

Presentation to the Standing Committee on Transportation Concerning Bill C-34

An Amendment to the Canada Transportation Act By Wild Rose Agricultural Producers

On behalf of the members of Wild Rose Agricultural Producers, I would like to thank the committee members for this opportunity to address you on Bill C-34. To begin with, I think it is important to commend the Federal government for taking action to address a long-standing producer concern, that being grain handling and transportation reform. It came as no great surprise when the Canadian Transportation Agency announced its approval of a 4.5% increase in grain freight rates effective August 1, 2000. That process is mandated. One can hardly blame the railways for making application to cover their increased costs for they are accountable to their shareholders and not grain and oilseed producers. It does serve as a prime example as to why the status quo is not sufficient, for it continually downloads expenses to those who can least afford to pay, that being grain producers.

Members of Wild Rose have echoed the statements of Ministers Collenette, Vanclief, and Goodale, each of whom stated the status quo is not an option. The present system lacks accountability, is ineffective, and perhaps most importantly, is extremely costly. It is estimated that grain handling and transportation expenses represent 30 to 40 % of a grain producers input costs.



Since the introduction of the Budget Implementation Act in 1995, rail rates have escalated, in part due to the fact that there were no longer any provisions for costing reviews. Just why then is this reform needed immediately. The first quarter profits for both Canadian National Rail and Canadian Pacific Rail were recently announced. In CN's case, grain and fertilizer shipment profits were up 26% as compared to last year representing a \$65 million dollar increase; for CP it was a 27.8% increase amounting to a \$39 million increase. Everyone agrees that the railways need enough capital to insure reinvestment in the system and infrastructure, while at the same time offering shareholders an adequate return on their investment, but these profits may be a little excessive.

Bill C-34 addresses a number of concerns that have been brought forward by producer groups of all three provinces. Items such as the Final Offer Arbitration process and branch line abandonment are dealt with effectively in the legislation. There is, however one grave concern that needs to be brought forward for your attention. While we certainly agree that a revenue cap presents a better option than a regulated rate cap, there are no competitive measures being introduced in this Bill. In order for the revenue cap system to work, the cap must be a safeguard and not a target. Producers are left in an extremely vulnerable situation for they have no information regarding the recommendations that **may, and I do emphasize may**, be put forward in this summer's CTA review; they have no information on the regulations pertaining to this Bill, and; thus far they have no information on the Memorandum of Understanding between the Canadian Wheat Board and the Government of Canada.

Another extremely important component of this Bill is the establishment of a monitoring system. Since a statutory costing review is no longer in the legislation, the monitoring mechanism provides the only assurance for producers that the system is working for them. The monitoring must be open, transparent and have access to all the necessary information needed to evaluate the efficiency and cost effectiveness of the system. We would like to request that during the course of this summer's CTA review, the 1998 figures used for the costing summary in 1999 be updated. This should be a relatively easy process and would help provide a statistical benchmark for the monitoring panel.

There are no assurances competition will be introduced in the grain handling and transportation system. If competitive features are introduced, there are no assurances that they will be effective in reducing costs nor improving the system. Competition should

be the driver of transportation reform but in a duopoly, there is none. We can only wait and see if the lack of competitive features is addressed through upcoming legislative and regulatory reform.

Nearly everyone agrees that a revenue cap, with the proper safeguards, will address the on-going problems related to the present rate cap. It provides the railroads with the flexibility to use their resources to the best of their abilities, something they had asked for during Justice Estey's review. No doubt, the corporate boardrooms of CN and CP were taken aback by the level at which the revenue was set, primarily because it set a limit on the profits they were able to make in the grain and bulk commodity side of their respective businesses. On the other hand, they know full well that if a proper costing review was conducted in 1996, and again this year, there is little doubt that profits gained by overcharging producers since 1995 would not have occurred.

The mini-costing review conducted by the CTA last summer indicated that producers were **not** the primary beneficiaries of productivity, that in fact fully 75% of the productivity gains made by the system and paid for by producers, remained with either the railways or the grain companies. For these reasons, we, along with Keystone Agricultural Producers and the Saskatchewan Association of Rural Municipalities would like the committee to consider the following amendments as it pertains to the revenue cap provisions of this Bill.

Section 150 (5) should be deleted.

The rationale behind this amendment is self-evident. By deleting this opportunity to defer revenue, it negates any opportunity, whether it be perceived or real, for railways to get around the revenue cap. Until such time as effective competition is introduced this is a necessary safeguard for producers.

In addition, Section 151 needs to be amended by the following:

Section 151.1 The Agency shall reduce a prescribed railway company's maximum revenue entitlement for the movement of grain in a crop year by an amount it considers reasonable having regard to the prescribed railway company's reduced costs in that crop year resulting from productivity improvements.

The amendment would not be necessary if there were effective competitive features in the grain handling and transportation sector. Let's be very clear here. Producers, by accepting the concept of a revenue cap, are putting a lot of faith in both the railways and the grain companies. As mentioned before the railways duopoly is not competitive. There are indications that there may only be three to five grain companies left by the end of the decade, further limiting competition. Having productivity sharing as a contributing factor in determining the revenue cap does work both as an incentive and as a safeguard. Firstly, in order for the railways and grain companies to increase their profits, they must increase their productivity. The greater the productivity gains, the greater their profits. Bare in mind that both the railways and the grain companies are using producers' monies for capital expenditures and it only seems fair that as efficiencies are gained, the revenue cap would be reduced. This ensures a proper and representative safeguard for producers.

There is one additional point under the revenue cap that I would like to make. Section 150 (6) indicates that the revenue cap will be set a full five months after the year has been completed. If productivity sharing is being calculated in to the cap, this may be an adequate time frame. However, if the calculation is to only include length of haul and volume, this time frame seems inappropriately long.

We are proposing that the Committee recommend one further amendment to Bill C -34.

Subsection 144(6) should be amended as follows:

(6) If, on complaint in writing by the interested person, the Agency finds that the railway company is not negotiating in good faith, The Agency may order the railway company to enter into an agreement with the interested person to effect the transfer and with respect to operating arrangements for the interchange of traffic, subject to the terms and conditions, including consideration, specified by the Agency.

(6.1) In determining whether the railway company is not negotiating in good faith the Agency shall have regard to any Regulations made by the Governor-in-Council prescribing the matters to be taken into account for the purpose of such determination.

Section 144.1 The Governor in Council may make regulations specifying guidelines for negotiations for the transfer of a grain dependent branch line listed under Schedule I including criteria relating to:

- a) salvage value determination:**
- b) revenue divisions:**
- c) interchange provisions: and**
- d) service requirements.**

The reason for including this amendment is to more closely incorporate a set of criteria that were included on page 21 of the Stakeholders' Report of the Kroeger Committee Recommendations.

While Bill C -34 does not deal directly with the role of the Canadian Wheat Board in grain transportation, it does warrant some comment. No doubt this has produced some heated debate and significant controversy. Too often, however, certain factions have decided that this represents an opportunity to influence the CWB marketing abilities, relying on philosophical marketing arguments while ignoring the grain handling and transportation debate. Just how much the CWB needs to be involved is a valid question, but a couple points need to be made. Firstly, producers now have the opportunity to democratically elect representatives to the CWB and they in turn, should be responsible for determining how the CWB needs to be run successfully. Success can, and should, include marketing options. The second point is that as a result of firmly entrenched beliefs, there has been little or no attempt made at finding compromise solutions. This was evident at the Kroeger review where little or no time was given for negotiation, in part due to the short timeline placed on the process. It is frustrating to note that those involved with the Kroeger review were pushed to have a report done by September 30, 1999 when it appears the opportunity to extend the process may have proved fruitful.

On the whole, Bill C -34 represents a significant change to the system. All producers ask for is that they not be the ones forced into paying more than their fair share in a revised grain handling and transportation system.