



HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

Standing Committee on Agriculture and Agri- Food

AGRI • NUMBER 120 • 1st SESSION • 42nd PARLIAMENT

EVIDENCE

Tuesday, November 27, 2018

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Chair

Mr. Pat Finnigan

Standing Committee on Agriculture and Agri-Food

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• (0845)

[Translation]

The Chair (Mr. Pat Finnigan (Miramichi—Grand Lake, Lib.)): Good morning, everyone.

[English]

This morning, pursuant to Standing Order 108, the committee proceeds to a briefing on the provisions for the transport of grain during winter 2018-19 to find out what it looks like for the coming year.

With us this morning from CN, we have Mr. Sean Finn, Executive Vice-President and Chief Legal Officer, Corporate Services, and Mr. Michael Cory, Chief Operating Officer and Executive Vice-President.

We also have, via video conference, from the Canadian Pacific Railway, Joan Hardy, Vice-President, Sales and Marketing, Grain and Fertilizers.

We'll start with opening statements.

Mr. Finn, you have up to seven minutes, if you want to give us the latest.

[Translation]

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

I would like to thank you very much for giving me the opportunity to testify before the committee this morning.

There have been several positive developments in the past nine months, since we last appeared before you in March. We value the fact that you have invited us to present to you the implementation of our western Canadian grain plan for the 2018-19 crop year.

[English]

Let me say at the outset that we believe the current crop year to be pivotal. The issue is clear. We must overcome the challenges the grain-handling system faced in the previous crop year. To meet the needs of western producers and all our customers, CN is in the midst of an unparalleled \$3.5-billion capital investment in our infrastructure and human capital. That is up \$700 million from last year and represents 25% of our gross revenues. For every dollar we earn, 25¢ goes back into the properties to improve our capability of delivering our customers' goods over a long period of time.

On July 31, we tabled, pursuant to Bill C-49, a copy of the grain plan—you have a copy in your material—that sets out how CN intends to move the grain crop through the grain year 2018-19. Pursuant to Bill C-49, on October 1 we filed a winter plan that sets out in detail how the railway will move the grain crop with other commodities through the more challenging winter period.

[Translation]

As part of Bill C-49, we were able to consult our stakeholders in detail. We didn't just prepare a plan for grain transportation and a winter operating plan. We took the time to meet with our customers, shippers and the entire western Canadian agricultural community. The idea was to consult them before tabling the plan on July 31. We were very pleased with this opportunity to table the plan, but more importantly to consult with stakeholders in the agriculture industry and western Canadian grain producers.

[English]

On that note, it's my great pleasure to introduce my colleague Mike Cory, EVP, chief operating officer, to update you on the movement of grain this year.

Mike.

Mr. Michael Cory (Chief Operating Officer and Executive Vice-President, Canadian National Railway Company): Good morning, everyone. Thanks for the invitation.

How are we doing? The crop year is off to a very strong start, in spite of some challenges caused by early weather issues across western Canada, which, in some regions, delayed the harvest by many weeks. To this point, CN is on a record pace for grain movements out of western Canada. From week one through week 17, we've shipped 9.38 million metric tons of grain and processed grain products, as compared to our previous best of 9.07 million metric tonnes in 2016-17. This is 3% ahead of our former record.

We could have even done better. The reality is that there were more than 8,000 car orders cancelled since the start of the crop year, and in large part this is the result of the lack of grain availability caused by the delayed harvest. Now that most of the grain is off, producers and grain companies are dealing with the consequences of a late harvest and a lot of damp grain, which also slows down the system. In our grain report, we've indicated that we expect to move 5,500 hopper cars from the CN supply fleet each week during the peak months when the port of Thunder Bay is open and 4,000 cars per week when it is closed during the winter months.

We also move close to 700 to 900 private grain cars controlled by our customers. We've been consistently shipping this range per week in addition to the CN cars. This represents a significant evolution in the system. Four years ago, the number of private cars moved would have been in the order of just 20 to 30 private cars a week.

What has changed since we last met you back on March 19 and what has enabled us to significantly improve our performance? At that time, we indicated that our service had deteriorated due to a dramatic increase in traffic across virtually all areas of our business. This increase significantly exceeded both our expectations and those of our customers. In response, we've made very significant investments in both people and infrastructure. As Sean mentioned at the beginning of his remarks, the decision was made to increase our capital spending for 2018 to a record \$3.5 billion, with the emphasis on capacity and enhancing projects in western Canada where the bulk of the traffic increase has occurred.

Specifically, we've installed more than 60 miles of double track in areas where congestion has been causing delays. We added or lengthened 10 sidings in the Vancouver and Prince Rupert corridors and we have increased yard capacity in key locations such as Winnipeg, Edmonton and Melville. These priority projects, most of which are now complete, have already had a positive impact on the fluidity of our network. At the same time, we've been focusing on increasing our workforce. Our Winnipeg training centre has been working at capacity for the past year, ensuring we have sufficient trained operating people in place. As a result, we now have 1,250 new qualified conductors in the field, which is a significant increase from last year.

We have also made significant investments in equipment. Specifically, we've ordered 260 new locomotives to be delivered over the next three years, with 60 in place before the end of 2018. We've also ordered 1,000 new high-capacity grain hopper cars, which will enable us to begin replacing the aging Government of Canada car fleet. We expect 500 of these new hopper cars will be delivered prior to the end of the crop year. We have ordered additional new centerbeam cars to serve our forest product customers.

Make no mistake, while we are pleased with the progress we have made, challenges remain. With the harvest finally complete, demand over the past several weeks has been well beyond what the grain supply chain can realistically handle. For example, in week 16, we received almost over 7,000 car orders, which significantly exceeds what can be handled, particularly with some congestion challenges at port terminals.

We expect demand for grain cars will remain strong well into the spring. The thousands of cars that did not move in September and October because of delayed harvest is capacity that was lost. It can't be transferred into months where we are already operating at capacity. Farming, like railroading, is an outdoor enterprise and we are both at the mercy of nature. For example, the inability of terminals in Vancouver to load when it's raining continues to present problems, especially during the rainy winter months on the west coast. The inability to load in the rain can lead to terminal congestion forcing us to hold trains en route to the port, or in the country. This leads to increased car cycle times, which reduces the overall capacity of the system.

Finally, I would note, the increase in the shipment of crude by rail due to a lack of pipeline capacity has received a lot of attention in the recent weeks. We recognize the critical importance of the oil sector to the west and will do our utmost to move additional volumes of crude when we have the capacity available. While we will do our best, we cannot increase our crude oil transport to the detriment of the other customers, particularly western grain producers. While recent weeks have seen an increase in crude traffic, we've also seen a slowdown in the movement of some other products, such as frac sand.

● (0850)

As I stated previously, we've increased our overall network capacity through significant investment, so no one should assume that more crude moving means less grain. In that regard, it is important to remember that very little crude moves west, which is the primary destination for these other commodities.

In conclusion, we are in a much better place than we were last crop year. That said, we need to be clear-eyed about the challenges that lie ahead. Winter always creates issues, and the impact of the late harvest will be felt throughout the crop year. However, with the investments we have made and the focus that we have brought, we are confident that CN is up to the challenges and we will continue to get the job done.

Thank you.

The Chair: Thank you, Mr. Cory.

Now, we will go to Ms. Hardy for up to seven minutes.

Ms. Joan Hardy (Vice-President, Sales and Marketing, Grain and Fertilizers, Canadian Pacific Railway): Good morning.

Thank you, Mr. Chair.

I appreciate the opportunity to meet all of you. I am sorry that I couldn't be there in person, but it's good to meet you remotely.

Mr. Dreeshen, it's good to see you again. We met at the Paterson elevator opening this fall near Calgary.

I am CP's Vice-President of Sales and Marketing for Grain and Fertilizers. Just by way of background, prior to joining CP earlier this year, I spent many years working for a grain shipper in Winnipeg.

Thank you for the invitation to speak with you this morning. CP appreciates the opportunity to discuss our plan to move Canada's grain during this crop year and the upcoming winter.

CP operates a 13,000-mile transcontinental rail network across Canada and the U.S. Our rail network is a critical component of North America's integrated supply chain. Grain is CP's largest line of business. It represents nearly one-quarter of our total revenue.

CP stands ready to safely and efficiently move grain during this crop year and we are off to a good start already. This year's Canadian grain crop is large. Our current estimate is that the crop is between 70 million and 72 million metric tons. When we add in the higher-than-normal carry from the previous year's production, the total crop to move is approximately 83 million metric tons, which is 5% higher than the prior five-year average.

Even though we are currently seeing strong demand from many other lines of business, our railway is performing very well, and our focus on grain is unrelenting. In fact, we broke our all-time record for the movement of grain in October, moving 2.64 million metric tons of Canadian grain and grain products.

Because of strong demand, CP is investing in significant new resources. We have more than 1,200 employees in training. The majority are running trades employees—the men and women who operate the trains. They are being deployed over the coming months. We've all added more than 100 fully remanufactured high-horsepower locomotives, which increases our road power fleet by about 20%.

Based on current forecasts, CP's operating team plans to consistently spot 5,500 hopper cars weekly for the movement of Canadian whole grains through the fall. We've done just that again with 5,540 hopper cars spotted last week. We plan to continue at this pace until the closure of the port of Thunder Bay in late December. Thunder Bay is an important outlet for Canadian grain. Through the winter months with Thunder Bay closed, CP plans to supply approximately 4,000 cars per week with CP equipment for the loading of grain.

Further, CP anticipates moving, on average, an additional 850 cars weekly of grain products in mostly customer-supplied cars throughout the crop year. These expectations, of course, are contingent on strong co-operation from, and coordination with, all components of the supply chain.

CP has significantly increased our capital investment in 2018. We are investing \$1.6 billion dollars this year to enhance both safety and service. A significant portion of that—approximately half a billion dollars—is dedicated to new high-capacity grain hopper cars. We placed an initial order for 1,000 cars with National Steel Car of Hamilton, Ontario. CP has already received 261 of these new hopper cars. We will have 500 in service by the end of 2018 and then another 500 in the first quarter of 2019.

Over the next four years, with these 1,000 cars as the base, we plan to purchase a total of 5,900 new hopper cars, which will fully replace the old low-capacity Government of Canada hopper cars. The new car design is shorter and lighter, and it features a three-pocket configuration that allows for more efficient loading and unloading, and simpler maintenance. The new hopper cars can handle 15% more grain by volume, and 10% more load weight than can the cars being retired. Their shorter frame allows more cars in a train of the same length, though a train of the same length as today's standard—7,000 feet—will carry 16% more grain with these new hopper cars.

CP is also driving the new standard in grain transportation—a high throughput elevator capable of loading an 8,500-foot train clear of CP's main line track in 16 hours or less.

● (0855)

These new elevators will use a power-on model, which means that CP's locomotives stay with the train and are used by the elevator for the loading operation. When the loading is done, the power is there, allowing for quick and seamless departure from the elevator. Along with our new fleet of high-capacity hopper cars, this new standard will significantly increase the volume of grain the supply chain can move over a crop year.

CP currently services seven 8,500-foot loop-track elevators across the Prairies. Four additional 8,500-foot-capable facilities have been announced on our network this year. CP is continuing to negotiate and work with our customers to upgrade most of the network to an 8,500-foot model.

Now, let me make some comments about our winter planning at CP. We all know that harsh winter conditions are an operating reality for all modes of transportation in Canada. Winter conditions can profoundly affect railway operations and our ability to maintain service to our customers. As we Canadians know, not every winter is the same. The severity, duration and geographical scope of harsh winter conditions can vary significantly.

When temperatures drop below -25°C, a train's speed, length and weight must be reduced to ensure safety, which is always CP's number one priority. The reduction of these factors unavoidably constrains the rail system's velocity and throughput for a period of time, which in turn, reduces the supply chain's overall capacity. CP is employing a distributed power configuration on trains, placing locomotives in mid and end positions, which partially mitigates the need to reduce train length in cold temperatures by adding air pressure to the brake system throughout the train.

We also need to be constantly vigilant to the threat of avalanches through our mountain corridors in Alberta and B.C.

CP deploys significant resources each year to forecast and plan for winter, and then to mitigate the impacts as much as possible. Fortunately, CP has achieved improvements to winter performance in recent years through significant investments in track infrastructure and rolling stock and strong winter planning with our customers and the broader supply chain. Nevertheless, the impact of winter on a railway's performance can never be eliminated. No matter what action is taken, tough winter conditions will always constrain the system's capacity, impacting service through some periods. Proper planning is essential, but it can never completely insulate a railway from the effects of winter.

Again, I thank you for the opportunity to speak with you this morning, and I'm happy to take any questions.

● (0900)

The Chair: Thank you, Ms. Hardy.

Now we'll start our question round.

[*Translation*]

Mr. Berthold, you have six minutes.

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

Mr. Finn and Mr. Cory, thank you very much for coming and being with us today.

Good morning, Ms. Hardy.

Since last year, a lot of work has been done by both companies. You didn't wait for Bill C-49 to pass to adopt measures and try to correct a situation that was of great concern to farmers and grain producers.

You have already admitted that there are significant challenges this year due to the late grain harvest. What makes a railway company give priority to one customer over another? That's the question I get asked the most. You said there was an increase in demand in all sectors. What guides a railway company in its decision to move grain or oil?

Mr. Finn can answer first, then Ms. Hardy.

Mr. Sean Finn: Thank you very much for asking this excellent question.

First, it's important to understand that the rail system extends over 26,000 miles across North America. It is also important to realize that it's an external network.

We have to make choices every day. We have an obligation to provide our customers with services that meet the standards we impose on ourselves so that their goods reach the market in a timely manner. In making our decisions, we ask ourselves how we can ensure the network operates smoothly while serving our customers. It isn't as if, one morning, we make the decision to move grain that day, coal the next, and oil next week. We must transport all goods on a daily basis.

We must take into account certain situations. For example, if there is no more space at the Port of Vancouver because cars aren't unloaded while it is raining and, for logistical reasons, the boats haven't arrived yet, we often transport the wheat to Kamloops and wait until the boat is in position before bringing our cars into Vancouver to serve the customer. If we sent all the wheat cars to Vancouver, we would risk clogging the Vancouver terminal.

These are choices that are made on a daily basis. People's perception that we choose one commodity over another is unfounded. We have to serve all our customers and it's a fairly complex network. Railroading is a team sport. It is also a sport that becomes more difficult during the winter, but that is no reason not to serve our customers.

I assure you that the choices are made daily by the people on the farm, so that all our customers receive the services to which they are entitled and that their goods reach the market. If we do not do so, we will damage the reputation of grain producers, the reputation of Western Canada, but more importantly, Canada's reputation as a commodity exporting country.

Mr. Luc Berthold: Ms. Hardy, would you like to add anything?
[English]

Ms. Joan Hardy: Thank you.

Of course, as a common carrier, we have an obligation to move all commodities that are offered to us. Grain is a very large and important commodity for us. Twenty-four per cent of our revenue is associated with grain, so it's a very important one for us but so are the other commodity groups.

It is a daily balancing. We are really managing supply chains with our customers. Just as certain supply chains require surges in service, for example, to meet a vessel or satisfy a sale, we're balancing all the time with the shippers we're dealing with. Really, our objective is to provide sustainable, balanced service to all of the commodity groups. Certainly, we're cognizant of what our shippers are requiring on a day-to-day basis, to make sure that we are meeting their demands as fully as possible.

● (0905)

[Translation]

Mr. Luc Berthold: As parliamentarians, we are sometimes forced to intervene in the market. However, it isn't always with pleasure that we do so. I think your presence here indicates that the committee is interested in following the matter throughout the winter. Indeed, for an act to be amended, there must be major concern in the market. Without transportation, that is, if we can't export our products and have access to foreign markets, the Canadian economy is worthless. You play a major role in this.

In your opinion, what are the consequences of this year's late harvest? What kind of season can we expect? You must already have an idea about this.

Mr. Sean Finn: You're right. We had a particular challenge this fall. We had committed to placing a minimum of 5,500 cars per week during the normal period and 4,000 cars during the more difficult period. The harvest is good this year, above average over the last three years, but perhaps a little late, based on the western Canadian region. That is one of the aspects. For example, during September and October, we had the capacity to deliver cars, but the grain had not yet been harvested. It is no one's fault; it is simply that there was snow on the ground, particularly in Alberta. As a result, many car orders were cancelled in September and October. Demand has now resumed. Challenges lie ahead for the coming year, as capacity that was not used in September and October cannot be transferred in December, January or February.

Mr. Luc Berthold: Do you have this capacity, or will you be delayed on the shipping side?

Mr. Sean Finn: I would like to point out that, for example, we placed 7,200 cars last week. This includes government cars and our own. That's 2,000 more than we thought we could place that week. The fact that the winter has been a little milder so far in western Canada has allowed us to catch up.

The capacity is there, but we'll never be able to get back what's been lost. The challenge for us is to provide a consistent service.

The Chair: Thank you, Mr. Berthold.

[English]

Mr. Longfield, you have six minutes.

Mr. Lloyd Longfield (Guelph, Lib.): Thank you, and thanks to both companies for coming in to give us an update.

As you know, at the beginning of last year, we had an emergency meeting to talk about the dire situation we were facing. It looks like we've had some progress. I know we've had some progress legislatively through Bill C-49.

Part of Bill C-49 talked about data sharing and transparency between the networks. How is that going between CN and CP, in terms of transparency of capacity, data sharing between the rail lines, and interchanging opportunities because of that?

Mr. Michael Cory: I could start, Joan.

I think the two railways understand that to make the supply chain work, they collectively have to work with each other to get the right grain to the port at the right time. When it comes to sharing, we talk daily. We talk weekly. We share information to make sure that each railway knows where their traffic is and how their network is performing. We fill in each other's gaps when need be.

Mr. Lloyd Longfield: Okay.

Ms. Hardy.

Ms. Joan Hardy: If I could just comment, as Mike says, the collaboration is quite incredible.

I just mentioned in my comments a minute ago about how we manage supply chains. Supply chains of grain companies are very integrated between CN and CP because typically they have elevators on both networks. Every day, for each of our major shippers, we have calls where data is shared about what trains are coming in from CN and CP, heading into the terminals. We actually transmit documents on a daily basis. It's very collaborative.

It's similar with interchanges. We're working very closely with each other when trains are coming through interchanges, so there is very much a data-sharing process.

CP—and I know, CN as well—publishes information every week on our website about how much grain we have moved in the previous week, so we're sharing that with our customers. We're also working very closely with customers on sharing data about their demand and their measurement of our service so that we are understanding their perspectives on how well we're doing.

● (0910)

Mr. Michael Cory: Our goal is to maximize every asset we have to get more grain to the port, both companies and with our producer shipping companies.

Mr. Lloyd Longfield: That's terrific. Thank you.

Ms. Hardy, you mentioned the distributed power solution. Something we talked about last year was about cold temperatures and how you get the pneumatics working on the brakes, putting mid-train power sources.... Is that a new system you're doing? Is it something that both rail lines are doing? Could you comment on if we get hit by another severe temperature in January or February...? Is that something new that you're going to be implementing this year?

Ms. Joan Hardy: No, this is not new for CP. We've been doing it for many years, but we are doing it much more consistently. Basically, our design is looking into winter and saying that in certain temperatures we need to make sure that we have a certain number of locomotives, both the mid- and end-of-train. We have been using distributed power, though, for many years.

Mr. Michael Cory: It's the same with us. We also have air compressor cars. We increased our fleet. These are boxcars with air compressors that, again, can be used either at the end, to Joan's point, or mid-train.

We increased our fleet this year by 33%, as well as purchasing new distributed power locomotives.

Mr. Lloyd Longfield: In terms of increasing by 33%, we're trying to get to \$75 billion in exports, and a big part of that is going to be up to you folks to move those exports to market. You've made that investment, yet we're going to be behind because of the delayed harvest. Where's the shortage? Is it in locomotives? It sounds like you're training a lot of people.

Mr. Michael Cory: No, I think it's the capacity of the entire supply chain. It's how quick the crane cars can be unloaded at the port terminals. It's the distance once you take away the short cycle going to Thunder Bay, where you now have to move those cars to eastern Canada or to places in the U.S.

Mr. Lloyd Longfield: Right.

Mr. Michael Cory: All parts of the supply chain have to add and create capacity. We feel that we're doing our part in terms of the rail infrastructure, the people and the locomotives. It's not a matter of a shortage. It's what the entire supply chain actually can handle.

Mr. Lloyd Longfield: Okay.

Ms. Hardy, I see your hand up.

Ms. Joan Hardy: Yes, thank you. I just wanted to make a comment on that.

In terms of the comment about being behind in the supply chain of grain, the harvest in our CP network started at the beginning of September. The harvest in the north was a bit more delayed but we have been moving very strongly since the second week of September. The fact that the harvest was slightly delayed doesn't necessarily mean that we're behind. What it means is that grain will move longer in a season. The markets will continue to be there.

Mr. Lloyd Longfield: Okay.

Ms. Joan Hardy: The capacity, as Mike says, is limited in many ways by the terminal availability and shipping and receiving as well. We're all going to be operating to the maximum of the supply chain that will be sort of in line with the grain as it is being presented.

Mr. Lloyd Longfield: Okay. Thank you.

Just quickly, maybe this doesn't apply to our winter season, but there's the deepwater port in Churchill and the opportunity it presents. Is there any opportunity there in terms of spreading out the shipments throughout the course of the year through Churchill?

I see some smiles.

Mr. Michael Cory: I think it's a little early. We railways don't dictate necessarily where cars go. We take an order from a shipper and we move it to where they direct us to move it to.

The Chair: Thank you, Mr. Cory and Mr. Longfield.

Mr. MacGregor, you have six minutes.

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

This is for CN rail. You mentioned the \$3.5-billion capital investment that's going on. How many years is that spread over?

Mr. Michael Cory: It's one year.

Mr. Alistair MacGregor: Just one year...? Okay.

With the forecast for an increased demand for rail services and the fact that, as Mr. Longfield mentioned, we have this target of reaching 75 billion dollars' worth of exports by 2025, do you feel that the capacity building you're going through is closing the gap, or are we simply swimming in parallel with the demand?

Mr. Michael Cory: Our view on investment is such that we're prepared to make the investments, as we showed this year. We look at business volumes and longevity. We look at so many things that we are prepared to spend the money to continue to do, whether it's to close the gap or to improve the overall reliability of the service and the supply chains that we're in. That will continue for us.

• (0915)

Mr. Sean Finn: Maybe just to add to that, what is not well understood is that in the last 10 years, there's been \$21 billion of capital investment over an eight-year period, with \$3.5 billion this year. I'll come back to a very important number. For every dollar we earn, 25¢ goes back into the property and capital improvements, both for safety purposes and for overall customer service.

We don't see that coming down. In the years to come, the runway may be a bit lower, but \$3.5 billion is a record amount for us and it's outside the norm for the North American rail industry, which is between 16% and 17% on the average. We're a bit of an outlier, but we did so because we realize it's important to invest due to our plans in Canada to export such great amounts of product going forward.

Mr. Michael Cory: We see the growth opportunities. We'll always be aligned with whatever there is to grow and provide a better service.

Mr. Alistair MacGregor: A big part of this capacity building, of course, is human resources. You've mentioned the number of hires that you have made.

A big issue over recent years has been fatigue of people operating the locomotives. I can only imagine that, through the winter season when they are under strain to move these volumes, this is a recurring issue. I was wondering if I could hear from both CN and CP on this. To what extent has fatigue played a role in delays of shipments? Can you talk about some of the measures that you're putting in place to address it?

Mr. Michael Cory: Do you want me to start, Joan?

Ms. Joan Hardy: Sure. Go ahead, Mike.

Mr. Michael Cory: I can't put a number on how many trains or what kind of commodity has been delayed as a result. However, it is an extremely important part of our safety focus. We have undertaken various pilots with our operating unions, not just pilot projects but scheduling schemes in various major terminals to start to get regularity of service so an employee knows when they're going to work. They can better prepare and better plan. We started that almost two years ago and continue to roll it out throughout our system.

For both railways, and I speak on behalf of CP, fatigue and safety are of the utmost importance for us.

Mr. Alistair MacGregor: Ms. Hardy.

Ms. Joan Hardy: Yes, as Mike said, safety is the absolute most important component when we're dealing with our employees. We're very cognizant of the limitations on hours of work that they can put in.

We have a 7% increase year over year in our total labour force, so we have increased the number of people we have available to work, which allows us to, obviously, handle more volume than we handled in the past, but we are certainly always focused on safety.

Mr. Alistair MacGregor: That's good to hear.

I'd also like both companies to comment on the next question.

You've both talked about the growing stock of private cars. What does this do in terms of your ability to forecast what your own network should be? If there's growing use of private cars, how are you staying on top of how many are in the system? How does that impact your own company's ability to forecast what you need to build? You've talked about investing in the new hopper cars and so on. I'd like some comment from both of you on the impact the private cars are having on your various networks.

Ms. Joan Hardy: Sure. I'm happy to do that.

First of all, when private cars come into our network, they're coming in with our being aware of it in advance. They're not just showing up unexpectedly. We're working with our shippers as they bring on their fleet. Typically in CP's network, when they're bringing on private cars, it's because they have a specific commodity to move, and it's best to have it in unique equipment. It allows those shippers to manage their own pipelines with their own equipment.

We continue at CP to provide a common fleet for the movement of grain, so these new hopper cars that are coming into our fleet are there for the movement of all of our grain shippers who are moving from grain elevators.

The private cars, in our case, are used primarily for grain products, processed products like canola meal and processed oats.

Mr. Alistair MacGregor: You can comment in my last 30 seconds.

Mr. Michael Cory: Whether it's LPG or other chemicals, we work extremely closely with our customers to get the proper forecast, because that goes back into building the right infrastructure and hiring the right number of people.

Nothing comes on as a surprise necessarily. We work very hard, though, with some commodity groups, because during the winter period, they feel they need more cars and really it hampers the system at times, the velocity of the network, but it's pretty much what Joan said. It's not a surprise.

• (0920)

Mr. Alistair MacGregor: Thank you.

The Chair: Thank you, Mr. MacGregor.

Thank you, Mr. Cory.

[*Translation*]

Go ahead, Mr. Breton. You have six minutes.

Mr. Pierre Breton (Shefford, Lib.): Thank you very much, Mr. Chair.

Ms. Hardy, Mr. Finn and Mr. Cory, thank you for being here today to give us an update on this important file. I believe we met last March on this issue.

I would like to continue the discussion you had with my colleague Mr. MacGregor regarding investments. I think it's important, given the capacity needs.

What are the biggest investments you have made? What is the status of the work over the past year? Have these investments enabled you to have the necessary capacity? You have partially answered them, but I would ask you to give us more details, because it is important for Canada's organizations and partners.

You can answer in turn.

Mr. Sean Finn: I'll start.

Our investments in the network increased from \$2.7 billion in 2017 to \$3.5 billion in 2018. So almost \$800 million more was invested in the network, much of it in western Canada, between Winnipeg and Edmonton, where there was an issue for us.

The Grain Plan, which we have provided to you, includes a November 2018 update. It's the first document inside the cover. There are blue lines on the back. It indicates that there are 27 investment projects, 21 of which have already been completed. You have the details for each network.

In the next two years, we will buy 260 locomotives. We have also hired 1,200 new locomotive conductors. Even more important, of the \$3.5 billion, \$400 million has been invested in the network between Winnipeg and Edmonton. You can read the details in the document. On this network, we are trying to have double-tracking over 60 miles at a time, which will improve resilience and redundancy.

We believe we are entering winter this year much better prepared than last year. We aren't perfect, and we still have work to do, but we will continue to make investments not only to increase capacity, but also to build resilience during more difficult export periods.

When the Port of Thunder Bay closes in December, we want all western Canadian grain to be moved to Vancouver or Prince Rupert. Investments will be made in that network. You have all the details in the document.

We publish updates every month to indicate where we're at. At this point, we are clearly demonstrating that the investments were made where there were problems last winter.

Mr. Pierre Breton: Thank you. Your answer has the merit of being very clear and showing good transparency.

What about on the CP side, Ms. Hardy?

[*English*]

Ms. Joan Hardy: We are spending \$1.6 billion this year on capital, which is a 20% increase over our spend last year. I mentioned already that half a billion of that is going into hopper cars, which are going to significantly improve the efficiency and capacity for the movement of grain. This year, we have also extended 11 sidings across western Canada, making the sidings longer to allow for more capacity and longer trains to meet each other. We have also added trackage in three of our major yards in western Canada, and have acquired 100 fully remanufactured locomotives, which is an increase of 20% in our road power.

Certainly our investments are strongly focused on improving and increasing our capacity.

[*Translation*]

Mr. Pierre Breton: Thank you, Ms. Hardy.

We talked about private cars, but what is meant by that? Has there been an increase in the number of private cars? As I understand it, CN owns cars and also leases cars from other companies.

Maybe I'm giving some answers that aren't at all correct. So I'll let you explain all this in more detail.

Mr. Sean Finn: It goes without saying that moving grain is a little complicated.

• (0925)

Mr. Pierre Breton: Yes, it's fairly complicated.

Mr. Sean Finn: People sometimes tell us that it's 10% protein and 90% politics.

Mr. Pierre Breton: Ha, ha!

Mr. Sean Finn: In this case, it's quite simple. There is a fleet of cars owned by the Canadian government, which is shared between CN and CP. When we say we place 5,500 cars during normal periods, and 4,000 during difficult periods, we're talking about cars shared between CN and CP for our customers.

Mr. Pierre Breton: Great.

Mr. Sean Finn: And some customers started buying private cars. They own them.

Mr. Pierre Breton: All right.

Mr. Sean Finn: Five years ago, we were moving 30 to 40 private cars a week. Last week, we moved between 600 and 800. Now companies that elevate grain own cars, and they are part of the shared fleet. This allows us to have a fleet reserved for certain customers and to respond directly to their needs. Today, the fleet has a much larger capacity thanks to the investment by grain companies in the cars reserved for them.

[English]

Mr. Michael Cory: These are commercial contracts that we sign with our customers, where they provide the fleet. This is an addition to the actual grain fleet that we have.

[Translation]

Mr. Pierre Breton: So they are your locomotives and your railways, but you use customers' cars.

Mr. Sean Finn: They are our employees, our locomotives and our railways. There are more and more private cars for moving wheat. As far as moving oil is concerned, the fleet is almost entirely owned by oil producers.

Mr. Pierre Breton: Thank you very much.

The Chair: Thank you, Mr. Breton.

Mr. Peschisolido, you have six minutes.

[English]

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

I'd like to thank Mr. Cory, Mr. Finn and Madam Hardy for joining us.

I'd like to follow up on Mr. Longfield's point about the whole supply chain, the various terminals and how the integrated system functions. I was intrigued by Mr. Cory's focus on the importance of the shippers. I'm assuming they want to get the grain out quickly and efficiently, as do you. You mentioned that you were doing your part. Can we talk a little bit about the role of the ports in this system?

I was intrigued by Mr. Finn mentioning Prince Rupert. I was surprised by the comment that it's difficult to get grain out at some of the terminals in Vancouver when it rains. You don't have to be a strategic thinker to know that it rains a lot in Vancouver.

Could I have your comments on the overall supply chain and what the role could be of a modernized system with Prince Rupert? As well, Ridley Terminals has been put up for sale by the government. I'm wondering about what role that could play and about the relationship in terms of Prince Rupert, Ridley and port metro Vancouver.

Mr. Michael Cory: Let me start by saying that the Prince Rupert grain terminal is separate from Ridley. Ridley is the coal and coke terminal.

I don't know how to answer your question. Every participant in the supply chain needs to have resiliency. As we've spoken about, whether it's more track, more people, more cars or more locomotives, we know there will never be a perfect linear movement of grain. You need to be able to catch up.

For the terminals in Vancouver, it's somewhat the same. If there's heavy rain and they can't load the grain into the ships because we can't use tarps or holes, then that stops the entire system. What we work with them on is to first of all make sure we have the proper understanding of what they're going to unload, how they're going to unload it and what grain they need from us so that we can get it there and maximize that part of it. The resiliency we need in a place like Vancouver is to be able to unload 24 hours, seven days a week, in the rain, just like we need to be able to run when it's 30 below zero and snowing dramatically. In terms of rain, Joan can speak to the issues of going through the spiral tunnels.

Those are all very tough things we need to have resiliency on, and that will definitely help the supply chain.

Mr. Joe Peschisolido: Madam Hardy.

Ms. Joan Hardy: Just this fall, some of the major terminals we're servicing finally shifted to 24-7 operation. That is a game-changer. As the railways, we have been encouraging 24-7 operation for a long time. As soon as you have a day when you're not unloading, it creates bumps in the supply chain. It causes trains to be stopped and it's difficult to get them started again. We're almost there with almost all of the terminals in Vancouver working 24-7. It's not quite all, but almost.

The rain issue is a concern. Until this spring, terminals in Vancouver had been able to load in rainy conditions using two operations. First, they were able to load through the feeder hole. Some decks of ships have holes in them. They were primarily started to load cement into ships, but basically grain shippers started to use these feeder holes to put their spouts in and load in the rain. They were also able to load using a tarping system. This spring the unions declared...it was declared that this was an unsafe operation. Right now there is no ability for the grain terminals to load in the rain. This is a concern, because when we get into our rainy period, it can cause serious delays.

We understand that there's a fix to that and that the feeder hole operation will be able to be used again shortly, but it's still not there. Already this fall there were a couple of situations where three to four days of rain happened and suddenly railcars could not be unloaded because the space in those terminals was fully taken up.

Anything that can be done to encourage these rain loading practices to be able to be used again would be very helpful.

● (0930)

Mr. Joe Peschisolido: Ms. Hardy, thank you.

You mentioned that there's a new investment of 20% from the \$1.6 billion. CN also talked about capital spending of \$3.5 billion. I have a couple of questions on those numbers. Is the \$3.5 billion new? If it isn't, what increase is there?

In your testimony, you focused on two important areas—hopper cars and folks being trained to deal with the system. Are there other areas of importance in the capital spending that you'd like to talk about?

Mr. Michael Cory: For us, capital spending starts with the hardening of the track, and that's an every-year endeavour, so it's basic capital. It's new rail, new ties, new ballast and making sure that the bridges and structures are all sound and safe. Every year, we spend well over a billion and a half dollars just to maintain the regularity, fluidity and safety of the plant.

Our capital investment this year has been focused on creating capacity in known pinch-point areas, what I call the breadbasket, between Winnipeg and Edmonton and between Edmonton and Prince Rupert. We've put new sidings and double track. Along with that, we've invested money in major terminals in Winnipeg and Edmonton, because those are locations that are like an ingress or egress in a highway system. That's our major highway and that's where new cars will come on and come off so we built a—

The Chair: Thank you, Mr. Cory. I'm sorry to interrupt.

Thank you, Mr. Peschisolido.

Mr. Dreeshen.

Mr. Earl Dreeshen (Red Deer—Mountain View, CPC): Thank you very much, Mr. Chair, and my thanks to all of our witnesses.

I had the opportunity to be out at the Paterson plant in Bowden, and I had a chance to see the loop tracks working. I know that very soon on CN, not too far from me, there will be a similar one. Farmers in central Alberta are looking forward to that. It seems to be working extremely well. The fact that you can keep the locomotives hooked on the entire time and the amazing speed at which they are able to move product is certainly helpful. I know that this investment by both the grain companies and the railways is certainly appreciated.

In our discussions today, one comment was about the delay in harvest and how people are necessarily behind. There was grain that had come off in August and September. The problem was that we didn't have the sources. The shippers didn't have all the grain that they typically would have so that they could mix and move out what they wanted, so there are certain types of commodities that had difficulty that way. It's starting to move now and there's still the issue of when the train is going to be there, and the grain companies are getting all their crews together and expecting that a train will be there. It doesn't always happen the way in which it is intended.

When we're talking about investments to make grain cars and to deal with all of that and the tracks, the first thing you need is steel. There is a serious concern with the billions of dollars being invested by both CN and CP and how much they're being caught up in trade and tariff issues.

I'm wondering if both CN and CP could give a perspective on that so that we get an idea of how it might affect each of you.

• (0935)

Mr. Sean Finn: We have not heard from the car suppliers or the rail suppliers about any supply issues. Those are large investments. When you set up a line to produce grain cars in Hamilton, actual steel cars, you'll produce the thousand cars, and ultimately, if other cars are needed for other commodities, this can become a challenge. There's a steel issue about making sure you have the capacity to build the cars in Canada. When you place an order like we have and CP has, for hopper cars, centerbeams and boxcars, you're eating up

the capacity to build cars in Canada. That may be a challenge going forward.

We've not heard from wheel suppliers or rail suppliers about any issues with the supply of steel. Canadian-produced steel will be used in Canada, because if we can do it in Canada and ship the products out from here, tariffs will not apply to us. There's an attraction to do more manufacturing in Canada because of that.

Mr. Earl Dreeshen: Ms. Hardy, would you like to add something on the locomotive side?

Ms. Joan Hardy: Yes, we're very pleased that we've been able to order our cars from National Steel Car. It's great to keep the construction in Canada. It's a very efficient pipeline for getting the cars into service. Keeping it Canadian has been really good for us, and we're hoping to be able to keep much of our 5,900 car acquisition in Canada as well.

On the locomotive side, we have remanufactured 100 locomotives. As we go forward, it's going to be a watch point for us if steel suddenly starts to increase the cost of components or equipment, but for now our contracts are in place, prices are set and things are going well.

Mr. Earl Dreeshen: Thank you.

The other point that was discussed earlier had to do with the loading of grain on the west coast and the concerns about rain and how it affects that. Again, it seemed to be logical. If you're dealing with the feeder holes that are there, you could certainly get the majority, or get the trains, loaded.

I understand the tarping issue, but what I don't quite understand—and I made a note earlier—is this: When looking for a solution to take care of that bottleneck, is it concern about the grain because you don't want it getting poured on, or is it concern about personnel? When the union is looking at it, obviously, its interest and concern is going to be with personnel, not with the product. That's a different issue.

What are the concerns? What are they looking at? Is there a solution, or are they simply saying, “We're not going to be out in the rain”?

Ms. Joan Hardy: The concern, certainly, was raised because of safety. The employees who were doing the loading felt that it was not a safe operation.

What I understand is that there is a new system that's been developed using guardrails that will go around the feeder holes, and that training is under way. Once that's in place, we understand that—and, really, it should be the grain terminals explaining this in more detail—they will be able to use the feeder hole operations.

Certainly, the reason that you can't load in the rain without some sort of protection is that there could be damage to the product, as you say. These were just the two—

The Chair: Thank you, Ms. Hardy.

Thank you, Mr. Dreeshen.

[Translation]

Mr. Drouin, you have six minutes.

[English]

Mr. Francis Drouin (Glengarry—Prescott—Russell, Lib.): Hi.

Thanks to the witnesses for being here.

I'm having a hard time understanding the issue of rain. We haven't been shipping grain for the past year or two. We've been doing this for decades. There hasn't been any innovation to transfer from the cars to the ships in decades...?

I'll ask the question to all of you who are involved in this. Who's responsible for this? I just can't believe, for the life of me, that nobody has come up with a solution that's acceptable to the workers and acceptable, at the end of the day, to the customers—because, at the end of the day, if they don't get their grain on time, then, as Mr. Finn said, Canada looks bad. I'm wondering if they are now working on a solution.

I'll go to you, Ms. Hardy, first.

Ms. Joan Hardy: Let me just explain this.

The grain, when it gets to the port, comes out of the railcars and goes into the terminal elevators. The loading into the ships is really not a railroad issue. This is an issue at the terminals. I'm only explaining it because it is something that can impact the supply chains.

There was a solution to load in the rain up until this spring. I think that it was about March that the longshoremen's unions in Vancouver declared it to be an unsafe practice. The B.C. Maritime Employers Association is dealing with this, with the local ILWUs.

• (0940)

Mr. Francis Drouin: It's impacting your business, as well, right? I just can't believe that nobody got together and said, "Hmm, rain is an issue. How do we fix it?"

Mr. Michael Cory: We have, over many years.

To Joan's point, this is something relatively new. What happens is that the elevator, itself, which has compartments that grain gets unloaded and separated into, becomes full. It gets full if you can't put it in the ship.

That's where we come in: when the cars sit.

Mr. Francis Drouin: Yes, that's right. However, with regard to getting it from the elevator to the ship, nobody has come up with an acceptable solution in decades. I can't believe that we're talking about this today.

Mr. Michael Cory: I think it's improved, though. Again, we're railroaders.

Mr. Francis Drouin: I know. It's not your fault. Perhaps we should invite the ports—

Mr. Michael Cory: We're part of the supply chain. It's not that people haven't worked on it, haven't worked together about it and improved it. It's just that, recently, something has happened to stop it again.

[Translation]

Mr. Francis Drouin: Mr. Finn, you said that your business wanted more trains and hopper cars. You want to buy 1,000 hopper cars, isn't that right?

Mr. Sean Finn: Yes, that's right.

Mr. Francis Drouin: You already have 11,500.

Mr. Sean Finn: Yes.

Mr. Francis Drouin: Will these 1,000 hopper cars be in addition to the 11,500 you already have, or will they replace aging ones?

Mr. Sean Finn: In the next few years, three kinds of cars will be transporting wheat on the CN network. First, there is the fleet of cars owned by the Canadian government and that have been around for over 30 years. Then, we have a growing fleet of cars from shippers. Lastly, CN has its own fleet, which is made up of 1,000 cars for moving wheat. All these fleets put together enable us to serve our customers.

At CN, there is no doubt that we need a larger fleet because the crops are getting bigger and bigger. Here is what's at stake. When the loaded cars arrive in Vancouver, they are unloaded into the elevator, but the elevator isn't unloaded into the vessel. It takes more capacity on the Prairies to reload the cars. What is important in procurement is the car cycle. The faster cars that leave western Canada for Vancouver, Prince Rupert or Thunder Bay are unloaded, the faster they can return to the Prairies to be loaded a second time. So it's important to have a fleet large enough to meet greater demand.

Mr. Francis Drouin: My next question is about predictability. We were often told that an order had been placed for seven cars, for instance, but only four cars had been delivered.

How can we work with the clientele to predict the number of cars that will be delivered?

Mr. Sean Finn: First, when the port of Thunder Bay closes in December, there is no doubt that all western grain must then be moved to either Vancouver or Prince Rupert. This is the challenge we face.

Second, with respect to supply chain capacity, we estimated that the number of cars that CN could move was 5,500 during normal periods and 4,000 during the worst weeks of winter. For us, the challenge is that there is much more demand than cars. Last week, for example, we were asked for 8,000, but we delivered 7,200. In this case, the demand was clearly greater than the number of cars available. In other words, demand was higher than network capacity. One reason for this is that it is very cyclical. From week to week, the number of cars that will be ordered for grain may vary. We need to manage this and ensure that cars are allocated to everyone so that they can empty their elevators and transport their goods.

To answer your question, our biggest challenge is managing the situation when there is more demand than cars available in the CN and CP network. When we have a difficult week, we have to catch up as quickly as possible. However, it is impossible to spread a weekly delay of 7,000 cars over 50 weeks and have enough cars to move the grain. The challenge for us is to estimate needs, determine where the grain is and move it quickly, so that the supply chain is as efficient as possible.

Mr. Francis Drouin: Thank you very much.

The Chair: Thank you, Mr. Drouin.

That brings our round table to an end.

Thank you, Mr. Finn, Mr. Cory and Ms. Hardy.

[*English*]

It's obvious that you guys have done a lot and continue to improve your efficiency to deliver the product to port. The question of rain seemed to be on everybody's mind and how come we can't fix that, but that's on the other end.

Thank you so much.

We shall break for a couple of minutes and then we'll be back. Thank you.

● (0940)

(Pause)

● (0945)

The Chair: Welcome to our second hour.

For this hour we have, from the Canadian Canola Growers Association, Mr. Steve Pratte, Policy Manager. Also, from the Grain Growers of Canada, we have David Bishop, Executive Committee Member, Board of Directors.

Welcome to our committee. You each have seven minutes for an opening statement.

Mr. Pratte, would you like to start?

● (0950)

Mr. Steve Pratte (Policy Manager, Canadian Canola Growers Association): Good morning, Chair, and members of the committee. I'm Steve Pratte, Policy Manager at the Canadian Canola Growers Association.

Thank you for inviting the CCGA here this morning to discuss our perspective on grain movement this year. The Canadian Canola Growers Association is a national association governed by a board of farmer directors. It represents Canada's 43,000 canola farmers from Ontario west to British Columbia. As members well know, grain farmers critically rely on transportation to move our products to continental customers and to terminal position for export to our global customers.

In terms of canola, Canadian farmers grow a truly global crop. We are the world's largest exporter of this highly valued oilseed, and in any given year, over 90% of Canadian canola, in the form of raw seed or the processed products of canola oil or meal, is ultimately destined for export markets in more than 50 countries. In 2007 this amounted to \$11.4 billion in sales.

Turning specifically to the movement of grain in this 2018-19 crop year, we have been very pleased with the recent aggregate performance of the grain supply chain. As we heard this morning, by various measures railway performance in the grain sector has been very strong, not only in total volume moved in the first 16 weeks of the crop year but also in terms of the various week-to-week performance metrics such as railway hopper cars supplied against shipper demand.

With any complex system, aggregate performance can mask specific issues, which in the grain supply chain often occur within the first and last miles of the movement and are very often specific to location or facility. Despite farmers' overcoming a challenging and late grain harvest in many areas of western Canada, the total system's performance has supported the relatively free flow of farmer grain deliveries into the country elevator and domestic processing streams, and the export of products continentally and abroad.

This is a good-news story—on balance. The grain supply chain to date has been relatively fluid. The performance of the railways in their service to our shippers, being the critical link between the elevator and terminal, is to be noted and given credit.

That stated, in western Canada we are now entering the annual period of lowering temperatures that will bring sustained system operational challenges and complexities, particularly, as we heard again this morning, for the railways. We encourage all supply chain partners to continue to work together to mitigate supply chain risks and swiftly deal with emergent issues.

To that end, it is worth making very brief mention of some of the early effects of recent changes to the legislative framework governing rail transportation in Canada that directly and indirectly impact winter railway operations.

Firstly, Bill C-49, the Transportation Modernization Act, contained a new feature aimed at enhancing annual communication and coordination of grain stakeholders: the annual publication of the August 1 grain report and the October 1 winter contingency report. The railways were given latitude in the preparation of these reports, and they did interact with grain shippers and stakeholders in the development of their inaugural publications. The grain sector is of the opinion that these reports are a good first step and that they could use some further refinement in the future.

Through this process and other corporate actions undertaken by the companies, the railways have certainly introduced a greater degree of communication and information sharing with the broader grain sector than existed even five years ago. I'll tip my hat to them for that.

In any year there will no doubt be specific or localized issues that arise, such as major line interruptions, and sometimes these will produce knock-on effects impacting a larger geographical region and extending deeper into the supply chain, essentially creating backlogs. Thankfully, this has not occurred to date, and hopefully it won't this year.

The real effect of these backlogs is that they negatively impact the farmers' ability to satisfy existing contract obligations with their grain buyers or their ability to sell into buoyant markets to receive payment to support their businesses, and ultimately, their families. In short, as members on this committee would know, if there's no grain delivery, there's no farmer payment.

If and when disruptions do occur, hopefully the suite of measures communicated to government and stakeholders in the railway winter contingency plan will suffice to bring a return to normal operations in quick order.

Secondly, Bill C-49 appears to have effectively dealt with the policy issue of the aging grain hopper car fleet. By amending several details in the calculation of the maximum revenue entitlement formula, the bill has had the intended effect of unleashing investment by both railways in the new generation of hopper cars, with announcements emerging from both companies immediately following the bill's receiving royal assent.

It should be noted, though, that farmers are ultimately paying for this railway investment through the structure of the maximum revenue entitlement, but it is a critical investment required to modernize the rolling stock. As the railways begin taking ownership in the coming months and continued fleet renewal occurs over the next several years, this is expected to produce significant increases in the efficiency of our grain supply chain when coupled with shortening cycle times and new train configurations, essentially allowing the system to move more with less.

• (0955)

Although the impact on this winter's movement may be negligible, moving forward, this will have a welcome and positive effect as the cars have a 50-year service life, and this will literally have positive impacts for more than a generation.

Finally, Canada has an aggressive trade agenda supported by recent trade agreements, and the agricultural sector plays a major role. Canada's canola sector and broader agri-food sector are focused on sustained, long-term growth, and this has been identified as a near-term driver of the Canadian economy.

The recent report of the economic strategy table challenged the agri-food sector with an ambitious target of \$85 billion in annual exports by 2025. The service provided by our two major railways will play a major part of supporting the sector's realization of this goal, as will the port of Vancouver.

CCGA encourages members to consider the critical infrastructure issues in the port of Vancouver and what the role of government, be it policy, programs or investment, could be. It is time to ensure that long-term capacity is in place to sustain this national economic activity, and this may require some bold approaches to the regulatory and investment environment. In particular, the critical last mile of the

grain supply chain into the port of Vancouver should be assessed and addressed.

In closing, this year we are heading into the winter optimistic but realistic about the railways ability to sustain their service to the grain sector and, more broadly, all commodity shippers.

Thank you for the opportunity to be here this morning.

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

Mr. Bishop, you have up to seven minutes.

Mr. David Bishop (Executive Committee Member, Board of Directors, Grain Growers of Canada): Good morning, and thank you for inviting me to present on this important issue. I'm glad to be here representing the Grain Growers of Canada, 65,000 grain farmers from coast to coast.

My name is David Bishop, and my wife, Mary, and I farm in Barons, Alberta. We produce cereals, oilseeds and pulses on 3,500 acres, including 640 acres of irrigation. My family's farming history in Canada dates back to 1910, and I began farming with Mary's parents in 1986. Currently, I'm also vice-chair of Alberta Barley, and I am past-president of the Alberta Seed Processors. I am proud of my involvement in commodity organizations and feel it is important for farmers to come to Ottawa to speak to you directly on these issues.

I would like to start by thanking this committee for the work you have done and continue to do on transportation. Transportation is an important issue for farmers across the country, and your past hearings, including the special hearing you held in March, helped to shed light on the challenges we have faced and has helped ensure the right solutions are put in place.

As this committee is aware, prairie grain farmers are almost entirely dependent on the rail transportation system to get our products to market in a timely manner. The unfortunate reality is that poor railway performance has prevented that from happening on almost regular five-year intervals. It is my hope that actions over the last year will help break the vicious cycle that has left farmers in a critical situation where we can't move our grain. As you know, when we can't move our grain, we don't get paid.

While my grain is moving well right now, the delayed harvest means that this year has not been without challenges. I experienced a five-week delay and a reduction in grain quality due to the bad harvest conditions and will now be counting on reliable grain service to move what I did get off.

The passage of Bill C-49 is a significant achievement for the rail shipping industry in Canada. It brings in measures long called for and rebalances the competitive environment. I appreciated the comments from CN and CP in the first hour of this meeting and would like to recognize that both railways have been reaching out to engage our group, the Grain Growers of Canada, and other groups to build strong relationships. Such outreach gave me hope for the future, and I look forward to continuing this relationship.

We've also been pleased to welcome investments in the new infrastructure, including the ordering of new hopper cars by both CN and CP. These critical investments are a clear indication that the bill has provided security of return on investment that the industry needs. Infrastructure has been degrading for many years, and it will take a significant injection of funds to ensure that the rail system can meet the needs of the industry as we continue to grow and meet the government's export goals. We hope to see many such announcements in the future.

I would like to take a minute to address the reports that have been released by the two railways. The new grain report and winter report are steps in the right direction. It is promising that they have been accompanied by an increase in engagement between the government, railways and the grain value chain. However, improvements are needed to get to the point where grain farmers can be confident that Bill C-49 will deliver transparency and collaboration that works.

A significant challenge with the plans that have been released is that the railways only commit to targets or maximum movement levels. They provide no indication of a minimum amount, and as such the railways could move substantially less grain and still declare it a success. Grain farmers need the railways to provide details on their planned minimums, and that information needs to be provided by corridor.

As I said earlier, grain farmers welcome the important investments being made by railways in new high-capacity hopper cars. However, the plans released by the railways continue to provide movement targets in line with historical averages. Given the continued growth that is expected in the grain sector, the reports provide little evidence of how the railways plan on meeting that increased demand. It is also worth noting that while the reports released to date speak to the apparent uncertainty in the supply chain, what is certain is that grain farmers need grain shippers and railways to move as much grain as possible between October and March when demand for Canadian grain is at its highest. This is essential for supporting a profitable farm gate.

What has become increasingly clear over the last five years is that we need ongoing oversight and engagement from this committee, the government and the Canadian Transportation Agency to hold all members of the supply chain to account to get the rail freight service that grain farmers need. It remains crucial that the government continues to closely monitor performance by the railways and is prepared to enforce the new regulations as necessary.

We are a mere 15 weeks into the new crop year, and we're just now moving into the critical time where performance typically will start to degrade, if it is going to. Around this time last year my industry was trying to raise alarm bells for what was to become a

severe grain shipping backlog. These alarms fell on deaf ears, and these things are too important to be left to chance.

• (1000)

As all farmers say, winter happens every year. Time will tell if the plans the railways put forward will be up to the challenge of keeping grain moving across the Prairies and out to port. From what I hear, grain is moving pretty well and that is great news, but it needs to be sustainable.

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

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

We'll start our question round.

[*Translation*]

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

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

Mr. Pratte and Mr. Bishop, thank you for being with us today.

As I mentioned to the railway representatives earlier, it's always worrying or abnormal for parliamentarians to get involved in private relations between companies. Due to special circumstances, we had to intervene again in this case.

You said that there have been problems with the industry over the past five years to export your grain to market.

In each of your associations, have you done any analysis to determine what these delays may have cost grain producers? How do you deal with rail transport problems?

[*English*]

Mr. David Bishop: It would be hard to quantify exactly what the cost is. Every farm is different, and a lot of us are shipping at different periods, depending on when we've marketed our grain.

If we don't move our grain, we don't pay our bills, and then we have to take out bridge loans to get things done and that's where the biggest effect is. We're a very cash-sensitive business in farming. For farmers, cash flow is king, and if we don't move our product, we don't have cash flow. That is a big problem. We are encouraged, because dialogue, I think, through the whole chain, with the grain companies, the grain farmers and the shippers, and even the ports to some extent, which we don't really hear about.... We all need to be talking together to make this work. That's why I said we're encouraged by the dialogue we've been having with the railways. It's a first. We've never had this before.

It seems almost as though we have a five-year cycle for issues with shipping. There was one last year, and then it was five years earlier when we had the other big issue with shipping. I was encouraged to hear that you guys were talking about the ports. I came in a little bit late, so I didn't hear everything. The ports also need to be fixed. Vancouver especially can be challenging in terms of getting the grain or any commodity in.

[Translation]

Mr. Luc Berthold: Would you like to add anything, Mr. Pratte?

[English]

Mr. Steve Pratte: To your question on the quantification of backlogs, it is very difficult. As you can appreciate, there are 50,000 independent economic actors out there in the sector. Typically in any given year there is often sliding. You might have a contract for date X but it slides by four or five weeks in any given year just in terms of matching the product and pulling it into the supply chain.

We just need to keep in mind that the impacts are large. Any kind of quantification you might see out there from academics or perhaps in the press I think, at best, should be treated as kind of a broad-brush number.

[Translation]

Mr. Luc Berthold: I ask because it's important. Shippers are being asked to be very transparent, but it's also important to know the actual financial impact on producers. Much is required from all partners in the supply chain. If, one day, you could have these figures, it would be very useful for all partners.

It was said earlier that there would probably still be problems this year as a result of the late harvest. Are you satisfied with the response we received from representatives of both railways this morning about the upcoming year?

• (1005)

[English]

Mr. Steve Pratte: Sure. I guess again, similar to the quantification question, on the delayed harvest issue and, again, the breadth of western Canada's geography, in some areas certainly there have been serious problems and some folks were getting ready for a dire outcome, which didn't happen. Then in other areas it was fairly normal, such as in southern Manitoba versus northern Alberta.

Am I satisfied with what I heard this morning from the railways? It's a satisfactory answer and characterization of the issue. We could have been having a very different conversation if we were having this session a month ago. Thank goodness the western farmers did get about three weeks of reprieve in weather during which they could pull in 99% of that crop that was outstanding. Not to diminish the situation but there was serious concern, but that didn't come to fruition.

Mr. David Bishop: I can echo that a little bit. That's pretty well said, but as far as the impact goes, when I mentioned corridors, I'm lucky because I'm in a corridor where they get quick turnaround, so I will get my grain shipped quicker if there's an incident. There are a lot of other areas of western Canada, especially in the north, where they're the last ones to get serviced.

That's why when I was talking about minimums and that, we need to know by corridor because there's not just one line. There are the feeder lines going into the main line, and that's where the backlogs will start showing up first.

I would say we're satisfied. We are encouraged about what we're hearing from the railways as far as what they are doing in their plan. I can't say too much negative about it.

The only thing maybe I would say is that they are running around 80%, which has been okay, but I will use the analogy that if you're using public transportation, how satisfied would you be if only 80% of the time it was there? I won't use Phoenix, but I could. Maybe 80% of the people are not getting paid. Some are. I will use that analogy on that.

Also, if we have delays, it does not just affect the farmers and the economic impact. It affects all of the rural communities because if the farmer doesn't have any cash, he doesn't spend money in the community, and then the businesses in the local communities suffer.

[Translation]

Mr. Luc Berthold: Thank you.

[English]

The Chair: Thank you, Mr. Bishop.

[Translation]

Thank you, Mr. Berthold.

Mr. Drouin, you have the floor.

[English]

Mr. Francis Drouin: Thank you, Mr. Chair. I will be sharing my time with Mr. Longfield. It's giving Tuesday, so I'm giving him some of my time.

Mr. Bishop and Mr. Pratte, thanks for coming to our committee. You talked about the importance of collaboration. You walked in late, but I was amazed that the rain can stop the grain from going to market. To me, being a 35-year-old, I can't believe we haven't figured out a solution, because it's not a new technology that we've been shipping grain. It's not a new factor. Railcars have been happening and ports have been in function for a long time.

Were you aware of this problem?

Mr. David Bishop: Yes, we've been hearing about it. That's why I said the whole chain has to be engaged. It's not just the railways. It's the ports.

Mr. Francis Drouin: I completely agree.

Mr. David Bishop: It's the terminals.

Another issue I see coming is the capacity of the railways. We're having another "800 million tonnes a year" terminal being built in Vancouver, at the port. Across the Prairies they are building inland terminals to feed that 800 million tonnes. Railway capacity is almost at its limit.

I like what I'm hearing about their investment in infrastructure, but this probably should have been started 10 years ago or longer because we're going to run into a time, I believe—and hopefully I will be wrong on this—when we're going to be at total capacity on the railways, and we're going to be limited to what we can ship.

It doesn't just apply to grain. It applies to all commodities shipped by rail. If the capacity isn't there, then you can't get your product shipped.

Mr. Francis Drouin: This morning I did hear good language or perhaps a new vision from the rail companies, that it impacts Canada. I think it's important we say that because otherwise our customers abroad will no longer buy from us if we can't ship on time and deliver on time.

With that, thank you for coming.

Mr. Longfield, it's all yours.

Mr. Lloyd Longfield: Thank you, and it is giving Tuesday. I have to think of how I can reciprocate.

Bill C-49 introduced the idea of reciprocal penalties so that when there's a surge of demand and the grain elevators aren't able to access cars, there are penalties. It seems to me that would be a flag where, if there was a reciprocal penalty demanded, there would be a root-cause investigation to see why we had to go through this.

Has your association discussed, I guess, the opportunity or challenge those reciprocal penalties provide when we see a surge in demand?

•(1010)

Mr. Steve Pratte: I will take that one first.

On reciprocal penalties, I think there are two things to think about. For instance, the railways will say that a very high percentage of the current traffic falls under reciprocal penalties. They are talking about a per car debit/credit.

I'm not speaking for the grain companies, obviously, but I think their conception is bigger. We're not concerned about \$200 per car here and there. We're talking about the value of that being \$1 million. Let's have something with a bit more skin in the game and on the table.

To my understanding, under the amended process for the arbitrated SLAs under Bill C-49, encouraging.... I'm not aware—that would be commercially confidential—if anyone has stepped up to try to use that new tool in the tool box, but certainly as a concept with a legal backing, it is something I know that the shippers of grain are happy about and pleased with. Again, you might need to talk to them about more of the detailed nuances of it and whether they have started to use it.

Mr. Lloyd Longfield: Thank you.

Mr. David Bishop: Yes, I think this will be the test of the bill, when something does go sideways.

Mr. Lloyd Longfield: Right.

Mr. David Bishop: I'm encouraged by the wording in the bill and that, but our worry is what will happen when this actually, one day, does happen. Hopefully it never will, but if it does happen, we're wondering how this is going to work through the bill. How does it

apply and who does it? There are a lot of questions on my mind as a producer on how Bill C-49 is going to work when something does go sideways.

Mr. Lloyd Longfield: Thank you. That's on my mind as well.

We're looking at the G3 investments of the loop-track system that's going in there. We talked about loop tracks in the previous testimony. We travelled as a committee and we saw some loop track in Saskatchewan. It sounds like this is a game-changer.

In terms of trying to increase capacity, you can only add so many cars to the system, as you're saying, so many locomotives. You still have to set a track that you have to move product on, but there's an inefficiency in spotting of cars that loop tracks could provide some efficiencies on, as well as some private ownership of cars. Could you maybe talk about the opportunity with loop tracks?

Mr. Steve Pratte: That is today's example of a game-changer, introducing a step function change in the supply chain.

Certainly I think we need to bear in mind that the history of western Canadian grain has been that of an evolution, going from several 1,000-odd wooden cribs, then in the seventies and eighties moving toward the high throughput concrete elevators, and now that loop track with high throughput elevators. It's just that next change.

Unfortunately, when you have 340-odd licensed primary elevators in the country, if you have a dozen of those.... We're moving in the right direction, but you still have companies that have 70 or 50 elevators. You need that space requirement—the 60 acres or whatever it is—to put that footprint down. I think we're seeing it, it's the vision, it's where we want to go, but it's going to take some time to get there as a system.

The Chair: Thank you, Mr. Pratte. Thank you, Mr. Longfield.

Now it's Mr. MacGregor for six minutes.

Mr. Alistair MacGregor: Thanks, Mr. Bishop and Mr. Pratte, for appearing today. I'm already noticing a bit of a contrast from testimony we heard in March. It seems to be a little bit more hopeful and optimistic, with the caveat that we still have the majority of winter coming our way.

Mr. Pratte, in your opening remarks you noted that the reporting that is now mandated under Bill C-49 could use further refinement.

Mr. Bishop, you also mentioned that you needed to see more details from railways on their planned minimums. Are these two related in terms of the more data you'd like to see?

Mr. Steve Pratte: I'd say, yes. We'll mention quickly just some credit to the railways. They did reach out proactively to the grains sector and we discussed as a group, and then independently with people, about what should be in the reports. They did incorporate some of the suggestions of the grains sector, meaning from farm to shippers.

The point about refinement was—and Dave did touch upon it—for the actual planning purposes, just a little bit deeper understanding, like the idea perhaps of even just highlighting corridor movement. I can understand some tension between commercial entities wanting to talk about their operational planning, but it's just a slightly deeper sense of what they planned to do. They have their plans, they knew what they were going to do as far as their operational planning and forecasting is concerned, but there's just that slightly deeper dive into the thoughts. What we have in front of us is good, and I did say what we have now, in dialogue and on paper, is night and day from what we had five years ago.

•(1015)

Mr. Alistair MacGregor: Okay.

Mr. Steve Pratte: That is one of the positive silver linings of 2013-14 and the Bill C-30, the Bill C-49. I think the kind of communication and information sharing is on a new level, a new playing field, but certainly there's always room for incremental improvement.

Mr. Alistair MacGregor: Mr. Bishop.

Mr. David Bishop: Yes, I'll echo that. We really are encouraged with the communications we've been having with the railways. It's really been delightful and enlightening to do that.

By the corridors, that's where we see we don't have enough information. You can ship grain if you take it right off the centre line and get a lot of it shipped in a hurry, but like I was saying, the farther out you're away from the rail line and those terminals, the more you get served last. When I say corridors, that's why we want a wholesale plan showing where it's getting shipped from, to make sure there's pretty even shipment. Like I said, I'm lucky. I'm in the central area where the railway is. I can move pretty easily but some of my farmer friends farther away aren't as lucky.

You were talking about loop tracks and that, and I'm fortunate enough that G3's building a terminal 10 miles from my place. That is the wave of the future on new builds at the moment. There will be something else probably in another 10 years that will help out on that, too.

Mr. Alistair MacGregor: Mr. Pratte, back in March we heard from Rick White. He said that the relationship with Japan had been substantially shaken following the 2013 crisis, stemming from the reliability of our ability to deliver canola to Japan. He said that they also meet twice a year, and that it came up at every meeting.

I assume you've probably had some meetings since March. Is there anything to report from customers in Japan?

Mr. Steve Pratte: Yes. I was not there personally, but it's a timely question because they literally just got back from that last week. They were over there. Japan has been the longest, most consistent buyer of Canadian canola seed for decades—consistently two million tonnes, every year.

My understanding of the situation is that the good-news story that the Canadian government and exporters have been able to tell those customers has rebuilt some of the confidence that was shaken by the situation five years ago.

From the general agenda and what's been discussed at those meetings, I think the transportation piece is becoming less of an issue and it's moved into other things.

Mr. Alistair MacGregor: Mr. Bishop, when Jeff Nielsen was here in March, he had been in the room listening to CN and CP Rail's plans at the time. I had asked him at the time if he felt very optimistic. In summary, he basically said no, and then underlined that Bill C-49 was really needed.

We did make an attempt to get the railway provisions of that bill sped through as quickly as possible. That being said, it's all done and dusted now.

With respect to the interswitching provisions, have you noticed any improvements or is it too early to tell?

Mr. David Bishop: At the moment, to my knowledge, nobody has applied for interswitching. The railways could answer that better than I could.

As long as shipping is good, I don't think you'll see it used. I think if there comes a time when there is a delay for some reason, especially in the southern Prairies, the interswitching will likely be used. That's one of the things we're waiting to see with Bill C-49—all this stuff that's been implemented.

I appreciate the Senate amendments. They were really needed and I congratulate you guys on getting that all done.

Everything is going pretty well right now. In my mind, we'll see how good the bill really is when we have something go wrong

Mr. Alistair MacGregor: That's the stress test.

Mr. David Bishop: Yes.

Mr. Alistair MacGregor: Thank you.

The Chair: Thank you, Mr. MacGregor.

Mr. Peschisolido, you have six minutes.

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

Mr. Pratte and Mr. Bishop, thank you for attending.

From your testimony it seems as if there is harmony building among you, the shippers and the railways. I think that's a good thing.

You seem to have issues with the ports and the terminals. You both—Mr. Pratte, and Mr. Bishop in particular—made the distinction between the terminal operators at the port of Vancouver and the port.

Mr. Pratte, I believe you talked about Prince Rupert. Can you elaborate on what issues you do see at the port of Vancouver on the efficient and inexpensive movement of your grain to Asia?

• (1020)

Mr. David Bishop: It's too bad the port isn't here to answer some of these questions.

Getting to the terminals can be a bit of an issue because they have the passenger train traffic and the bridge to go across. If a pleasure craft goes through, they have to raise it. There are a lot of issues with movement and getting it to the terminal.

As far as the port goes.... I am not an expert on this, but we were talking about rain. It rains in Vancouver all the time. You can't believe that over the years they haven't developed a system so that they could load in the rain. Any time there is a delay it just goes up the whole stream back to the farmer. You can only ship what you can ship and if it gets delayed somewhere, you're done shipping it until it gets cleared up.

Mr. Steve Pratte: Very quickly, my comment about Vancouver.... The next thing for us to be thinking about long term is that last mile. You have the grain companies putting in their investments. You have the railways. Then you have some incremental things going on there for fluidity and some capacity expansion through the gateway collaborative partnership, which received money from the national transportation corridor fund this May or June.

We need to be thinking about some of those big ticket items like the Fraser River bridge, which the railways have talked about in the past, not only for our sector but also for the nation. The port, and shippers of all stripes, talk about things like the Second Narrows bridge and the Thornton Tunnel. It's a privately-owned asset, but even potentially....

Longer term, if we're going to really capitalize into 2030.... We talk about resiliency and redundancy in the system. As an analyst from the farm community, that is something we need to start thinking about now, however the investment comes around, or however the regulations are refined or red tape reduced on funding some long-term solutions to deal with some of those critical infrastructure issues. That was my point.

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

Mr. Chair, I will be sharing my time with Madam Nassif.

[Translation]

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

I would like to thank the witnesses for their presentations.

I would like to know what measures you would suggest to avoid the problems of freight transport that happened last winter. Also, what do you propose to improve the national grain transportation system and, as a result, increase Canada's competitiveness?

[English]

Mr. David Bishop: The issue is capacity. We're getting to where we're at the end of the capacity. There is going to be a time shortly when they physically are not going to be able to move any more product, whether it's grain, lumber, forestry or any commercial product. Let's look at where the shipping is right now. I'm not trying

to pick on CN, but as an example, there's a little stretch between Dawson Creek and Grande Prairie where there's no rail that would connect northern Alberta and Saskatchewan to Prince Rupert. That's a big cost, so that would be something I would like to see happen sooner than later.

I keep going back to capacity because, no matter how efficient the railways get, there's going to be a point in time when physically we're not going to be able to move it. In my mind, we need infrastructure all across the board, both at the port and along the railway. More terminals are being built now in western Canada, because every year we've been increasing our grain production. It's a steady growth. We don't see where it's going to stop in the future, and if we're going to grow the economy, which I hear quite often—

Mrs. Eva Nassif: By 2020....

Mr. David Bishop: Yes. I'm not talking just about grain but about the economy as a whole. In western Canada especially, we need that transportation system to be in place and reliable. I may have missed it, but I believe Sean did mention the fact that, when his international customers don't get their product when they want it, that doesn't look good for Canada. Also, they may potentially go somewhere else for the product if that's more reliable than getting it out of Canada.

Mrs. Eva Nassif: Mr. Pratte.

Mr. Steve Pratte: I'll speak quickly to your question. We all know this, but we just need to remain cognizant that we're still in the early shadows and aftermath of Bill C-49. It only received royal assent on May 23. August 1 is the start of the grain year that all of the planning and reporting goes into. We're still just several months out from that, so I think we need to give that a little bit of time to see the true effects of some of those commercial tools, as the shippers and railways try to either negotiate under that new framework or use some of the mechanisms that are at the shippers' disposal.

As far as the grain transportation system goes, and not to belabour the point, I think we're at a new equilibrium, if you will, on the communications side of things. Part of that is dictated by Bill C-49, and part of that is just all parties getting their acts together and increasing communication over what we've seen in the last several years.

Again, we need to let some time elapse, so that we can give more of a critical analysis of what we've been able to do as an end-to-end supply chain.

• (1025)

The Chair: Thank you, Mr. Pratte.

[Translation]

Thank you, Mrs. Nassif.

Mr. Poissant, you have six minutes.

Mr. Jean-Claude Poissant (La Prairie, Lib.): Thank you, Mr. Chair. [English]

I would like to thank the witnesses for giving an update on the situation of farmers.

You are our second panel of witnesses today. Before you, we heard from railway representatives. You are giving us the point of view of producers. If we could hear from people at the port authorities, they would probably have their version as well.

Earlier, you talked about reaching \$85 billion in exports annually by 2025. Our goal was \$75 billion, but you mentioned \$85 billion. So I see that there are great challenges.

Are you all already sitting together to plan all the actions to be taken in 2025 and beyond?

[English]

Mr. Steve Pratte: The \$75 billion and \$85 billion numbers came from the economic strategy tables that had eminent blue ribbon folks on the panel and from consultation with the industry. Those are external folks who are looking at this with more of a global perspective.

As far as planning goes, we have a strategic plan with canola, which we rolled out several years ago. It's communicated. It's the way the whole industry—from farmers to exporters to seed folks—are all working toward a common plan. The railways know this.

On the shippers side, we heard that again this morning. On a day-to-day, quarterly and annual basis, there is that communication. I think it's clear among all parties that we're on a growth trajectory, but how do we, year to year, provide a landscape in which we can actually succeed and, first, transport the goods year to year, but second, keep incrementally moving toward that vision of bigger and better things?

Mr. David Bishop: As far as a producer goes, those figures, \$75 million, well, that's a breeze. On \$85 million, I think we can get there. The potential because of the innovation and technology that we adopt on farm and genetic changes in our crops that we grow is right there. If we get there, we still have to get it to market, whether that be as a raw product or a finished product. I'd like to see more finished product, but we still have to ship it, whether it's raw or finished.

Somehow we have to encourage money invested in infrastructure. With regard to the figure, I don't know what that's going to cost. That's not in my wheelhouse. I'll tell you that right now.

I know it will cost a lot of money, but if we don't start spending money now, when the time comes and all of a sudden there is no more capacity, what do we do?

[Translation]

Mr. Jean-Claude Poissant: Would it be a good idea for all of you to sit down together, with representatives from the Department of Agriculture and Agri-Food, to listen to each other and look at this as a whole? We are currently hearing about the challenges on both sides, but we aren't proposing a global solution. Do you think it would be a good idea to have a round table with all the stakeholders involved?

Mr. Steve Pratte: To some degree, there is that...

In the post Bill C-30 environment from several years ago, the government struck the commodity supply chain table, which semi-annually brings together all parties—railways, shippers of all commodities, including grains—to that table to talk about forecasting, growth, and near-term and longer-term issues.

There is a step in that direction. I'm not sure if that's going to have the optimal outcome. It's run by Transport Canada with the Department of Agriculture in the background, and then there are stakeholders, small commodities, talking with the railways in front of senior officials about growth and future plans—near term and long term.

Mr. David Bishop: I'm not sure.

Are the ports in on that table?

Mr. Steve Pratte: It's changing.

Mr. David Bishop: It's changing but I would like to see that, because it has to be a group effort. You can't blame one party or put all the emphasis on one party to fix this. It's everybody, from the farmer, the train terminal, the railway, the ports. For that matter, you can go to trade, because we need to have free trade to get that done too.

This is a very large and complex issue. It's not going to get fixed overnight, but as long as you're having a conversation, you have a hope of having things done.

● (1030)

[Translation]

Mr. Jean-Claude Poissant: I'm somewhat familiar with the reality of farmers, because I was a grain producer for several years. I would like to know how western producers market their products. On my farm, when we were marketing, we set a price for ourselves to release the grain. When I decided, there were several producers doing it at the same time, which caused a problem of congestion in grain delivery. Is there a similar problem in the western provinces?

[English]

Mr. David Bishop: Yes. The condition of our grain varied, because we kind of had two harvests. We had our early harvest where the weather was good, the quality was good, and then we had the snow events. Like I said, I was five weeks without turning a wheel, and then, of course, the quality was down.

Now we have two different qualities that we have to market. Each farm markets it individually, as far as that goes. Some people have marketing people hired to do it. I do my own. That's something that in our business we do all the time. It's part of the nature of farming. We do most of our own marketing. We know what are costs are. In my situation, as soon as it gets to where my cost is or above for sales, we'll start marketing. I've even marketed some of next year's crop already, and I haven't even seeded it.

Those are things that we do. As it varies from year to year, I don't know how you could equate that into the shipping. When we market it, we're selling it to a grain company or another entity that will ship it.

The Chair: I'm sorry that I have to interrupt. Thank you, Mr. Bishop.

Mr. Shipley, you have six minutes.

Mr. Bev Shipley (Lambton—Kent—Middlesex, CPC): Thank you very much.

Earlier on, railway operations were talked about as a team sport, and Mr. Bishop, you just talked about the complexity of that team sport. I have to say, it was pretty encouraging, though, to hear from our rail companies the changes that have happened. The communications that have happened between all the players has been a significant boost forward. When I look at the capacity in terms of railcars, in terms of what they can do and carry more because of the technology and the materials they're using, that's good.

As you have talked about in terms of genetics, in terms of precision planting, all those types of innovative things we have, they're making a difference for the primary producer. With that, is there a significant increase in primary producer storage capacity of their crop when they take it off so that when the railcar is moved out to the elevators, with the larger capacity of the cars now, you will have more to put in those cars at the time?

I still remember back, and earlier we were talking about the complexity of ordering and getting the cars for specific commodities. We tend to talk about barley or wheat. We don't always talk about what different varieties of barley are used for and meeting those demands in terms of the cars that are coming.

What's the increase that has been happening at the producer level, on farm? Are we able to meet those demands for the different varieties of product? Thirdly, when the cars are ordered, are they showing up?

Mr. David Bishop: At the present time, most farmers have been increasing storage. I can just use me as an example. We're probably at about 115% or 120% of capacity on my storage because we always have some carry-over. In fact, I'm probably going to have to expand my storage again. Every year, it's just something we do as a business model. We know we have to have that storage on hand because we're not going to ship it right off the combine, off the field. That isn't going to happen.

As to the next part of your question, yes, there's a bit of an issue. I'm trying to think about how I'm going to say this properly.

Do you mind repeating the second part for me, please?

Mr. Bev Shipley: I was just actually wondering about the corridors. You mentioned the corridors and getting the particular varieties of grains that need to be on trains without being mixed.

Mr. David Bishop: The grain terminals are pretty good about that. What happens is that, when we sell our grain, we usually have a time period where we market it. The elevator will call for it. They'll bring it in, if it's an elevator, and then they will load the cars as they're needed, for whatever quantity and quality they need. In all honesty, as producers, it's more the grain handling side that we deal with than the railway on that.

Mr. Bev Shipley: I'm sorry—

•(1035)

Mr. Steve Pratte: I just have a very quick footnote to your question about on-farm storage. Certainly that was one of the take-aways from 2013-14. In the producer community, we saw a run on bins, for instance, after the 2013-14 backlog. Off the top of my head, I believe there are about 75 million tonnes of on-farm capacity in western Canada.

Mr. Bev Shipley: That's one of the things right now, the capacity to hold the crop. I'm from Ontario and I farm. We have a huge challenge in Ontario this year with our corn and vomitoxin.

I'm sorry about the time left for my colleague here, but the other one I want to talk about quickly is the value added. That's going to be key in what we can do in terms of taking the product we're growing, the grains we're growing, and value-add to that before it just hits the ports.

Mr. Pratt, what is happening in terms of the commodity organizations with different millers and different opportunities to value-add to the products you're growing?

Mr. Steve Pratte: With canola, as a perfect example of that, the goal would be to have half of Canada's production domestically processed, because obviously that's the highest and best use economically. We've seen that through the illustration of canola's 10 crushers across western Canada. For instance, in 2013-14, they were doing slightly under seven million tonnes of processing of oilseeds on the Prairies. Last year they did almost 9.5 million tonnes, so there was a 3.5-million tonne increase of domestic processing in Canada.

The other issue there is that if you're domestically processing, and in canola's instance, a majority of that oil would be absorbed into a continental market as opposed to an export market as it currently stands, that's less product you're trying to put through Vancouver or Prince Rupert. It is using a different corridor, so it's helping to diversify that trade profile of our particular—

Mr. Bev Shipley: You might even be able to load that oil in the rain. I don't know.

Mr. Steve Pratte: Pipe to car...

Some hon. members: Oh, oh!

Mr. Bev Shipley: I'm going to turn it over to my colleague for a question.

Mr. Earl Dreeshen: Thank you.

I guess one of the things that we should find out is just where the regs are, as far as Bill C-49 is concerned. That's always an issue. In order for this to work well, we have to make sure that we recognize that's part of the system as well, the process of making sure those regs are done.

Just quickly perhaps, David, could you talk about the corridors? Where I am, I know that when CN and CP want to ship a lot of grain, they'll take it all out of our spot, which is great, but there are a lot of places in Saskatchewan and northern Alberta that have problems.

The Chair: Very quickly....

Mr. David Bishop: I've said this before, but that needs to happen. That's what we need to have. When they're showing their minimums and their maximums, we need it by corridor. That way, it makes for equal shipping. Basically, that's why we wanted to see it, and that's why I mentioned it in my report.

The Chair: Thank you, Mr. Bishop.

[Translation]

Mr. Longfield, would you like to say anything?

[English]

Mr. Lloyd Longfield: I wasn't expecting....

Thanks, Francis, for sharing.

Mr. Luc Berthold: I can take it.

Mr. Lloyd Longfield: It's giving Tuesday, so....

Some hon. members: Oh, oh!

Mr. Lloyd Longfield: Since I have time, I'm still thinking about the northern corridor and the opportunity that Churchill might provide. Is that anything that's being processed through you folks, through any opportunities from canola or from grain handlers?

Mr. Steve Pratte: I think that was alluded to this morning by the railway's brief answer to that question. It has nothing to do with the railways and nothing to do with the producers. It has to do with the actual shipper. The line or grain company that is producing that grain, it's their commercial decision if they want to use that railway service to get out there, and then use that third party operator of the port to ship it out.

As you all obviously know, it just recently reopened. It was used under the Wheat Board, pre-2012, but in that new commercial environment, all of those grain companies have their own assets that they own, whether in Thunder Bay, collectively in Prince Rupert or in Vancouver. There's also a bit of a supply chain risk by going up there, and there's just a different way of doing business. Commercially, for the grain shipper, there are some unique circumstances up there that need to be dealt with, and some unique pricing structures. I'm not sure. We don't have any control over that

as producers, and the railways move it where the customer wants it to go.

The short answer to your question is that I think time will tell on that one, but I don't think that in the near term it's going to become an outlet for significant volumes.

● (1040)

Mr. Lloyd Longfield: We're just completing a study on what technology is needed to get us to the \$75 billion. I have a picture in my head now of all the ports that we have. We also have Hamilton, close to me, and we have the Guelph Junction Railway, which feeds down into that area. We have the changing levels of the Great Lakes, and the port of Hamilton versus the port of Thunder Bay, the capacity issues there.

If we were to take a 30,000-foot, or even higher, view of Canada and our port capacity, which has been mentioned a few times today, that might be something for our committee to think about in a future study, in terms of how our port infrastructure supports what we're discussing here. It might be more for the transport committee, but are there any hot spots that you know of or that you think of from your standpoint, in terms of getting our value-add product to export markets versus continental markets?

Mr. Steve Pratte: A quick little footnote to your question is around where the products are actually leaving the country from the port infrastructure. I guess that's one of the legacies of the 2008 global economic meltdown—shipping rates have never gone back to where they were.

I'm sure you've heard this in the past in your studies, but this really changed the nature of global marine shipping and, hence, where our grain is going. What may have been a more balanced east-west Canadian export has gone heavily.... It's a combination of not only the end-buyers but also the freight economics. The basic transport economics has made it so that you can just favourably do moves off the west coast that you might not have done in the early 2000s, just because of the rate differentials in the global shipping market.

Mr. Lloyd Longfield: Climate change plays a role. There are millions of tonnes of grain coming off markets in different parts of the world because of the climate changes in, say, the Middle East or eastern Asia. We have climate change, transportation.... We have a complex network that we're talking about.

I'm really impressed with both of your testimonies this morning. I'm sitting here thinking that we're in really good hands when people like you volunteer your information.

Thank you very much.

The Chair: We're saved by the bell. I think we have a vote lining up.

That pretty much wraps it up. I want to thank Mr. Pratte and Mr. Bishop for taking the time to come over and talk to us. Thank you very much.

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