this year—let's say it was 5% less. But farmers are in fiscal constraint here. Is that because the price of crops is so low this year, then, because of the lack of...? I just want to clarify this, that it's not so much on the volume now, but on the low pricing that results from not being able to ship more product to market.

Ms. Allison Ammeter: It's actually a perfect storm of several things. It's that our price dived after harvest, largely due to both the volume and the fact that they weren't moving it. It's the fact that the railways not only are not moving enough grain, but they're not moving it representatively. For example, where I am on the Highway 2 corridor, we're close to the Vancouver port. They're taking more of our grain. I heard about an elevator at Tisdale that hadn't had a car since November.

Mr. Pierre Lemieux: That was my other question—

Ms. Allison Ammeter: It's not correctly done, either.

The Chair: Mr. Lemieux—

Mr. Pierre Lemieux: I have many more questions, Chair.

The Chair: I know. You likely have two or three more questions, but our time is up.

Witnesses, I want to take the time to thank you for your great presentations. It is an issue that all parties and all of us have a grave concern about. We will continue with this study on Wednesday. At that time, there will be the rail organizations and other producer organizations here, I believe.

I would ask the committee to just sit tight for a minute, because we have to do a little internal business to pay for this.

Thank you very much, witnesses, and all the best.

This is about the budget. It is moved by Mr. Hoback that we would accept the budget. It's to pay for the witnesses to come in.

(Motion agreed to)

The Chair: Thank you. Well done, guys.

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>