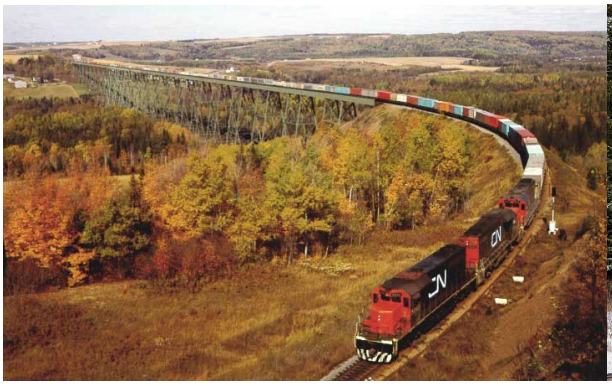
TRANSPORT ACTION ATLANTIC

Revitalizing New Brunswick's Rail Sector






By Greg Gormick

for

The Cities of Moncton, Dieppe, Bathurst and Miramichi
The Town of Riverview
Enterprise Greater Moncton

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ON THE COVER

(Clockwise from top left)

First Intercolonial train into Dalhousie, New Brunswick, June 30, 1884
(Canada Science and Technology Museum CN Collection, Image CN008379)

VIA Rail Canada's *Oceans* meet near Belmont, Nova Scotia, August 13, 2005
(Photo by Alan Macek)

Moncton-rebuilt VIA Rail Canada RDCs west of Jasper, Alberta, November 29, 2013
(Photo by Tim Stevens)

CN container train crossing the Salmon River Bridge on the Napadogan Subdivision, 1974
(Canada Science and Technology Museum CN Collection, Image CN000162)

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Executive Summary

This report examines the issues that currently threaten large segments of New Brunswick's rail sector. In particular, three critical challenges arose in swift succession during 2012. They are:

- CN's announcement of the pending abandonment of 139 miles of the Newcastle Subdivision, the route of VIA's *Ocean*, between Moncton and Belledune;

- VIA Rail Canada's reduction in the frequency of the Montreal-Moncton-Halifax *Ocean* from six times weekly to three, effective October 2012; and

- The bankruptcy of the Moncton rail equipment remanufacturing firm, Industrial Rail Services, Inc., as a result of the cancellation of three VIA contracts totalling $117.3 million.

The detailed analysis contained in this report explores the underlying causes of the problem, and suggests solutions and alternatives based on the experience of other jurisdictions in similar situations elsewhere in Canada and the U.S.

Historical Background

The era of main line railroading in New Brunswick began with the completion of the government-owned Intercolonial Railway of Canada (ICR) in 1876 between Halifax and Rivière-du-Loup, with a direct connection to the Grand Trunk route to Montreal, Toronto and southwestern Ontario. Today's CN Newcastle Subdivision is part of this through route.

CN owns and operates a second line through New Brunswick, also originally built as a public enterprise. The National Transcontinental Railway (NTR) between Moncton and Quebec via Edmundston opened in 1913, and over time became the principal freight route linking the Maritimes with central Canada, while the ICR remained the main passenger line.

Canadian National Railways was formally constituted as a Crown corporation in 1922 to consolidate several bankrupt private sector lines and the federal government's own rail operations. The company was privatized in 1995, in a process initiated under the Mulroney Progressive Conservative Government and completed by the Chrétien Liberal administration.

As the traditional resource and manufacturing industries in Atlantic Canada declined, so did the CN route network, with 52 per cent disappearing in the 1980s and '90s. The Newcastle Subdivision lost much traffic through the closure of paper mills at Miramichi, Bathurst and Dalhousie, as well as the large zinc and lead mines at Heath Steele and Bathurst Mines.

CN sold a large portion of the ICR route to the Quebec Railway Corporation (QRC) in 1999, but bought it back in 2009, ostensibly to secure the portion of the line serving the industries of Baie-Comeau, Quebec, via the Matane railway car ferry.

CN's Newcastle Subdivision

CN's proposed abandonment of the 139 miles of the Newcastle Subdivision from just north of Moncton to Belledune has extreme implications for future rail freight and passenger service. This would sever the route of VIA's *Ocean*, depriving the North Shore communities of all passenger service. It would also eliminate freight service to shippers in Miramichi, Bathurst and area.

The Newcastle Subdivision is suffering from years of deferred maintenance, leading to the downgrading of the 60 miles from Rogersville to Bathurst from 70 to 30-mph passenger operation, significantly lengthening the *Ocean's* schedule. Freight service is now suspended between Miramichi and the Nepisiguit Subdivision junction south of Bathurst. Meanwhile, several on-line forest products shippers have complained that CN is failing to provide an adequate supply of cars for the movement of their products.

CN has made various statements about the line requiring $30-50 million in upgrading in order to remain in service and accommodate VIA's *Ocean* at a reasonable speed. No assurances of retaining the line beyond three to five years have been given by CN, which has emphasized that it expects public agencies to pay for most of the costs.

VIA Rail Canada Passenger Service

Established by the federal government in 1977 to take over and supposedly improve the remaining passenger services then being operated by CN and CP, VIA Rail Canada has never had the legislation and funding required to properly operate a quality and cost-effective coast-to-coast network. Services in Atlantic Canada have been steadily reduced over the years – an apparent victim of VIA management's growing focus on the Quebec City-Windsor Corridor, with little interest in the continuation of the long-haul routes that make it a national rail passenger service.

The October 2012 reduction of the *Ocean* from six departures weekly to three has inflicted mobility problems on many communities along its Halifax-Montreal route, particularly the portion from Moncton to Campbellton. The decision demonstrates that VIA management completely fails to recognize that the true value of long-haul trains in the modern context lies in the service they provide to intermediate communities along the route – rather than the end points.

Management also has ignored another key principle – a lesson learned long ago by the U.S. public passenger rail carrier Amtrak. A daily train better meets the public need, offers greater potential to build ridership, results in better equipment and crew utilization, and ultimately reduces the subsidy requirement per passenger mile – in other words, better value per dollar of expenditure.

A recent Amtrak study estimated that increasing one of its two remaining tri-weekly trains, the Cardinal, to daily service will require less than 10 per cent more public funding than currently, while providing more than double the service.

A critical contributor to the present high cost structure of VIA's *Ocean* would appear to be the use of problematic British-built Renaissance equipment, retrofitted in a less-than-successful attempt to adapt it to Canadian operating conditions. It has been prone to maintenance issues, and lacks the flexibility to respond to changing demand because it is configured in semi-permanently coupled train sets that cannot be easily modified.

VIA management insists that the decision to cut its Maritime service in half was part of its attempt to "right-size" the corporation, and match capacity to demand. This is in stark contrast with VIA's U.S. equivalent, Amtrak, which has gone through many difficult times, but is now in growth mode thanks to politicians and policies that recognize the need for a national rail passenger service and are enabling federal and state investment in its upgrading and expansion.

Reviving Industrial Rail Services

The bankruptcy of Moncton rail equipment rebuilder Industrial Rail Services, Inc. (IRSI), as a result of the cancellation of three major contracts with VIA, is a classic illustration of all that is flawed with Canada's rail passenger policy, funding, management and service delivery. In its wake, 240 skilled jobs have been lost in Moncton, public and private sector funds have been wasted, and VIA still has a large number of un-rebuilt cars that are growing ever older and less reliable, driving up the cost of providing service.

Since its start-up in the former CN diesel maintenance shop at Gordon Yard in 1999, IRSI had proven itself to be a reliable, high-quality provider of motive power and rolling stock repair and rebuilding services. Based on positive experience with smaller previous projects, VIA awarded the company three major car rebuilding contracts in 2009 and early 2010, valued at approximately $100 million in total.

As detailed in Section 5 of this report, it appears that both parties took overly optimistic risks in signing the contracts, while VIA's decision to rebuild aluminum-bodied LRC cars – already beyond their original design lives – was highly questionable at best. Both VIA and IRSI made many mistakes in executing all three contracts, and the relationship eventually turned toxic.

All three contracts were cancelled and the company was placed in receivership. VIA subsequently obtained permission from the receiver to bring another equipment rebuilder into the IRSI plant to complete some of the work, but it is unclear how many cars in VIA's original fleet renewal plan were actually rebuilt – or at what cost.

Today, VIA is having a difficult time mustering enough equipment to provide its timetabled trains with sufficient cars to meet passenger demand, turning away paying passengers at a time when its revenues are declining and its costs rising.

Economic Considerations

The traditional North American railroading model is in transition. Although much of Canada's earlier rail history saw a large public sector involvement in building and extending a network fuelled by a little too much optimism, the current situation in this country is similar to that in the United States; most of the infrastructure is owned and operated by investor-owned companies.

However, in the U.S. today there is a steadily growing trend toward both federal and state support of strategic rail infrastructure projects. A substantial body of research underlies these investments, but unfortunately the same kind of initiative has not been evident in Canada. We must rely chiefly on success stories from south of the border.

A noteworthy example exists in northern Maine, where an endangered network of branch lines was acquired by the state government to prevent its abandonment. Ironically, the operation was then contracted out to a Canadian company, and shippers in New Brunswick's Upper Valley region are among the rejuvenated short line network's customers.

The efficiency of rail transportation offers extremely important benefits and incentives to industrial development, and it is widely recognized that locations without rail service can be at considerable disadvantage. This is particularly evident in the forest products sector, which is vitally important in northern New Brunswick.

Rail freight offers both superior energy and environmental advantages over highway transport, and despite some recent high-profile accidents, the rail industry's safety record is exceptionally good.

The payback on investment in rail infrastructure is also very significant, with $3 in economic activity generated for each dollar spent. It should be noted that Canada's railways themselves reinvest 40 cents on infrastructure from every dollar of revenue – more than double the rate of many other industries, including airlines, trucking, marine transportation, agriculture, mining, manufacturing, construction and even retailing.

Diverting passengers from highways to rail offers numerous public benefits, including reduced personal injuries from traffic accidents, lower environmental footprint, higher energy efficiency, and stimulus of tourism and commercial development activity. The runaway success story of Amtrak's *Downeaster* in Maine is an excellent case in point.

Unfortunately, successive Canadian federal and provincial governments have tended to ignore these advantages, and have for the most part taken a negative view of supporting passenger rail. Typically, Canadian governments characterize it as a subsidy, while referring to public spending on highways, air facilities and marine infrastructure as investments.

Conclusions and Recommendations

CN's Newcastle Subdivision

The imminent threat confronting the Newcastle Subdivision makes this issue one of immediate priority. It is imperative that the abandonment process be placed on hold to allow time to explore all reasonable potential solutions. In so doing it must be recognized that the Class I railroad business model embraced by CN might not be the most appropriate answer for this troubled line, nor does the current operator necessarily represent the most cost-effective option to bring about the necessary rehabilitation of the infrastructure.

The following are the key recommendations for the Newcastle Sub:

- All ownership and operational alternatives must be carefully examined, including the possibility of ownership by the federal and/or provincial governments, with operation contracted out to an experienced short line company.

- The rehabilitation cost estimates offered by CN should be verified by a qualified third party, and the net salvage value of the property should also be established.

- The creation of a freight car pool for forest products shippers must be explored, with attention paid to solutions that have been successful elsewhere.

- Consideration should be given to redirection of federal funds earmarked for the delayed Shining Waters rail project between Peterborough and Toronto. Timelines are such that these funds cannot now be used in Ontario before they expire, and they could and should be used for rehabilitation of the Newcastle Subdivision instead.

- If public funds are to be used for the necessary rehabilitation of this line – as Transport Action Atlantic believes they should be – the taxpayers' investment must be protected by a public ownership stake in the property.

VIA Rail Canada Passenger Service

In addition to its importance to present and potential future industry on the North Shore, preserving the Newcastle Subdivision is also vital to the survival of the only remaining passenger train in Atlantic Canada. It must be recognized from the outset that rerouting VIA Rail's *Ocean* to the CN line through Edmundston is <u>not</u> an option. Such a move would isolate the communities who need and use the service the most, and running the train through a sparsely populated area with no significant revenue potential would surely prove to be a fatal blow that would soon result in the end of all rail passenger service east of Quebec.

The recommendations pertaining to VIA which follow include several essential steps applicable to passenger rail throughout Canada, in addition to the focus area of this report:

- The *Ocean* should be returned to daily frequency as quickly as possible. This represents much more than simply better meeting the public need; as referenced previously, it would also deliver much better value for each dollar of expenditure.

- VIA should consider using its presently idle and recently rebuilt Budd rail diesel cars (RDCs) between Moncton and Campbellton to augment service until such time as the *Ocean* can be returned to daily operation.

- VIA should make maximum use of its most durable, reliable, and flexible equipment – the rebuilt Budd stainless steel passenger cars, many of which are now idle for six months of the year – while reducing or eliminating use of the un-satisfactory Renaissance equipment presently employed on the *Ocean*.

- Investigate transfer of lower-revenue rail stations to municipal ownership, as is the case in large numbers of smaller towns and cities throughout the U.S.

- Promote better integrated and co-ordinated operation between VIA and Maritime Bus services.

- Introduce the long-delayed act of Parliament to properly establish VIA Rail as a full Crown corporation with a clearly defined mandate, rights and obligations, supported by stable year-to-year funding, and reconstitute its board of directors to include expertise in rail operations and passenger transportation.

- Develop a long-term plan to re-equip VIA with modern, functional, comfortable, and cost-efficient rolling stock.

Reviving Industrial Rail Services

Despite the unfortunate saga of Industrial Rail, there remains reason for optimism about the future of the traditional railcar rebuilding and repair industry in Moncton. Extensive expertise still exists in the area, and the facilities at the Gordon Yard – carefully managed – have a demonstrated record for producing quality work.

Given that the provincial government made a substantial investment in IRSI, and that VIA has an urgent and ongoing need for refurbishment and repair of its aging equipment, particularly the LRC cars, it is recommended that:

- The minister of transport initiate a process to restore a productive business relationship between VIA and the owners of Industrial Rail.

- Recognizing that the bankruptcy of Industrial Rail absorbed a large amount of public money but failed to achieve the desired results for VIA – as a result of missteps by both parties – a thorough investigation be undertaken to identify what went wrong, and implement safeguards to prevent any recurrence of this type of unfortunate situation.

A Critical Role for Municipalities:

While the decisions affecting all three of the challenges now facing railroading in New Brunswick are largely in the hands of the federal and provincial governments, the municipalities that have funded this report (and others in the area) can exert their considerable influence to bring about the desired results.

The timing to do so is opportune. The appointment of a new federal minister of transport on July 15, 2013, the imminent arrival of a new VIA president, the scheduled in-depth audit of VIA by the Office of the Auditor General, heightened public awareness of the inadequacy of Canadian rail investment and regulation, and growing awareness of the commitment of other G8 nations to build and maintain effective and responsive rail systems are creating a climate that is right for the long overdue revision of Canada's national rail policies.

On CN's proposed abandonment of the Newcastle Subdivision, it is recommended that the municipalities join with existing shippers and potential customers to seek an immediate meeting with the Strategic Rail Assets Committee for an update on their progress, and to insist that they be included and consulted on an ongoing basis in the development of a solution that will retain and upgrade this vital asset.

Consistent with the recommendations above, the municipalities should request that the committee hire an independent rail engineering firm to investigate and report on the condition of the line, and that alternate quotes be obtained from independent contractors for comparison with any costing produced by CN regarding its rehabilitation.

They should also be emphatic that a study be undertaken to determine if it would be advantageous to have the line purchased and/or transferred to federal and/or provincial ownership for continued operation by a qualified short line operator, similar to the approaches that have been taken in the Gaspé, Maine and other jurisdictions.

With respect to VIA's unilateral slashing the frequency of the *Ocean* by half, it is essential that the municipalities become more assertive on this issue. They should begin by immediately passing resolutions calling on the federal government to prepare a plan to restore the *Ocean* to daily service and, in the interim, provide daily service over the Moncton-Campbellton route segment following a plan similar to the one outlined in recommendations above. They should also encourage the Federation of Canadian Municipalities (FCM) to intensify its efforts to make VIA an issue of major concern with the appropriate federal cabinet ministers.

Additionally, the sponsors of this report should jointly make a direct approach to Minister of Transport Lisa Raitt to make her fully aware of the community impact of the reduction in the *Ocean's* frequency, its serious value-for-money implications, and the need for quick corrective action by VIA.

The municipalities should also suggest to the minister that an effective first step in the renewal of VIA would be the appointment of former Amtrak president and Cape Breton resident David Gunn to the board of directors; that VIA be required to establish a consultation committee to allow for municipal input into its corporate planning; and that there be a thorough investigation of the advantages in transferring ownership of closed passenger stations, and/or those at risk of closing, to the municipalities.

The tri-communities of Greater Moncton should also ask the minister to initiate a process to bring the owners of Industrial Rail Services and VIA back to the table for a full and frank discussion of the situation that led to the company's collapse, with a view to reconstructing the fractured business relationship and resuming the remanufacturing of rolling stock in Moncton.

Finally, the report sponsors should contact the Office of the Auditor General to request a thorough investigation of the value for money implications of both the reduced service level of VIA's *Ocean* and of the ill-fated IRSI situation contracts, as part of its periodic audit of VIA's activities and finances.

The clock is ticking on all three of these vital aspects of New Brunswick's rail sector. The time for action by all levels of government is now. By taking the actions recommended above, the municipalities that have funded this report – and others – can play an important role in making that happen.

1.0 New Brunswick Railroading in Turmoil

In 2012, three serious challenges to the future of railroading in New Brunswick emerged, all with extreme implications for the Greater Moncton area and the North Shore communities. In chronological order, these were:

- The bankruptcy on April 19 of Industrial Rail Services, Inc., which had been struggling to meet VIA's changing demands on the re-manufacturing of 163 pieces of passenger rolling stock;

- VIA's announcement on June 27 of nationwide service reductions, including a cut in the frequency of the Montreal-Moncton-Halifax *Ocean* from six to three roundtrips weekly; and

- CN's announcement on August 30 of its application to abandon 139 miles of the Newcastle Subdivision from the north end of Moncton (Catamount, Mile 0.0) to Belledune (Irvco, Mile 132.1) plus the Nepisiguit Subdivision.

There has been concern for some time about CN's long-term future throughout Atlantic Canada. Since the late 1980s, the company has slowly and steadily retreated from the region due to understandable economic conditions, which have not been conducive to the maintenance of the extensive railway network of the past. Under a federal-provincial legislative and financial agreement, all CN rail services were abandoned in Newfoundland in 1988. All service in Prince Edward Island was discontinued in 1989 through the National Transportation Agency's abandonment process.

The remaining CN Atlantic route network in New Brunswick and Nova Scotia has been pruned drastically through sales to short lines or total abandonment. Service on the remaining routes has been reduced and many customers report CN is doing little traffic development work and not being particularly responsive to smaller carload shippers. The root cause is the fragile economy of the Maritimes and the continued policies of the federal and provincial governments to give priority to the highway system, while providing little or no funding for the maintenance and improvement of rail services.

Each of these challenges is worrisome to shippers, rail passengers, politicians and local economic development agencies. Combined, they throw into question the continued existence of a large segment of the rail system in New Brunswick.

Of the three issues, the CN abandonment application is the most serious, even though the public and the media have focused more intently on the VIA service reduction. Quite simply, if CN follows through on its plan to sever the Newcastle Subdivision at Belledune, this would turn it into nothing more than a truncated branch line served strictly from the west at Campbellton. VIA's *Ocean* would lose its route and all the communities south of Belledune would lose all their rail service, freight and passenger.

The reduction in the frequency of VIA's *Ocean* has already had a major impact on the intermediate cities and towns on its entire route between Halifax and Montreal, especially the North Shore. Shifting the train to the alternate CN route through Edmundston would be devastating for the North Shore communities.

This report was commissioned to examine these major challenges that swiftly arose to threaten portions of the rail industry in New Brunswick today. Its objective is to present options based largely on the experience of other railways and jurisdictions. These options have been selected so the five affected municipalities that have funded this study – and others who are greatly concerned – can plan a course of action to ensure that railroading remains robust in New Brunswick, contributing to the province's economic, social and environmental vibrancy long into the future.

While the decisions that resolve these issues ultimately rest in the hands of other levels of government, the municipalities are more than capable of leading the debate that needs to occur immediately. It is hoped this report will inspire them to do so.

WHEN *OCEANS* MEET: VIA #14, the eastbound *Ocean*, is viewed from the observation lounge of the Park car on the tail end of its westbound running mate, VIA #15, at the siding located at Belmont, Nova Scotia, north of Truro, on August 13, 2005. Photo by Alan Macek

2.0 A New Brunswick Railway Primer

In order to fully appreciate the situation now facing the proponents of CN and VIA service revitalization on New Brunswick's North Shore, it's important to understand how the affected CN line came to be, what role it once served and how the economic circumstances that created it have changed drastically. This is not a nostalgic romp through railroading's glory years. This review will help to explain the complicated subtext of the dilemma now facing those who are advocating for the line's retention.

2.1 The Pioneer Era

Before Confederation, railroading in New Brunswick consisted merely of two disconnected short lines that didn't change the trade and transportation patterns of the colony. These patterns had been shaped largely by coastal and ocean shipping, and wagon roads. Trade was largely resource based and focused on exporting raw goods such as lumber and fish to Great Britain and the northeastern U.S.

The first two New Brunswick Railways fit into this pattern. The European & North American opened in 1860 between Saint John and Shediac, acting as a portage railway to link the Bay of Fundy with Moncton and the Northumberland Strait. The St. Andrews & Quebec Railway (later renamed the New Brunswick & Canada Railway) built a line north from the Bay of Fundy to the Saint John River town of Woodstock, serving as a means of tapping northwestern New Brunswick's timber wealth and bringing it down to an ice-free port for export.

The Intercolonial Railway of Canada (commonly known as the ICR in Atlantic Canada) – of which today's Newcastle Subdivision was a key component – changed this pattern, bringing the true benefits of main line railroading to New Brunswick. The ICR was built by the Government of Canada as a condition of Confederation in 1867. Under Clause 154 of the *British North America Act*, Canada committed to begin construction of a railway connecting Halifax with the eastern end of the established Grand Trunk Railway (GTR) at Rivière-du-Loup, Quebec, within two years.

Coupled with this main trunk line railway was the Macdonald government's National Policy, which irrevocably changed the trading patterns of Atlantic Canada. Macdonald envisioned an integrated, east-west economy independent of the considerable influence of the U.S. The ICR to the east and the Canadian Pacific Railway (CP) to the west, in combination with the well-established Grand Trunk Railway (GTR) in central Canada, were cornerstones of this policy.

The ICR's planning, construction and early operation were classic Canadian tales of political and parochial intervention. Despite these early handicaps, the railway eventually became one of the federal government's most valuable assets and a true economic lifeline for the Maritimes. Its transformation into a useful and efficient public railway was best summed up by noted railway author and photographer Greg McDonnell in his 1985 book, *The History of Canada's Railroads*:

"In spite of patronage, corruption and other scandals plaguing it, the ICR, by virtue of the intelligence and devotion of its engineer-in-chief, Sandford Fleming, was well built. At Fleming's insistence, the ICR constructed iron, rather than wooden bridges, laid superior-quality steel rails and converted to standard gauge while still under construction.

"The ICR was completed in June 1876, and in July a through train from Halifax to Quebec officially marked completion of the railroad uniting the provinces. Observers extolled the virtues of the new railway and exclaimed that its value to the nation could not be measured in dollars. There were those, primarily in political office, who quickly placed a dollar value on the line and opened a season of corruption, patronage and greed that would eclipse that of the building years....

"... despite its beginning, the ICR became a responsible operation building an impressive, if not profitable, maritime system. The company took bankrupt short lines under its wing and soon stretched, through ownership or running rights, from Sydney to Montreal."

With great pride, the citizens of Atlantic Canada eventually embraced and believed in the ICR's motto: "The People's Railway."

DAWN OF A NEW ERA: On June 30, 1884, the first Intercolonial train steamed into Dalhousie, New Brunswick. Throughout the province, the Intercolonial built or acquired branch lines such as this one to connect with its main line to central Canada. Photo from Canada Science and Technology Museum CN Collection, Image CN008379

2.2 Growth and Competition

As part of this policy, certain Maritime members of Macdonald's government arm-twisted CP into a commitment to build a Montreal-Saint John route in 1885 in exchange for a loan guarantee to complete its western transcontinental main line. CP purchased a number of disjointed short lines and stitched them together with new line segments to create a through route that cut from southeastern Quebec at Mégantic across northern Maine and into New Brunswick near McAdam. Completed in 1889, this was (and still is) the shortest route between Montreal and New Brunswick.

CP attempted to avoid the high cost of constructing this line by offering to buy the ICR. This offer was declined, although the government did grant CP passenger and freight running rights over the ICR's Saint John-Moncton-Halifax line. However, ICR management caused CP so much trouble over this arrangement that the company eventually decided to serve Halifax by purchasing Nova Scotia's Dominion Atlantic Railway (DAR). This was linked with CP's Montreal-Saint John main line with a connecting ferry operation from Saint John to Digby, with running rights on the ICR for the 15.9 miles from Windsor Junction to Halifax.

With both the CPR and the ICR established as healthy east-west main line systems, expansion of their route networks through the acquisition of various New Brunswick short lines followed. Between them, the two systems then provided freight and passenger service to every corner of the province, with the ICR providing the most extensive coverage. The result was New Brunswick then possessed more miles of railway per square mile, and per capita, than any other jurisdiction in North America.

Had this been the full extent of railway building in New Brunswick, the system would have been more than adequate to meet the needs of shippers and passengers. But then the public and private sectors committed two of the biggest transportation blunders in Canadian business and transportation history.

2.3 The Great Canadian Railway Fiasco

In western Canada, the Canadian Northern Railway (CNoR) set out to break the CPR's transcontinental monopoly by expanding its extensive prairie network into a full-blown system stretching from Montreal and Toronto to Vancouver. It also eyed expansion into the Maritimes. The CNoR would benefit tremendously from generous per-mile construction subsidies and land grants provided by the Liberal government of Sir Wilfrid Laurier.

At the same time, the GTR – the dominant eastern railway – moved to counter the CNoR's expansion by building its own transcontinental extension, to be known as the Grand Trunk Pacific Railway (GTP). It would strike west from the northern end of the GTR at North Bay, Ontario, and across the prairies to Prince Rupert, which the company said it would turn into "the Venice of the North."

The GTP plan then got blown out of all proportion through a deal with the federal government. Looking to open up northern Quebec's vast timberlands and the small, fertile clay belt for agricultural settlement – and to mollify certain influential Maritime politicians who wanted to be part of the scheme – the Laurier government and the GTR concocted a plan to build an eastern component of the GTP that would be known as the National Transcontinental Railway (NTR).

The NTR would begin in Moncton, arc diagonally through New Brunswick by way of Edmundston and then work its way west over a curvaceous route south of the ICR's water level line along the south shore of the St. Lawrence. By way of a massive cantilever bridge at Quebec City (which collapsed twice during construction), the NTR would then cross the river and head northwest through largely virgin territory in Quebec and northern Ontario to a link-up with the GTP in Winnipeg.

The vision behind the line was intriguing, but this transcontinental scheme was wildly ambitious and largely without commercial justification. The GTR wisely agreed to participate only if the government paid for the entire NTR end of the scheme, which it agreed to do. Upon its completion, it would be leased to the GTP for 50 years at a low annual rate pegged to its construction costs, which eventually ran more than $100 million higher than projected.

Two new transcontinental railways to compete with the CPR was at least one too many. Cost overruns on both the CNoR and the GTP/NTR were massive and virtually all were covered through public financing on the international money markets. But when the First World War was declared, private and public access to the foreign capital that was vital to the construction of these two systems evaporated.

When the GTR refused to assume operation of the eastern segment of the NTR in 1915, the government incorporated it into the new Canadian Government Railways, which also included the ICR and the Prince Edward Island Railway, the latter having become a federal property when P.E.I. entered Confederation in 1871.

Like a collapsing house of cards, the CNoR went bankrupt in 1918 and was taken over by the federal government of Conservative Prime Minister Sir Robert Borden, who had challenged this reckless railway building program while in opposition. The CNoR was poured into the CGR. Then, in early 1919, the parent GTR defaulted on the GTP's bonds, throwing it, too, into the government's hands, which added it to the CGR and renamed the whole publicly-owned system as the Canadian National Railways (CN).

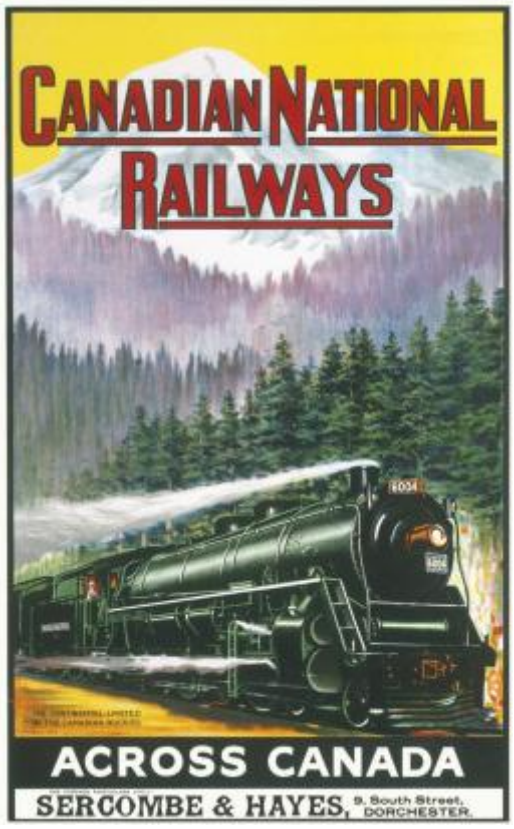
Finally, the government stepped in and took control of the GTR in 1920 and completely amalgamated all of these railways under the CN banner in 1923. Canada then had a publicly-owned system of 22,646 route miles, making it the world's largest railway. It took its original motto from the ICR and called itself "The People's Railway."

MONTREAL BOUND: CN's *Ocean Limited* heads west through the Matapedia Valley in 1952 behind one of the powerful Northern-type locomotives that were the mainstays of the long-haul Maritime passenger service during the steam era. Photo from Canada Science and Technology Museum CN Collection, Image CN002678

2.4 The CN Era

Thanks largely to the work of visionary CN presidents Sir Henry Thornton (1923-1932) and Donald Gordon (1949-1966), the disparate components of the amalgamated system were fused and, with ample public funding at first and government-guaranteed access to private capital at a preferential rate later in its life, CN progressively built itself into a stealthy competitor of the well-run and solvent CP system. Throughout this period and well into the 1970s, the ICR main line remained the principal route for passengers moving to and from New Brunswick and Nova Scotia, as well as a healthy generator of on-line freight, especially paper products and mine traffic.

However, the NTR route through Edmundston had become the main one for through freight traffic moving between points east of Moncton and west of Quebec City. This shorter, more direct route was improved greatly in 1976, when CN opened its 19-mile Pelletier Cut-Off to connect the NTR line with the ICR line 15.3 miles west of Rivière-du-Loup, at St. André Junction. This made it possible to abandon 142 twisting, thinly-populated miles of former NTR line west of Pelletier to Quebec City's South Shore industrial area.



Although the NTR was an expensive boondoggle, it was built to high standards, with the grades from Moncton to the Pelletier Cut-Off superior to the ICR. As well, combining this section of the NTR with the St. André Junction-Quebec City segment of the ICR produced a route 61 miles shorter than the all-ICR Moncton-Quebec City route.

This new through freight route, composed of the Napadogan and Pelletier Subdivisions, was rebuilt with continuous welded rail and a centralized traffic control system. The Newcastle (Moncton-Campbellton) and Mont-Joli (Campbellton-Mont-Joli) Subdivisions remained un-signalled. As well, a 60-mile segment of the Newcastle Subdivision from a point north of Rogersville (Mile 40.0) to a point south of Bathurst (Mile 107.6) consists of badly worn, 100-lb. jointed rail.

These deficiencies have not been corrected largely because, since the 1976 opening of the Pelletier Cut-Off, the combined NTR/ICR route has been the principal one for through freight moving to and from southern New Brunswick and Nova Scotia. The ex-ICR route around New Brunswick's North Shore was relegated to secondary status and CN's level of maintenance and investment reflected this.

This strategic realignment of the CN system in New Brunswick did not, however, make the Newcastle and Mont-Joli Subdivisions redundant. Until the early 1990s, this was a healthy piece of railway in both online traffic generation and operational utility. The line served occasionally as a bypass route for the Napadogan Subdivision when it was blocked by derailments, heavy traffic or flooding, to which it is prone. Because of the higher population than on the Napadogan Subdivision, the Newcastle and Mont-Joli Subdivisions comprised the main passenger route through New Brunswick, generating much long-haul and local traffic in a region poorly served by bus and air services.

2.5 The Maritime Railway Retreat

In terms of freight, the ex-ICR route through New Brunswick remained healthy into the 1980s thanks to five large traffic generators. The zinc, lead and copper deposits west of Bathurst were opened for mining by the construction of two CN branch lines to Heath Steele and Brunswick Mines in 1957 and 1964, respectively. The ore from these mines was moved in CN hoppers to the Noranda (now Xstrata) smelter at Belledune, with much of its output initially moved by rail. As well, three large paper mills at Dalhousie, Bathurst and Miramichi generated considerable inbound and outbound traffic.

This all began to change as the effects of globalization and the North American Free Trade Agreement took hold. Other nations with lower costs competed vigourously with the resource-based industries of New Brunswick. In the mining sector, the zinc, lead and copper deposits were nearing the end of their commercially viable lives. Industries that had fuelled the province's growth for generations began to wilt and no new ones appeared to replace the many jobs that were being lost as a result of this industrial and resource sector decline. This situation was played out throughout Atlantic Canada.

CN correctly read the gathering economic winds in the 1980s and realized Atlantic Canada's industrial fortunes were sinking, which would have severe repercussions for its profitability. Railway investment and marketing efforts were reduced.

With a smaller Maritime route network and less traffic, CP had already retreated. In 1987, the railway reorganized itself into two principal business units. The eastern half of the system and traffic considered truck competitive came under Intermodal Freight Systems (IFS), headquartered in Toronto. The western half of the system and the bulk traffic were placed under Heavy Haul Systems (HHS), based in Vancouver. Both divisions reported to CP Rail System headquarters in Montreal.

FAREWELL TO NOVA SCOTIA: Everything in this shot taken at Kentville, Nova Scotia, on CP's Dominion Atlantic Railway in May 1977 is gone: the train, the tracks and the station. Except for a small track segment retained at Grand Falls, New Brunswick, pending its transfer to CN, CP's retreat from the Maritimes was complete by 1994. Photo by David Othen

This division of responsibilities was taken one step farther on September 1, 1988, with the establishment of the Canadian Atlantic Railway (CAR) as an operating subsidiary of IFS. CAR was given control over all CP lines southeast of Montreal to Saint John and other points, as well as the DAR in Nova Scotia.

While some outsiders saw this as a sign that CP was going to resuscitate its Maritime business, the truth was far different. The CP IFS Four-Year Business Plan (1989-1992) stated:

> "As CP Rail seeks to de-commit from direct operation of these modal competitive feeder lines, management of the lines should focus on short-term cash maximization rather than long-term participation in the traffic.... Sale of the Sherbrooke-Saint John main line and the St. Stephen Subdivision are assumed for the last year of the planning horizon (1992). This allows time for the CAR to make commercial improvements."

Despite attempts to stimulate traffic, CP reported it lost $52 million on CAR in its first three years. The result was CP's 1994 sale of the portion of main line west of Brownville Junction, Maine, to Iron Road Railways and the eastern portion to J.D. Irving Limited, which operated its portion as the New Brunswick Southern Railway and the Eastern Maine Railway. Iron Road had previously bought the Windsor Junction-Kentville remains of CP's DAR line in Nova Scotia.

Except for a 7.8-mile line segment in Grand Falls transferred to CN, CP abandoned the rest of its once extensive Maritime operation. Iron Road tried to make its ex-CP lines profitable, but declared bankruptcy in 2004.

While still committed to operating in Atlantic Canada on routes that could generate a reasonable level of profit, CN was also intent on reducing its system to what it considered a commercially sustainable level. Like CP, it abandoned a massive amount of light-density trackage from the 1980s onward. It also began soliciting bids for some of the marginal lines that could be made profitable under the lower cost structure of short line operators. The first to be bought was the ex-ICR Truro-Sydney line, which became the Cape Breton & Central Nova Scotia short line in 1993.

In April 1993, CN president Paul Tellier told the House of Commons Standing Committee on Transport that he wanted to sell about 1,200 miles (1,900 km) of track in northern Quebec to short lines. He was also considering the sale of one of the two main lines through New Brunswick. Tellier also told the committee CN lost $120 million on revenue of $210 million in its Atlantic Region in 1992.

CN Atlantic Region Trackage – 1980

SUBDIVISION	FROM	TO	MILES
Albert	Salisbury	Hillsboro	24.4
Bartibog	Bartibog	Heath Steele	23.1
Bedford	Halifax	Truro	64.0
Borden	Charlottetown	Borden	42.4
Caledonia	Caledonia Jct.	Caledonia	21.9
Caraquet	Gloucester Jct.	Tracadie	72.0
Cascapedia	Matapedia	New Carlisle	98.0
Centreville	Valley	Centreville	27.7
Chandler	New Carlisle	Gaspe	104.2
Chester	Southwestern Jct.	Liverpool	109.1
Dalhousie	Dalhousie Jct.	Dalhousie	6.2
Dartmouth	Windsor Jct.	Upper Musquodoboit	81.8
Gort	Moncton	Catamount	13.5
Havelock	Petiticodiac	Havelock	12.3
Hopewell	Truro	Havre Boucher	116.2
Inverness	Port Hastings Jct.	Inverness	55.3
Kensington	Emerald Jct.	Tignish	84.6
Loggieville	Nelson Jct.	Loggieville	13.5
Middleton	Bridgewater Jct.	Bridgetown	66.9
Miramichi	Derby Jct.	McGivney	74.7
Monk	Pelletier	Diamond	67.9
Montague	Mt. Stewart Jct.	Montague	25.6
Mont Joli	Campbellton	Mont Joli	105.4
Murray Harbour	Maple Hill	Murray Harbour	44.4
Napadogan	Pacific Jct.	Edmundston	219.4
Nashwaak	McGivney	South Devon	33.8
Nepisiguit	Nepisiguit	Brunswick Mines	14.7
Newcastle	Catamount	Campbellton	173.2
Oromocto	Westfield Beach	South Devon	70.5
Oxford	Oxford Jct.	Stellarton	79.4
Pelletier	Edmundston	St. Andre Jct.	86.9
Point du Chene	Painsec Jct.	Scoudouc	5.4
Richibucto	Kent Jct.	Richibucto	26.5
Souris	Royalty Jct.	Souris	55.0
Springhill	Truro	Moncton	124.9
St. Quentin	Tide Head	I.N.R. Jct.	105.8
Sussex	Marsh Jct.	Saint John	86.9
Sydney	Havre Boucher	Sydney	113.9
Temiscouata	Riviere du Loup	Fraser Jct.	81.9
Tormentine	Sackville	Cape Tormentine	35.4
Yarmouth	Liverpool	Yarmouth	136.6
TOTAL			**2448.1**

CN Atlantic Region Trackage – 2013

SUBDIVISION	FROM	TO	MILES
Bedford	Halifax	Truro	64.0
Cascapedia	Matapedia	New Carlisle	98.0
Dalhousie	Dalhousie Jct.	Dalhousie	6.2
Dartmouth	Windsor Jct.	End of Track	16.5
Mont Joli	Campbellton	Mont Joli	105.4
Napadogan	Pacific Jct.	Edmundston	219.4
Nepisiguit	Nepisiguit	Brunswick Mines	14.7
Newcastle	Catamount	Campbellton	173.2
Pelletier	Edmundston	St. Andre Jct.	86.9
Springhill	Truro	Pacific Jct.	136.7
Sussex	Marsh Jct.	Saint John	83.5
TOTAL			**1004.5**

Ex-CN Atlantic Region Short Line Trackage – 2013

SUBDIVISION	FROM	TO	MILES
SCFG Cascapedia	Matapedia	New Carlisle	98.0
SCFG Chandler	New Carlisle	Gaspe	104.2
CB&CNS Hopewell	Truro	Havre Boucher	116.2
CB&CN Sydney	Havre Boucher	Sydney	113.9
CB&CNS Oxford Spur	End of Track	Stellarton	8.0
TOTAL			**440.3**

Following its 1995 privatization, CN accelerated its efforts to sell most of its remaining light-density lines. The full extent of CN's retreat is best demonstrated by comparing the CN Atlantic Region subdivision listings above from 1980 and 2013. Even disallowing the abandonment of the unprofitable systems in Newfoundland and P.E.I., CN's withdrawal from what once was a comprehensive rail system in Atlantic Canada has been substantial. Yet, it is commercially understandable and justifiable in the face of competition from truckers operating over government-funded highways.

Added to the abandoned mileage indicated above was the 710.6-mile Newfoundland system, which had in later years been a separate division within CN's Atlantic Region. In total, the rail system once owned and operated by CN in the Atlantic provinces has been reduced through abandonments by 1,617.4 miles since 1980 – a 52 per cent cut.

As part of CN's downsizing, the ex-ICR Moncton-Rivière-du-Loup route went on the block, as did the Matapedia-Gaspé, Mont-Joli-Matane and Quebec City-Clermont lines. The ICR Quebec City-Moncton route was purchased in 1999 by the Quebec Railway Corporation (QRC). Also acquired was CN's Matane-Baie Comeau car ferry operation, providing access to large shippers such as Alcoa and Abitibi Consolidated.

NEW LOOK, SAME PROBLEMS: The 1999 purchase of CN's Moncton-Rivière-du-Loup line by the Quebec Railway Corporation and its operation as the New Brunswick East Coast short line made it appear the route had a bright future. But the region's continued economic decline and the closure of several large shippers ultimately led the short line investment group to retreat, selling the line back to CN in February 2009. Photo by Steve Boyko

It was hoped the new company would bring a vision and a financial commitment to make this short line empire thrive. Unfortunately, according to a former senior QRC official, the company was not interested in long-term operations. The objective was to buy the lines at a low price and sell them high as they somehow accrued value without any significant investment. That didn't occur.

By 2008, some QRC investors reportedly wanted out, but they were unable to entice another short line to purchase the property, which had been reduced in size through the sale of the Matapedia-Gaspé line to the four regional governments along its route. The truncated Quebec City-La Malbaie line was purchased by one of the QRC principals and re-established as the Charlevoix Railway for freight and tourist passenger service.

2.6 CN's Return

To protect the lucrative Alcoa and Abitibi Consolidated traffic at Baie-Comeau, which QRC interchanged with CN at Rivière-du-Loup, CN bought the QRC package for $48.5 million in February 2009. Although the condition of the infrastructure and equipment ranged widely, it appeared to be a good deal for CN. In addition to some aged locomotives and freight rolling stock, the deal netted CN 525.6 miles of main track in New Brunswick, Quebec and eastern Ontario, plus the Matane car ferry operation.

In New Brunswick, this consisted of the Newcastle Subdivision (173.2 miles), Nepisiguit Subdivision (14.7 miles), Dalhousie Spur (6.1 miles) and other spur lines totalling 13.7 miles at Miramichi, Bathurst and Belledune.

Discounting the unknown value of the car ferry, motive power, rolling stock and spur lines, CN paid less than $92,000 per main line mile for the routes in the QRC package. Its condition ranged from good to only fair, some of it requiring urgent attention to correct the cumulative wear and deferred maintenance to which it had long been subjected. One section of the Newcastle Subdivision fits into the latter category, being long past the time when it should have been renewed.

To be fair, CN acquired a railway sub-system that is hardly stable, even if the assets are extensive. Global competition, the recession of the 1990s and the continued exhaustion of key resource-related traffic generators in CN's New Brunswick service territory have thrown the whole region into a tailspin. Typical were the mill closures by Smurfit-Stone at Bathurst (2005), UPM at Miramichi (2007) and Avenor at Dalhousie (2008), which undermined the Newcastle Subdivision's profitability.

This was compounded by the depletion of the two major mines, which resulted in the closure of Heath Steele in 1999 and Brunswick Mine #12 in March 2013. This leaves only 12-15 smaller carload freight traffic generators and the income from VIA for the operation of the *Ocean* to sustain the line. CN's VIA income declined in October 2012, when the *Ocean* was halved to tri-weekly operation.

It is all of these factors – and others – that have placed CN's Newcastle Subdivision in jeopardy.

A PROFITABLE PARTNERSHIP NO MORE: In 2008, just months before CN bought back the Newcastle Subdivision and other lines it sold in 1999 to the Quebec Railway Corporation, a shutdown on the Napadogan Subdivision sent this freight train through Miramichi and past the shuttered UPM paper mill. The closure of this plant, and other major forest industry traffic generators at Bathurst and Dalhousie, permanently undermined the viability of this line under CN ownership and operation. Photo by Steve Boyko

3.0 The Case for Rail Investment

In lockstep with the increasing public investment in rail freight and passenger projects by governments in both developed and emerging nations, there has been an increase in the research and analysis of the benefits of rail transportation.

While public investment in rail is traditional in many countries due to public ownership of the systems, the situation has always been different in Canada and the U.S. because of the mixture of private infrastructure ownership and freight operations with public funding of the intercity and commuter passenger services. Most investments in North America have been directly related to market forces and have had little to do with government policy and investment decisions. The profit motive is what has largely driven rail investment and service delivery on this continent. The railways have, therefore, been left to decide whether any one investment is worthwhile based on their own planning and analysis; they have not had to justify this externally.

However, this has been changing in the U.S. through public investment in infrastructure and freight projects that have been deemed in the public interest. In order to justify this public investment in rail, the federal and state governments in the U.S. have required statistical and anecdotal proof of the benefits of rail investment. For example, under various federal funding agreements, there has been a requirement for statewide transportation planning in order to be eligible for this funding.

The result has been a series of plans that quantify the benefits of public investment in rail freight and passenger infrastructure and services. Those benefits are considerable and they occur not just economically, but also in terms of environmental impact, mobility and social development. Regrettably, a similar degree of research and analysis of the benefits of rail freight and passenger service has not been undertaken in Canada.

In analyzing the situation in New Brunswick today, it is clear that the resolution of the province's rail freight and passenger challenges will require public investment. It is, therefore, reasonable at the outset to find applicable data from other jurisdictions that can serve as the basis on which to make the required investment decisions. One valuable source is the work undertaken by New Brunswick's nearest U.S. neighbour, the State of Maine, which has dealt with transportation investment decisions remarkably similar to those being faced by New Brunswick's rail sector.

To qualify for federal matching funds under legislation such as the *Transportation Equity Act for the 21st Century*, the *Rail Safety Improvement Act of 2008* and the *Passenger Rail Investment and Improvement Act of 2008*, each state is required to prepare a statewide rail plan that, among other requirements, must quantify the anticipated investment benefits. The Maine Department of Transportation's 2010 *Draft Maine State Rail Plan* contains an excellent analysis of the multiple benefits of rail transportation. Much of what follows is drawn from that section of this comprehensive and impressive report, as well as the small amount of recent Canadian research on the subject.

3.1 The Benefits of Rail Freight Transportation

Major benefits of rail freight service occur in terms of energy usage and air quality impacts. The Maine DOT plan reports:

- A freight train can move a ton of freight an average of 436 miles on a single gallon of fuel. This is close to four times as far as it could move by truck.
- A single freight train can take the load of 280 trucks off the road. That's the equivalent of removing 1,100 cars from the road.
- The U.S. Federal Railroad Administration reports rail fuel efficiency varies from 156 to 512 ton-miles per gallon while for trucks it ranges from 68 to 133 ton-miles per gallon, making rail fuel efficiency 1.9 to 5.5 times better than trucking.
- Each ton-mile of freight moved by rail rather than highway reduces greenhouse gas emissions by two-thirds or more.
- If only 10 per cent of freight currently moved by highway in the U.S. switched to rail, national fuel savings would exceed one billion gallons and greenhouse gas emissions would fall by 12 million tons.
- By improving their fuel efficiency, U.S. freight railways have, on average, reduced their greenhouse gas emissions by 20 million tons every year since 1980.

Despite recent high-profile accidents, the rail freight industry's safety record is good.

- In 2011, Canada's railways moved a record 473.3 billion gross ton-miles, but maintained a rate of 2.41 total accidents per billion gross ton-miles, the lowest rate in a decade.
- Railways have lower employee injury rates than most other major industries, including trucks, barges, airlines, agriculture, mining, manufacturing, construction and even retailing.
- The rail industry's record in moving hazardous materials safely is excellent. More than 99 per cent of "hazmat" rail shipments reach their destination without a train-accident-caused release.

The railways play a large role in reducing roadway impacts and easing congestion, especially in urban areas. A 2006 study commissioned by Transport Canada found "the total annual cost of congestion (in 2002 dollars) ranges from $2.3-$3.7 billion for the major urban areas in Canada. More than 90 per cent of this cost represents the value of the time lost to car users in congestion. The remainder represents the value of fuel consumed (7 per cent) and greenhouse gases emitted under congestion conditions (3 per cent). The study estimates an increase of 1.2 to 1.4 mega-tonnes of greenhouse gases due to congestion every year."

Additionally, the 2010 *Draft Maine State Rail Plan* reported:

- It can easily cost $15 million (and often much more) and take well over a decade to add a lane to a mile of highway, compared to $2 million to $4 million and relatively little time for a typical mile of rail line.

- Shifting freight from trucks to rail reduces the pressure to build costly new roads and helps cut the cost of maintaining existing roads.

The *Draft Maine State Rail Plan* and other sources also highlight the economic opportunities generated by rail freight service in the U.S. and Canada:

- Every rail freight job supports another 4.5 jobs somewhere else in the economy.
- In 2011, the Canadian rail sector employed an average of 33,624 people, thus supporting another 151,308 other Canadian jobs.
- The average Canadian rail employee earns $83,175 in annual salary and benefits.
- Canada's rail sector pays more than $2.7 billion annually in wages and benefits.
- Unlike trucks, barges and airlines, North America's freight railways operate almost exclusively on infrastructure they build, maintain and finance.
- Railways invest about 40 cents out of every revenue dollar in the national rail network, which is more than twice the rate of other industries.
- Every $1 of investment in rail infrastructure generates another $3 in economic activity, according to the U.S. Department of Commerce.
- Every $1 billion of investment in rail infrastructure maintenance, renewal and capacity expansion creates an estimated 20,000 jobs nationwide.
- In 2011, Canada's railways invested $1.8 billion in their property, paid $950 million in taxes and generated more than $5 billion in economic activity.

HIGHWAY BUDGET SLASHER: One double-stack container train takes up to 280 truckloads off taxpayer-funded highways, reducing public costs by cutting truck-related damage. Diverting long-haul freight from truck to rail also reduces the need for highway expansion, which easily costs $15 million per lane per mile. Canadian Pacific photo

3.2 The Benefits of Rail Passenger Transportation

The benefits of public investment in rail passenger projects have been broadly catalogued by numerous public and private agencies in other countries. Among the points cited in favour of public spending on passenger trains are:

- Diversion of traffic from other publicly-supported modes of transportation, such as highways, making investments in capacity expansion unnecessary.
- Job creation throughout the project's supply chain during the construction or equipment manufacturing phases.
- Ongoing jobs and economic spin-off from the operation itself and its consumption of purchased supplies and services.
- Large present and potential spin-off benefits for tourism sector.
- Savings in health care costs due to traffic diversion from less safe modes, such as the highways, and reductions in emissions affecting public's health.
- Savings in national energy costs, given the higher energy efficiency and reduced fuel requirements of rail.
- Residential and/or commercial development and economic activity created in the areas surrounding the stations and other facilities.

In its April 2009 *Vision for High-Speed Passenger Rail in America*, the U.S. government broadly outlined the benefits of public investment in both conventional and high-speed rail passenger service:

- Ensure safe and efficient transportation choices.
- Promote the safest possible movement of goods and people, and optimize the use of existing and new transportation infrastructure.
- Build a foundation for economic competitiveness.
- Lay the groundwork for near-term and ongoing economic growth by facilitating efficient movement of people and goods, while renewing critical domestic manufacturing and supply industries.
- Promote energy efficiency and environmental quality.
- Reinforce efforts to foster energy independence and renewable energy, and reduce pollutants and greenhouse gas emissions.
- Support inter-connected, livable communities.
- Improve quality of life in local communities by promoting affordable, convenient and sustainable housing, energy and transportation options.

However, successive Canadian governments have cavalierly dismissed these views. Instead, they always make rail passenger funding a matter of so-called fiscal responsibility, describing public spending on rail services as "a subsidy," while highway and aviation funding is invariably called "an investment."

Various rail industry associations have analyzed and quantified the multiple rail passenger investment benefits through a series of calculators, arriving at general economic impact figures. In the U.S. – where competitive transportation, demographic and geographic conditions most closely resemble those in Canada – the following conclusions have been reached by organizations such as the publicly-funded States for Passenger Rail and the American Public Transportation Association:

- $1 million spent on passenger rail projects creates 30 new jobs.
- Rail stations are active catalysts for economic growth with many being developed into mixed-use properties that include offices and retail.
- $1 million invested in public transportation generates $4 million in economic returns.
- $1 million in public transportation supports and creates 36 jobs.
- $1 million in capital investment in public transportation yields $3 million in increased business sales.
- $1 million in operating investment yields $3.2 million in increased business sales.

In March, 2013, Amtrak president Joseph Boardman reported that the U.S. passenger carrier had reached 88 per cent cost recovery in 2012 and, for every dollar of public funding it had received since 2010, it had generated three dollars of economic stimulus.

One of the numerous working examples in the U.S. that demonstrates the impact of rail passenger investment and operation is Maine's *Downeaster*, linking Boston with Portland and Brunswick. It is funded jointly by the federal government through Amtrak and the State of Maine. The *Downeaster* is managed by the Northern New England Passenger Rail Authority, a public agency created in 1995 by the Maine State Legislature.

Before the *Downeaster's* 2001 launch, the route hadn't had passenger service for 25 years. Now, it is one of the strongest performers in Amtrak's network of state-supported services.

A 2008 study of the impact of the *Downeaster* found:

- Ridership rose 32 per cent in 2006, 5 per cent in 2007 and 20 per cent in 2008.
- On the connecting Rockland Branch, ridership rose 26 per cent in 2007.
- In Old Orchard Beach, two hotels and a $20 million residential and retail complex have been constructed within two blocks of the station.
- In Saco, developers have broken ground on a $110 million conversion of an old mill property by the station into a retail, office and residential complex.
- A 30-acre site next to the Portland station is for sale for $12 million for mixed housing and commercial development.
- In Brunswick, developers are seeking planning board approval for a $30 million hotel, retail, office and residential complex that is projected to create 200 jobs and $500,000 in annual tax revenues.

REGIONAL ECONOMY BUILDER: *Downeaster* service has spurred economic activity all along its original route from Boston to Portland and on the extension to Brunswick, Maine, launched in late 2012. Wanting to reap similar benefits, other communities are now calling for an extension of the popular service east to Lewiston-Auburn.

For the year ending June 30, 2013, *Downeaster* ridership increased 5 per cent over the previous year to about 550,000 passengers. The 2012 extension of two of the five daily Boston-Portland trains to Brunswick was expected to boost ridership by 36,000 in its first year, but this 30-mile extension actually drew 52,000 additional travellers.

Passenger trains do, indeed, mean business, but not just economically. While data on the well-known advantages of passenger diversion from road and air to rail in Canada is skimpy, considerable research has been done in the U.S. in recent years and it has found that the environmental credentials of a modernized rail passenger system are stellar.

A double-track railway line with a modern signalling system can handle the passenger and freight equivalent of 16 lanes of traffic on one of those so-called "super highways." The land take alone to create this highway capacity would be staggering, ripping a jagged wound in any urban area. The rail corridors already exist and can generally accommodate additional tracks with no additional land take. As well, capacity can be boosted further with the modern, computer-driven rail traffic control systems now available off the shelf from established manufacturers, including some Canadian firms.

Although it is unlikely to occur in Canada under present economic conditions, a railway line offers something no highway can: Convertibility from oil-driven diesel power to electric traction, which can be derived from an extensive list of renewable sources, including hydro, geo-thermal, tidal, wind and solar.

Introduced on the Baltimore & Ohio Railroad in 1895, electric trains are unbeatable by other modes of land transport in speed, power, efficiency and environmental impact. Electricity powers the 300-km/hour passenger trains of Europe and Japan, propels the world's heaviest freight trains in South Africa, and, in major urban centres around the world, moves millions of rail commuters daily.

Even without a progressive rail electrification program, Canada already enjoys energy and environmental benefits from our railways' use of modern diesel-electric locomotives, which actually are diesels generating electricity that is sent to the traction motors on the axles. Both passenger and freight motive power have become much more energy efficient in recent years, delivering advantages over other forms of intercity transportation, especially the car and short-haul commercial aircraft. One of the few things VIA has gotten right in its marketing is one of its slogans: "A green choice."

Although the circumstances are slightly different in the U.S., thanks to Amtrak's electrified operations on the Northeast Corridor and more efficient fleet, some idea of the environmental benefits of modern passenger railroading can be gleaned from the data compiled by the National Association of Railroad Passengers. In terms of energy efficiency alone, the organization points out:

- Airlines consume 20 per cent more energy per passenger mile than Amtrak.
- Automobiles consume 27 per cent more energy per passenger mile than Amtrak.
- Amtrak consumes 2,435 British Thermal Units (BTUs) per passenger-mile compared to 2,826 for airlines and 3,538 for automobiles.
- The highway sector's showing would be even worse if light trucks, commonly used as personal vehicles, were included.
- In 2007, 2.8 billion gallons of fuel was wasted solely due to highway congestion in 85 urban areas across America.
- Improvements spurred by passenger rail demand have helped increase freight rail mobility.
- Technological advances make new passenger equipment increasingly energy efficient.... [T]hanks to improved operating practices and higher load factors, energy efficiency is steadily improving, enabling Amtrak to exceed its commitment to reducing carbon dioxide emissions as a Chicago Climate Exchange member. The Chicago Climate Exchange is a global marketplace in which members who beat their emission reduction targets can sell credits to members who are not meeting their targets.

In Canada, the transportation sector generates 27 per cent of the nation's greenhouse gas emissions. The railways produce only 3 per cent of the transportation sector's total and less than 1 per cent of the national total, while moving 70 million commuters and intercity passengers and more than 70 per cent of surface freight annually.

U.S. MODAL ENERGY EFFICIENCY PER PASSENGER-MILE

While controversial, a carbon tax on transport would dramatically change the fortunes of Canada's passenger trains by coaxing travellers to reform their habits through their wallets. It would compel those who use the modes emitting the highest amounts of carbon to pay the full cost of doing so. As travellers who produce the lowest amount of carbon and, therefore, contribute the least to global warming, rail passengers would pay the lowest taxes. There is every reason to believe the modal shift to rail that would occur as a result of a carbon tax would have a large and positive effect on VIA's ridership and its bottom line. Rail passenger and freight service, as well as urban transit, would enjoy a renaissance of unparalleled dimensions.

MODE	ENERGY INTENSITY (BTU/PASSENGER MILE)
Transit buses	4,160
Personal trucks	4,008
Commercial aviation	3,587
Cars	3,549
Light and heavy rail transit	3,228
Intercity rail passenger	2,935
Commuter rail	2,751
Motorcycles	2,049
Vanpool	1,401

MODE	BTUs (TRILLIONS)	SHARE (%)
Cars	9,255	32.3
Light trucks	6,989	24.4
Medium/heavy trucks	5,142	17.9
Air	2,217	7.7
Off-highway vehicles	2,203	7.6
Marine	1,032	3.6
Pipeline	960	3.3
Rail freight and passenger	626	2.1
Buses	187	0.6

Source: U.S. Department of Energy Transportation Energy Data Book: Edition 25

3.3 The Benefits of Short Line Railways

Because one of the options considered in this report is the possible ownership and operation of the CN Newcastle Subdivision as a short line, it is important to consider the benefits these locally-based railways bring to the communities they serve across North America.

Canadian short lines originated about 22 per cent of all carload freight traffic moved by the Class 1 railways in 2009 and handled a total of 19 billion revenue tonne-km. This was the equivalent of 15 per cent of domestic for-hire trucking. Operating on lower density lines cast off by CN and CP, Canada's short lines have become integral to the overall national rail network and provide vital regional and remote services.

In March 2012, this consultant prepared a report for Peterborough, Ontario, MP Dean Del Mastro on a possible federal funding program to assist Ontario's short line railways improve their lines and facilities to handle more freight at a higher level of efficiency and safety. The program, which was deferred, would have matched the infrastructure investments of the railways dollar-for-dollar with federal funds up to a maximum of $5 million each and included an option for the participation of the Government of Ontario.

The report recommending this public-private partnership made use of data collected by the Railway Association of Canada on the economic benefits of these short lines:

> "Ontario is home to 12 regional or short line railways, which pay more than $30 million in wages and contribute more than $7 million in federal and provincial taxes annually. They handle more than 150,000 carloads of freight and serve industries with total revenues of $4 billion annually. Without these short lines, many Ontario resource and agricultural industries would not be economically viable.
>
> "Ontario's short lines deliver significant economic, social and environmental benefits to the province and the nation. It is estimated these railways allow for savings in transportation costs of $256-616 million annually and additional socio-economic benefits of $136-559 million annually. If all the traffic currently moved by Ontario's short lines was moved by truck, an additional 73,114 tonnes of greenhouse gases would be emitted and a considerable amount of municipal and regional funding would be required to compensate for the additional road wear caused by this truck haulage."

While the amounts have not been quantified to date, it is reasonable to assume that the existing short line railways of Atlantic Canada generate comparable benefits for the regional economies.

REGIONAL ECONOMIC INVESTMENTS: Public funds invested in short lines pay dividends in regional economic development across Canada. A combined federal/provincial grant of $30 million helped rehabilitate the Huron Central Railway's Sudbury-Sault Ste. Marie line (above), enabling it to support forest products, steel and mining shippers. Ongoing provincial funding has helped the Great Western Railway and other Saskatchewan short lines maintain their infrastructure to serve grain growers and tap into the boom in crude oil flowing from the Bakken shale oil formation (below). Photos by Ron Bouwhuis (above) and John Leopard (below)

4.0 CN's Newcastle Subdivision Abandonment Application

The potential abandonment of the 139 miles of CN's Newcastle Subdivision would chew a massive hole in New Brunswick's railway network, destroy the last remaining VIA passenger service and leave several communities at an economic and competitive disadvantage compared with other rail-served locations across North America.

There is no question CN's entire Moncton-Mont-Joli line is a railway that is dying commercially – at least under the ownership of a Class I railway dedicated to the competitive, profitable and long-haul freight movement.

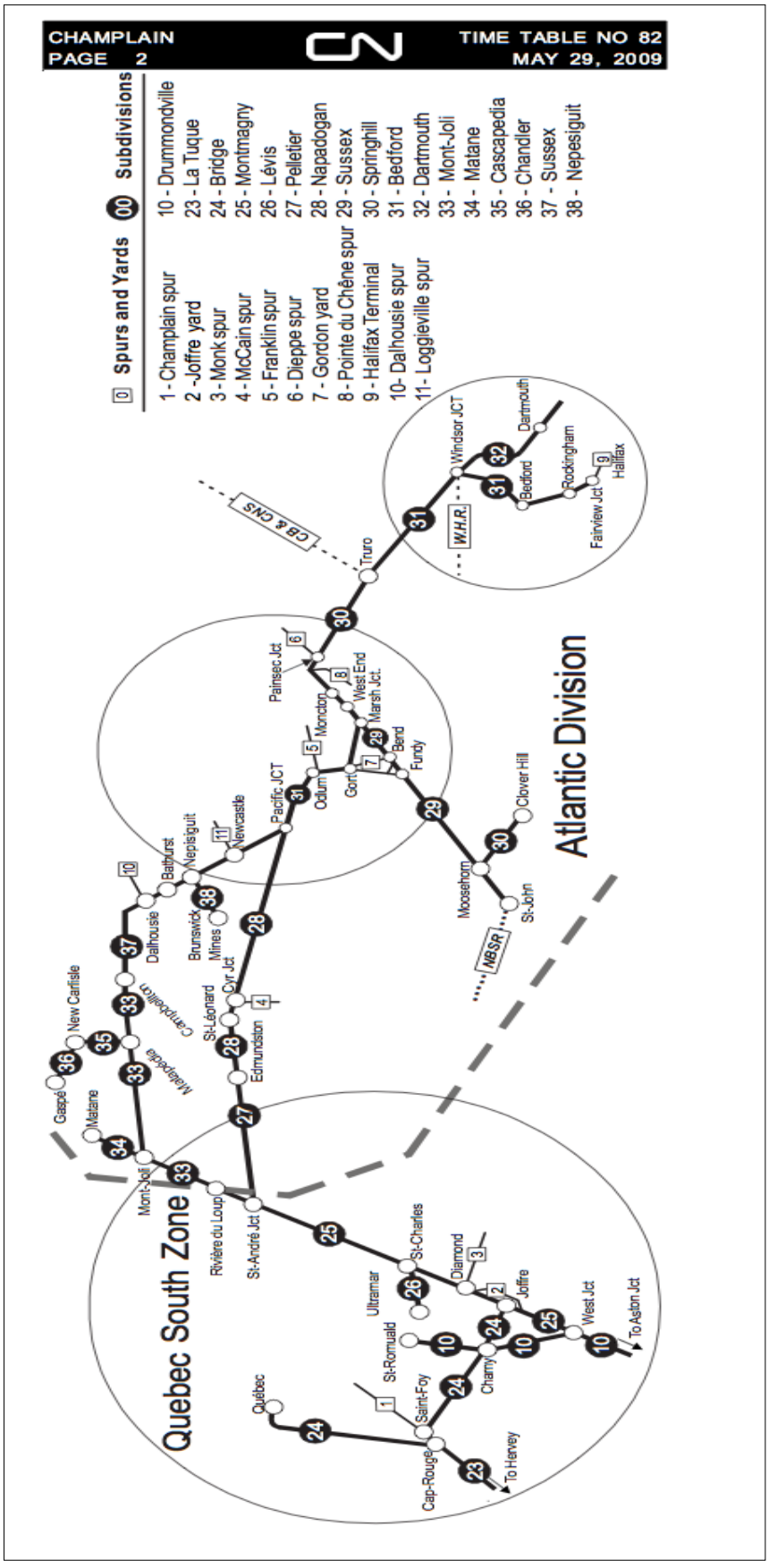
While CN's reasons for taking this action on the basis of its own commercial interests are understandable, that doesn't mean it would serve the public interest; quite the contrary. While the current economics may not work from CN's perspective, that doesn't mean the railway can't be made to provide a cost-effective service that would be in the public interest under alternate ownership and/or management. There are several unanswered questions regarding this proposed abandonment and, more importantly, several options that need to be explored in order to produce a solution satisfactory to all stakeholders – public and private.

4.1 Current Infrastructure Condition

The CN Newcastle Subdivision, especially the 60-mile segment from north of Rogersville (Mile 48) to south of Bathurst (Mile 108), is seriously deteriorated, with a need for replacement of the 100-pound jointed rail, extensive tie renewal and other track work. It is approaching what would be considered light-density branch line condition. A slow order has been applied to this segment of the line, restricting the passenger trains to 30 mph and freights to 25 mph. This has forced the lengthening of the *Ocean's* schedule. As well, CN has suspended all freight operations over the line between Miramichi and the junction with the Nepisiguit Subdivision, south of Bathurst.

Track conditions and allowable safe operating speeds are set by the regulatory authorities under standards developed by the U.S. Federal Railroad Administration; these standards are also applied in Canada by Transport Canada.

FRA TRACK CLASSIFICATION	FREIGHT SPEED	PASSENGER SPEED
Excepted	Under 10 mph	Not allowed
Class I	10 mph	15 mph
Class 2	25 mph	30 mph
Class 3	40 mph	60 mph
Class 4	60 mph	80 mph
Class 5	80 mph	90 mph
Class 6	110 mph	110 mph
Class 7	125 mph	125 mph
Class 8	160 mph	160 mph
Class 9	200 mph	200 mph


CHAMPLAIN
PAGE 2
CN
TIME TABLE NO 82
MAY 29, 2009
Subdivisions
10 - Drummondville
23 - La Tuque
24 - Bridge
25 - Montmagny
26 - Lévis
27 - Pelletier
28 - Napadogan
29 - Sussex
30 - Springhill
31 - Bedford
32 - Dartmouth
33 - Mont-Joli
34 - Matane
35 - Cascapedia
36 - Chandler
37 - Sussex
38 - Nepesiguit
Spurs and Yards
1 - Champlain spur
2 - Joffre yard
3 - Monk spur
4 - McCain spur
5 - Franklin spur
6 - Dieppe spur
7 - Gordon yard
8 - Pointe du Chêne spur
9 - Halifax Terminal
10- Dalhousie spur
11- Loggieville spur
Quebec South Zone
Atlantic Division
CB & CNS
W.H.R.
NBSR
Truro
Windsor JCT
Dartmouth
Bedford
Rockingham
Fairview Jct
Halifax
Painsec Jct
Moncton
West End
Marsh Jct.
Bend
Fundy
Odlum
Gorit
Pacific JCT
Newcastle
Nepisiguit
Bathurst
Dalhousie
Brunswick Mines
Cyr Jct
St-Léonard
Edmundston
Campbellton
New Carlisle
Gaspé
Matane
Mont-Joli
Rivière du Loup
St-André Jct
Mooselhorn
Clover Hill
St-John
St-Charles
Diamond
Joffre
West Jct
To Aston Jct
Ultramar
St-Romuald
Charny
Québec
Saint-Foy
Cap-Rouge
To Hervey

When the Newcastle Subdivision was well maintained during CN's Crown ownership, passenger trains were permitted to operate at 75 mph and freight trains at 55 mph over most of the line, which was classified as what is now known as FRA Class 4. Now, it is largely FRA Class 3 and the maximum speed is 60 mph for passenger and 40 mph for freight. The 60-mile segment north of Rogersville is lower-speed FRA Class 2.

This deterioration is a function of maintenance, which is directly related to the line's declining freight profitability. Because the Napadogan and Pelletier Subdivisions through Edmundston handle all the through traffic between the Maritimes and central Canada, they have received the majority of CN's infrastructure spending in New Brunswick for many years. As a result, that line has a maximum permissible speed of 55-60 mph for freight trains.

As CN executive vice-president Sean Finn told CBC News in August 2012, "The line in its current state, both from business volumes and its capital requirements, is not sustainable in the long-term, unless we see a major change in how the line is being used by our customers." The Newcastle Subdivision's physical condition is a result of the objectives of a private railway running a business dedicated to earning a maximum return on its shareholders' investments.

During its days of public ownership, CN embarked on an ambitious program to install heavy duty continuous welded rail (CWR) and centralized traffic control (CTC) on all its principal main lines. CWR or "ribbon rail" is superior to jointed rail, providing a smoother ride, less wear and tear on car wheels, and less maintenance. Measured by the yard, heavy duty CWR is typically 125 to 136 pounds. This enables the use of loaded freight cars weighing up to 286,000 pounds, which have become the industry standard.

CTC is used on the busiest corridors, providing high levels of safety and operational flexibility through wayside signals and remote control of track switches. Dispatchers communicate with train crews through both wayside signals and the radio system. Various coloured-light combinations on the signals can convey up to 80 commands to the train crews about the position of track switches, operating speeds and much more.

As CN's principal Atlantic Canadian freight corridor, the Halifax-Moncton-Edmundston route was rebuilt with CWR and CTC in the 1960s and '70s. This superior infrastructure is in place all the way to Montreal and beyond on CN's main routes.

With this main corridor project complete, CN began a progressive program to do the same on its secondary routes. The Moncton-Rogersville and Bathurst-Campbellton segments of the Newcastle Subdivision were re-laid with 115-pound CWR. But the program was halted as CN became more commercially-driven and less of a public service provider with easy access to government-guaranteed funding. The CWR projects on the Newcastle Subdivision and many other secondary lines were not completed.

A TIRED RAILWAY: Portions of CN's Newcastle Subdivision were re-laid with welded rail as part of an upgrading program for secondary main lines in the late 1960s and early '70s. The 48-mile segment from Moncton to just north of Rogersville was one of these line segments, but the upgrading did not include yard track and sidings, such as this severely deteriorated one at Birch Ridge. Photo by Ted Bartlett

The Newcastle Subdivision is also operated with the most basic form of rail traffic control, known as the occupancy control system (OCS). Under this system, dispatchers issue computer-governed authorizations for trains to occupy track blocks not equipped with wayside signals or remotely controlled track switches. The computer authorizes the issuance of clearances for a train crew to operate exclusively in a track block within set time limits, but refuses requests for authorities that would allow other trains on to the track within those times. Because it doesn't make use of coloured-light signals, railroaders refer to a line operated under OCS as "dark territory."

The Newcastle Subdivision, as well as the Mont-Joli Subdivision west of Campbellton, is dark territory. With the low level of traffic on these subdivisions, computer-controlled OCS is adequate.

AN EXHAUSTED RAILWAY: With rotted and splintered ties, old jointed rail, a lack of vegetation control and other deficiencies, it's little wonder CN's Newcastle Subdivision between Mile 48 (near Rogersville) and Mile 108 (near Bathurst) has been downgraded to 30 mph for passenger trains and 25 mph for freight. Photos by Ted Bartlett

The line segments from Moncton to Rogersville and from Bathurst to Rivière-du-Loup are in acceptable condition for now. But because it is comprised of 100- and 115-pound rail and the tie condition has deteriorated, the Newcastle Subdivision is restricted to cars with a loaded weight of 268,000 pounds, precluding the use of the 286,000-pound freight cars that are now the standard on heavy duty main lines continent-wide.

Furthermore, all the spurs are authorized for cars with a maximum loaded weight of 263,000 pounds. This places restrictions on the type of freight equipment that may be used and the weight to which the cars may be loaded. The lower the weight, the lower the efficiency and the more logistical problems it creates in assigning cars that can be accommodated by these lower track conditions.

As well, the sidings where opposing trains can meet and pass each other are short by modern standards. The longest siding on the Newcastle Subdivision is 5,930 feet, at Belledune (Irvco). The other four sidings spaced along the line vary from 2,400 to 4,150 feet. These short sidings restrict the length of the freight trains that may be operated, although with few trains on the line the point becomes somewhat moot.

LONG SPANS AND LONG-TERM EXPENSE: Although reportedly in good condition, the CN Newcastle Subdivision infrastructure inventory includes major bridges that require expensive ongoing maintenance, such as the two impressive six-span crossings of the Miramichi River. Photo by Jeff McTavish

By comparison, sidings are more plentiful on the Moncton-Edmundston Napadogan Subdivision and they vary in length from 5,080 to 9,120 feet, making it possible to operate longer and more cost-effective trains. On most of the principal main lines of North America, trains of 10,000 feet or about 100-120 cars are the norm today.

The Newcastle Subdivision was built to high standards for its time. One of the major hurdles chief engineer Sir Sandford Fleming had to overcome was the number of major rivers the line had to cross. There are several major, well-built steel bridges on the line, the largest being those over two branches of the fast-flowing Miramichi River.

While CN reports the major bridges are in good shape, they do represent an ongoing maintenance liability, as do the many smaller bridges and culverts on the line. Short of an on-site inspection by qualified railway civil engineers, it is impossible to state the condition of these aspects of the infrastructure. But it should be noted that bridges are one of the principal Achilles heels of short line railways, often requiring far more maintenance than anticipated and exceeding a line's revenue generating potential.

REHAB REQUIRED: In addition to the major spans over rivers such as the Miramichi, the CN Newcastle Subdivision is laced with bridges over the numerous creeks and rivers that flow into the Northumberland Strait. According to CN's unverified estimates, rehabilitating these old and well-used structures, plus the 60 miles of deteriorated track between Mile 48 (near Rogersville) and Mile 108 (near Bathurst), will require $30-50 million. Photo by Ted Bartlett

CN has publicly stated that, in total, there is a backlog of $30 million to $50 million in track, bridge and other right-of-way maintenance required to bring the entire Newcastle Subdivision back up to a standard that will allow for the resumption of 60-mph operation of the *Ocean* over the full route.

Improving the line for 286,000-pound freight cars and higher passenger speed would incur further costs. From CN's perspective, based on the low existing and anticipated future freight traffic, this cost cannot be justified. Given the line's freight traffic volume, it is adequate for CN's current and anticipated traffic demands and operating needs.

4.2 Current Traffic and Service

With the elimination earlier this year of the 6,000 carloads of ore concentrate moving from Brunswick Mine #12 at Brunswick Mines on the Nepisiguit Subdivision to the Xstrata smelter at Belledune on the Newcastle Subdivision, total freight traffic is expected to decline to approximately 11,000 carloads from 15,000 in 2012, the loss of the 6,000 carloads of mine traffic being partially offset by a 2,000-carload increase in forest products traffic. CN has stated that carload traffic on the line declined 40 per cent between 2008 and 2012, dropping from a high of 60,000 carloads.

It should be pointed out that CN's three-page backgrounder on the situation contains conflicting traffic figures, stating on one page that the line handled 19,000 carloads in 2012, but showing 15,000 carloads for the same year in an accompanying pie chart.

To add to the confusion, a May 11, 2013, Moncton *Times & Transcript* article reported on the speech CN executive vice-president Sean Finn delivered to the joint luncheon of the Greater Moncton Chamber of Commerce and the Rotary Club of Moncton West and Riverview the previous day. In that speech, Finn told the audience traffic on the Newcastle Subdivision had dropped from 25,000 carloads in 2008 to only 13,000 in 2012 and an estimated 11,000 in 2013.

Statistical inaccuracies aside, what matters most are the needs, the service and the traffic generated by the customers that are the very reason for concern over the line's continued existence. There are today 12-15 regular carload customers on the Newcastle and Nepisiguit Subdivisions and the Dalhousie Spur shipping or receiving traffic by rail, including:

Miramichi	Ultramar	Inbound diesel and fuel oil in 17-car "oil rams"
	Arbec	Outbound oriented strand board (OSB)
	Lafarge	Inbound cement
Brunswick Mills	Fornebu	Outbound lumber and wood chips
Bathurst:	MPM Trucking	Inbound cement
Beresford	Superior Propane	Inbound propane

Petit Rocher	Chaleur Fertilizers	Inbound fertilizer
Belledune	Xstrata	Inbound scrap and acid; outbound ingots and acid
	NB Power	Outbound synthetic gypsum
	Chaleur Sawmills	Outbound lumber
	Port of Belledune	Occasional inbound and outbound loads
Dalhousie Jct.	General Chemical	Inbound chemicals

As well, outbound bleached wood fibre is originated by AVCell at Atholville, which is at the extreme west end of the Campbellton Yard and technically located on the contiguous Mont-Joli Subdivision.

Earlier this year, with the loss of the Xstrata mine traffic, a new freight operating plan was put into effect. Whereas the movement of much of the inbound and outbound traffic on the line was formerly handled principally from the southern end at Miramichi and Moncton, the orientation now is north. This has allegedly been done to cut costs by reducing the number of operating crews required. The result is no freight trains are now operating between Miramichi and Nepisiguit, 40.3 miles to the north (or west, according to railway operating orientation).

This has resulted in inefficient, time-consuming routing patterns that concern the shippers. For example, the daily shipment of 10-12 cars of wood chips from Fornebu, at Brunswick Mills, to the J.D. Irving Limited Saint John mill formerly went south to Moncton and west on the Sussex Subdivision, a distance of 208.6 miles.

With the implementation of CN's new operating plan this past spring, this traffic is now hauled north to Campbellton by one train and forwarded west by another in the evening to Mont-Joli. It is then passed along by other trains to Rivière-du-Loup, Moncton and Saint John by way of the increasingly busy Napadogan and Sussex Subdivisions.

This is a routing of 678.7 miles, which is more than three times longer than the former routing south through Moncton and then west to Saint John. This is also being done with traffic as far north as Belledune, which previously moved south to Moncton for conveyance on main line trains to other destinations within and beyond New Brunswick.

While the affected shippers say they are still paying the rates quoted under the previous operating plan, all are concerned that CN will use this extra mileage to increase their rates, which will have a direct bearing on the cost and competitiveness of their outbound products. As well, transit times have increased greatly, tying up rolling stock for longer periods at a time when car availability is a problem.

Should this traffic eventually leave the rails due to rate increases or lengthened schedules that simply are unacceptable to shippers, then it would migrate to more expensive truck haulage and move over the taxpayer-funded provincial highways.

As has been established in many studies, heavy trucks do not pay the full amount of the wear and tear they inflict on roads. The result is that taxpayers pick up a portion of the real cost of truck haulage. The diversion of this current rail traffic would, therefore, hardly be in the public interest.

There have also been instances where potential shippers have been stymied in their attempts to make use of CN carload service. The one that gained media attention occurred early this year in Miramichi. Located on the Wharf Spur off the Newcastle Subdivision, Miramichi Lumber had been negotiating a contract to ship an estimated 600 carloads of wood chips and 100 cars of lumber annually to Saint John, beginning in May. The use of rail transportation was said to be key to this deal.

In March, CN began removing about 2,000 feet of rail from the Miramichi Wharf Spur, which the company said was required for installation on the Sussex Subdivision between Moncton and Saint John. At the time, CBC News reported:

> "Jim Feeny, a CN spokesperson, said CN removed about 610 metres of heavy steel from the rail line so they could reuse it, replacing worn lines elsewhere. Feeny said the line outside the mill hasn't been used in seven years and CN will consider reinstalling it if Miramichi Lumber can provide enough business to justify the expense."

In fact, the rail removed from the Miramichi Wharf Spur for installation on the Sussex Subdivision was not heavy steel. It was 85-pound jointed rail, while the Sussex Subdivision is laid with 100-pound jointed rail. The rail on the spur was so deeply imbedded that much of it was damaged and rendered unusable during its removal.

It is situations such as this that have left current and potential shippers, such as Miramichi Lumber, concerned that CN is not showing enough of a willingness to work with shippers to find solutions to the line's traffic problem. The fact that carload forest products traffic has increased on the Newcastle Subdivision should provide some encouragement. The slow rebound in the U.S. housing market has helped fuel this increase. The re-opening by Arbec of the Weyerhauser plant in Miramichi after a six-year closure is evidence of this rebound and the opportunities being created in what is a fragile business sector. The provision of cost-effective rail service can only aid these current and potential shippers along the Newcastle Subdivision.

Although it is a controversial topic, there is also potential for traffic growth should the extraction of shale oil and gas occur in northeastern New Brunswick. CN executive vice-president Sean Finn and other CN sources discussed the issue with this consultant during the production of this report. As previously noted, the movement of crude oil by rail – a large quantity of it shale oil from North Dakota and Saskatchewan – has become a booming business for North America's Class I railways, including CN.

CN is handling the inbound movement of sand and supplies to enable this shale oil and gas extraction and the outbound flow of oil from these developments at several locations. The railway recently announced its participation in two large projects in Wisconsin and Alberta. Should shale oil and gas extraction proceed in New Brunswick, the Newcastle Subdivision may become a strategic factor. It's too early to tell, but the possibility must be considered in any long-range view of the retention of the railway.

Whether this far from assured traffic ever develops, it is apparent the CN business model isn't working for current or potential carload shippers, whose volumes are too low to spur CN to improve service and make investments in the property. But it is these smaller shippers who represent the future of the line and, if they are to remain users of rail transportation, their needs must be considered in any solution to the current impasse.

4.3 CN's Position

Today's privatized CN is a commercially successful, shareholder-owned railway no longer obligated to provide the unprofitable services it once provided in the public interest as a Crown corporation. Its objective is to move freight profitably and safely. It has succeeded greatly in doing this since its 1995 privatization.

CN and the other six Class I railways of North America are dedicated to running businesses built principally on the movement of large volumes of traffic in blocks from one location to another with a minimum of handling. The cost structure of the Class I roads demands this be so. Government policy and spending has given other modes of transportation, particularly trucking, an advantage in the handling of smaller shipments that are moving to and from diverse and scattered locations.

Therefore, it would be somewhat unfair to criticize CN too heavily for the approach it has taken to many lines like the Newcastle Subdivision. No railroader ever wants to walk away from traffic or shut down a piece of railway, but the realities of today's costing and the government provision of infrastructure at less than full cost to other modes have played large roles in the development of the attitudes of railroaders today.

However, there are some matters of concern regarding CN's position on the future of the Newcastle Subdivision. CN is a strong and successful corporation that is apt to have a negotiating advantage vis-à-vis the other members of the Strategic Rail Assets Committee.

The greatest concern in arriving at a solution – which CN has always publicly stated is its desire – is that this not be to the sole advantage of what is a privately-owned railway that doesn't have to consider the public interest. As has been stated clearly by CN from the start, any resolution is going to have to be funded largely by federal and/or provincial taxpayers. The public's interest and its investment must be protected to the fullest. This must be a long-term solution, not one that leads to uncertainty and another crisis in three to five years after public money has been invested in the railway.

On August 14, 2013, CTV News carried a story out of Halifax that said a tentative deal had been reached between CN, VIA, Transport Canada and the Government of New Brunswick. The report said an announcement would be made before the end of August. That date has come and gone. Subsequent investigation has revealed that there is no agreement yet in place and the committee is continuing to work away on arriving at one.

In the absence of a firm deal calling for the long-term preservation of the Newcastle Subdivision as a component of New Brunswick's transportation system, this report is being written from the point of view that no deal is in place and the future of the railway remains uncertain. Therefore, certain questions must be asked of CN to protect the public's financial exposure. The first should be verification of the cost to preserve and maintain the line.

CN has stated that rehabilitation of the 139-mile central section of the line to restore the speed of the *Ocean* and offer reliable, safe service to shippers will cost $30-50 million. Given the deteriorated condition of nearly half of the line and the work that will also be required now or in the near future on other segments, that cost estimate is not surprising. But it must be remembered this is a cost produced by CN without third-party confirmation. CN is a for-profit corporation, not a philanthropic organization that will undertake this sort of work on a cost-only basis.

Transport Action Atlantic has concerns about CN's billing practices for the performance of work on its own property on behalf of other users. The advocacy group bases this concern on what transpired on a project that CN undertook on behalf of VIA on its own Toronto-Montreal Kingston Subdivision beginning in 2009. This involved adding sections of third main line to this double-track railway, which hosts VIA's Toronto-Ottawa, Toronto-Montreal and Ottawa-Montreal trains over portions of its length.

DOUBLE DIPPING: The upgrading of VIA's Toronto-Montreal route with strategic sections of triple-tracking and grade separations was entrusted to the line's owner, CN. The budget of $341 million was greatly exceeded and the promised completion date missed. Now, CN will charge VIA to use this taxpayer-funded infrastructure under a contract the government won't make public. Photo by Ray Farand

The VIA-CN Kingston Subdivision Project was budgeted at $341 million. In the end, it ran over budget, over schedule and failed to deliver the passenger improvements agreed upon originally by VIA and CN. It is understood VIA subsequently called in an outside auditing firm to review this matter.

Transport Action brought this to the attention of the Auditor General of Canada, who is auditing VIA this year as part of the in-depth analysis which every Crown corporation and government program undergoes every five years. The request for an audit of this project is included in this report as Attachment B.

In light of this troubling matter, it is recommended that an independent appraisal of not just the 139 track miles on the abandonment block, but the entire Newcastle Subdivision, be conducted by an experienced firm qualified in these matters. There are several firms in Canada well equipped to conduct these investigations for outside railway investors. A searching analysis by one of them will provide a firm basis for negotiation of an agreement that is fair to taxpayers, users and CN. This is as prudent as having a building inspection conducted before negotiating for the purchase of a home.

Two well-regarded Canadian firms that have done similar engineering assessments estimate it would likely cost $50,000-$100,000 to have such an appraisal conducted. On a deal costing taxpayers millions, this would be a small price to pay for the insurance it would provide in any negotiations with CN. This is just good business sense.

There is also the question of equity. If the public is to fund the bulk of any rescue plan, then there should be an assurance that proportional ownership goes along with the investment and that the public's agents have a say in the use or disposal of the assets. There is a fear CN could wind up putting the line up for abandonment again should it decide after a certain amount of time that it no longer wants to continue operating the Newcastle Subdivision under any circumstances.

Would CN then be able to claim such tangible assets as the new continuous welded rail, partially paid for with public money, and remove it for re-use on other, more commercially-viable lines? Issues such as this one need to be answered and any public stake in the eventual solution must be protected at all costs.

Finally, any agreement to maintain the line must be for a reasonable time span. In various interviews, CN spokespeople have said the railway would be willing to rehabilitate the Newcastle Subdivision and keep it operational for three to five years. This is too short a time, especially if the line's retention is to be a means of assisting North Shore businesses develop their markets with access to assured, cost-effective rail service that will bring their transportation costs below those of trucking alternatives.

A contract to maintain the line for a minimum of 10 years is required to give both shippers and the railway a reasonable hope of finding a sustainable, long-term solution.

4.4 The Short Line Alternative

The freight traffic available now and into the near future on the CN Newcastle Subdivision may be inadequate to justify its retention under the cost structure and service objectives of a very large and successful Class I railway that spans the continent from the Atlantic to the Pacific to the Gulf of Mexico. However, that doesn't necessarily mean the line is not potentially sustainable or even profitable in other hands.

In common with all North American Class I lines, CN is a privately-owned, high-volume, unionized railway. Its cost structure dictates that it focus on handling large amounts of traffic on long trains that make few stops and require very little handling en route.

Railroading today is not primarily the carload or "loose car" business it was many years ago, where individual carloads were received and delivered from numerous shippers spread out along all of its main, secondary and branch lines. Yarding – the assembly of individual or small blocks of freight cars into full trains – is shunned as much as possible because it is time consuming, labour intensive and costly.

The darlings of the Class I railways are large shippers moving their traffic in unit trains carrying one commodity directly from one location to another, preferably in cars owned by those shippers. The railways simply couple their locomotives on to these unit trains, and expedite them to their destinations, where they are quickly unloaded and sent back for reloading. This is often called "hook-and-haul" railroading. The commodities typically handled this way include grain, coal, sulphur, potash and crude oil.

Another bright star of railroading today is intermodal; that is, containers that can move by train, truck and ship or, to a minor extent in Canada, truck trailers riding "piggyback" on railway flat cars. The containers and trailers are brought to or picked up from the railways' intermodal terminals by truck or transferred directly at the wharves to and from ocean-going container ships. Terminal time is shorter and handling costs are lower than for freight moving as individual carloads that must be brought to a marshalling or classification yard for assembly into full trainloads and then split up and distributed from other yards near the receiver's loading dock or siding.

Unit and intermodal trains preoccupy the minds of Class I railroaders today. While they don't want to turn away well-paying carload traffic of a reasonable volume that doesn't require a tremendous amount of handling, this is not the focus of their business. It is, therefore, easy to see why the Newcastle Subdivision, with its 12-15 individual shippers, would not be the sort of territory that would set a CN traffic executive's eyes twinkling with delight. It requires a number of crews working on road switchers to pick up and deliver the individual or small batches of cars required by online shippers.

This situation has been faced by smaller shippers many times over across North America as freight railroading has changed from a retail business to a high-throughput, mass production industry. One service- and cost-driven response has been the creation of short line or regional railways. An example already exists in New Brunswick in the form of J.D. Irving Limited's New Brunswick Southern Railway (NBSR).

SHORT LINE SUCCESS: Under J.D. Irving's New Brunswick & Maine railway group, the former CP main line from Saint John to Brownville Junction, Maine, has been preserved as part of the most direct route from Montreal to the Maritimes. It has benefitted from $18 million in federal/provincial capital investment. Photo by Steve Boyko

Short lines have numerous advantages over the Class Is in light-density situations. First and foremost, they have a lower cost structure, even when they are unionized. Crew requirements are generally less and craft division is not as extreme as on the Class Is, with employees cross-qualified to do a number of jobs. This results in higher labour productivity and generally at lower compensation rates.

Just as important, being locally based, short line railways can deliver a more personal and customer-sensitive level of service. Managers and operating crews alike get to know their customers and their requirements. They can react quickly to provide service on short notice to assist a shipper with urgent or unexpected needs. It is this customer sensitivity and responsiveness that has allowed many short lines to succeed in many markets where the Class I railways could no longer provide an adequate service within their own business models.

CN and the other "Big Six" are centralized, top-down companies where change does not come quickly and decisions are made far from the customers' loading docks. This is the nature of the pressured, deregulated environment of North American railroading today.

Modern short lines grew out of deregulation, which began in the U.S. in the 1980s. While they are a market-driven response to the ongoing need of shippers and communities for the retention of rail service, they often serve broader community and public policy roles. As a result, public investment in these short lines is not unusual.

The Railway Association of Canada, a trade organization that represents the bulk of Canada's rail sector, makes the case for such public investment by noting:

> "Short lines compete directly with trucks. Trucks are important players in moving the commodities typically carried by short lines, but trucks benefit from using publicly provided roads without paying their full costs....
>
> "Most traffic carried by short lines would otherwise need to move by truck which is far less fuel efficient and adds to highway congestion.
>
> "Short lines need upgraded infrastructure. However, their financial capacity limits the short line railways in upgrading their infrastructure to meet the car-loading standard for the North American railway industry.
>
> "Very few of the short line infrastructure projects could advance on strictly private grounds; public-private partnerships would allow the projects to move forward, yielding considerable public benefits."

There is one working example of this in New Brunswick today. In 2009, the federal and provincial governments jointly invested $18 million in a NBSR system rehabilitation project, which the politicians said would pay large dividends in the communities the railway serves through economic spinoff and support for industries struggling to meet competition from other rail-served regions that have benefited from public investment.

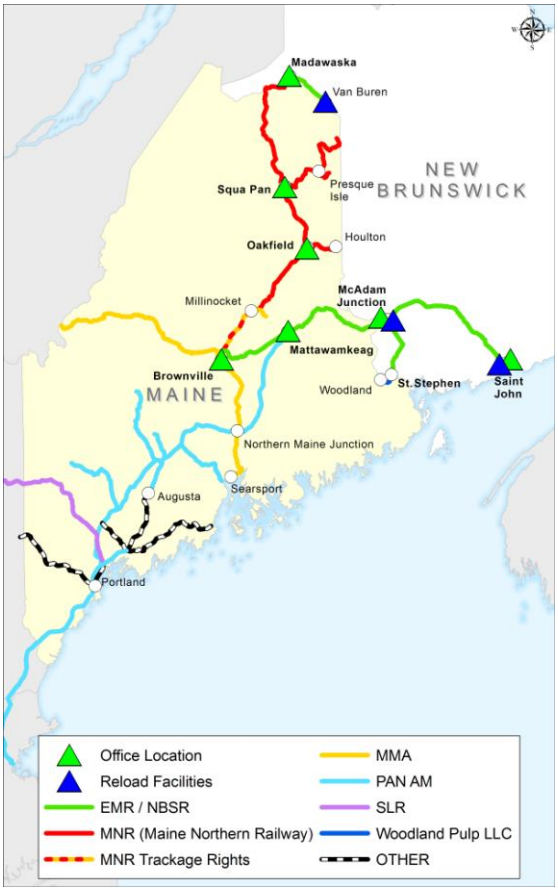
There are many working examples of short lines that should be examined to ensure this option is considered alongside any CN proposal for the Newcastle Subdivision.

4.4.1 U.S. Precedents

The short line boom began in the U.S. in the 1980s following the passage of the Staggers Act, which deregulated railroading. This was done to prevent the collapse of what had been an overly-regulated and over-built system. The U.S. government and the states had been reluctant to assist the major railways as they battled intense, government-funded competition created by the Interstate highway system, aviation facilities and an extensive network of publicly-supported ports and inland waterways. Only when more than a quarter to the U.S. rail system fell into bankruptcy did the U.S. government provide financial aid and regulatory relief.

Part of the U.S. problem was the abundance of trackage, which was a legacy of the competitive railway building era before the onslaught of government-supported highway and marine competition. Most acute was the plethora of low-density branch lines serving small markets that had ceased to be viable for rail decades before. Under the deregulatory legislation, the abandonment process was accelerated.

However, some branch lines generated traffic the Class I railways wished to retain for long-haul movement or served industries facing competitive hardship if they had to switch to trucking – if they even could. This spawned the modern U.S. short line era. With their own capital and often a public ownership stake or start-up financing assistance, new short lines sprang up across the U.S. to take over the most promising of the branch lines and secondary main lines the Class I lines posted for abandonment.



Some of the more visionary Class I railways encouraged and assisted the short line movement. Although they could no longer operate many lines profitably on their own because of their high, unionized cost structures, there was often traffic to be had from these lines that would be desirable to retain for longer distance line haul if costs could be reduced. The short lines could remedy this situation. At reduced cost, they could keep this traffic rail-borne and interchange it with the former Class I owners to the benefit of both of the interline railways partners and the shippers.

For the purposes of comparison with the situation on New Brunswick's North Shore, the experience of the bordering State of Maine bears the closest scrutiny. The conditions that led to the crafting of one particular short line approach recently are worth noting.

Maine has been extremely progressive in its approach to rail freight and passenger service, partnering on several occasions with shippers, short line railways, Amtrak and the federal government to maintain an efficient rail system in a state that has faced industrial and economic challenges very similar to those in New Brunswick. The Maine Department of Transportation (MDOT) reports:

> "Rail service is an important component of the freight transportation mix in Maine since it is particularly cost-effective when moving high-volume, low-value commodities over long distances and gives shippers another choice besides highway transport when moving their products to market.. In recent years, there has been a major effort in investing and improving rail infrastructure by MDOT.
>
> "The State of Maine is served by six private railroads operating over 1,100 miles of trackage traversing most metropolitan and many rural areas of the State. Three of these railroads, the St. Lawrence & Atlantic Railroad (SL&A), the Guilford Rail System, and the Montreal, Maine and Atlantic Railroad (MM&A), form the core of the regional rail network. The State, through the Three Rail Carrier Strategy, works with these railroads in the development and improvement of State policy.
>
> "The State and the three railroads also evenly split the cost of some capital improvement projects. Also, the State of Maine owns over 300 miles of track, some of which is used by short line railroads such as the Maine Eastern Railroad and the Belfast and Moosehead Lake Railroad."

In 2010, the State of Maine faced the loss of several branch lines between Millinocket and Madawaska. Due to mill closures and the continuing downturn in the forest products industry, owner MM&A reported a loss of $4-5 million annually on the 233-mile bundle of lines and announced it would abandon them. But important, rail-dependent forest products and agricultural shippers remained on these lines. The loss of service would drive up their costs or even put them under, so the state stepped in.

On January 14, 2011, the State of Maine purchased the MM&A lines for $19.1 million, with the Federal Railroad Administration contributing $10.5 million for upgrading. J.D. Irving Limited's Eastern Maine Railway was to be the contract operator. The *Bangor Daily News* reported:

> "After that initial project is done, [MDOT Rail Program director Nate Moulton] said, the expectation is that the operator that leases the lines from the state will maintain the property and provide good service to the companies on the line. Moulton said the operator will also be responsible for marketing the service to increase business on the rail line. The end game is to build the rail system into a profitable venture and then sell it to a rail company, said Moulton.
>
> "Obviously, that's up to future policy makers. Since the inception of this, that was the idea — the state was stepping up with the goal of getting it back to the private sector when it can be done," said [acting transportation director David] Cole.
>
> "While MM&A cited serious annual losses, Moulton noted the company was dealing with substantial debt on the property and didn't have the ability to spend on maintenance. That won't be the case with the state, he said."

Although the State of Maine didn't have all the resources itself, it was able to draw on a federal government that has become pro-rail under the administration of President Barack Obama. The cost-sharing with the feds was crucial. This has occurred across the U.S. in recent years and Canadian governments must consider these successful public-private partnerships if many regions are to remain competitive with the U.S. This especially applies to New Brunswick's North Shore, where industries require cost-competitive transportation for products that often travel long distances to market.

4.4.2 Canadian Precedents

Short lines partially supported by government funding have become integral components of the Canadian railway system over the last 20 years, providing vital services to many regional and remote markets. Despite the success of these short lines and their ongoing need for capital to bring them to a state of good repair, most provinces have resisted an approach to rail retention and improvement similar to that of many U.S. states. But three have taken a more enlightened view and assisted rail shippers and the communities they help support.

The grain industry of Saskatchewan could not exist without its network of rail lines. Like the railway network of New Brunswick, the grain-dependent Saskatchewan system was overbuilt during the early 20th century. The pruning of this system that occurred in the 1970s accelerated as deregulation hit the Canadian rail industry in the 1980s and a simultaneous consolidation of the grain industry took place.

Coupled with the CN and CP programs to dispose of low-volume assets, several short lines – some owned and operated by grain producers themselves – sprouted across the prairies. However, these new operators faced a backlog of deferred maintenance costs that made it difficult for them to thrive. The situation threatened to close some of these lines, which would have driven transportation costs up and jeopardized many towns dependent on the grain handling facilities located on the former CN and CP lines.

Knowing well the value of rail transportation to its rural economy, the Government of Saskatchewan stepped in with the Short Line Railway Sustainability Program in 2008. It's a 50-50 program that splits the cost of infrastructure upgrading equally with the short lines. When the program was launched, the province explained why it was taking on a non-traditional role that would require the investment of public funds:

> "The program is required because short line railways have aging infrastructure that needs to be maintained and upgraded so Saskatchewan's transportation system can meet current and future needs. The province wants to ensure the benefits of short line railways to the economy are sustainable.
>
> "It is important because it helps link Saskatchewan's export-based economy to provincial, national and worldwide markets; provides shippers with another effective transportation option; supports economic development in rural Saskatchewan; and contributes to reducing truck traffic congestion, related greenhouse gases and road wear, along with improving safety.
>
> "Railways are capital-intensive operations and several of Saskatchewan's short lines are newly formed. These grants provide some relief to ensure safe and sustainable railway operations. Eligible construction projects can include improvements on ballasts, which is the gravel between and under railway ties, replacing railway ties, repairing bridges, upgrading switch components and stabilizing track. Locomotives and rail cars are ineligible."

This program has invested $7.6 million to date. It's a relatively paltry amount, but it has enabled the continued operation of the eight short lines in existence when it was launched in 2008 and encouraged the founding of five additional railways, bringing Saskatchewan short line mileage up to more than 1,200 track miles.

Equally useful has been the approach taken by the Quebec Ministry of Transportation, which always maintained a higher degree of interest in freight and passenger railroading than other provinces. Like Saskatchewan, Quebec views efficient rail service as a competitive strategy that pays economic, social and environmental dividends.

A prime example is Quebec's involvement in the founding of a short line across the Bay of Chaleur from New Brunswick's North Shore and which, in fact, connects with CN's North Shore line at Matapedia.

In 2005, Quebec struck a cost-sharing agreement with the Government of Canada to fund a $75 million project to restore 1,000 miles of infrastructure on nine short lines throughout the province. The provincial contribution was $45 million. Among the recipients was the non-profit Corporation du chemin de fer la Gaspésie Inc. (CCFG), which had taken over the 60.1-mile ex-CN Chandler-Gaspé line from the Quebec Rail Corporation (QRC) in 1997 in order to preserve freight and VIA passenger service when it was threatened with abandonment.

Two years later, when QRC wanted to exit the Gaspé entirely and abandon the line all the way to Matapedia, Quebec was the prime mover in striking a 50-50 cost-sharing agreement with the Government of Canada to award CCFG $16 million to purchase the remaining 142.1 miles of the Gaspé line and $19 million over five years for rehabilitation.

Quebec has provided additional funding to CCFG since then, attempting to help the regional government owners overcome the serious deterioration of the line that occurred under CN and QRC ownership. Quebec also subsequently funded other short line projects throughout the province and is currently working to raise the money necessary to address the ongoing capital renewal investment needs of the Gaspé line and once again share costs with the federal government.

REGIONAL BOOSTER: Thanks partially to provincial funding assistance, the Cape Breton & Central Nova Scotia Railway has been able to maintain service over the entire route from Truro to Sydney, which CN spun off in 1993. Without the railway, the struggling industries of eastern Nova Scotia would be at a competitive disadvantage with rail-served competitors elsewhere in North America. Photo by David Othen

The Government of Quebec continues to work on the Gaspé issue and many others as part of a broad vision of transportation that includes rail. Without Quebec's leadership role and the funding it brought to the table, it's unlikely the CCFG and rail service of any type would still exist in the Gaspé.

As well, the Government of Nova Scotia has assisted the 245-mile Cape Breton & Central Nova Scotia Railway in maintaining service through a series of subsidies since 2005. This assistance prevented the abandonment of the Port Hawkesbury-Sydney portion of its main line, which connects with CN at Truro.

Finally, and perhaps most significantly, the Government of Canada came to the rescue of a U.S.-owned short line whose collapse would have had devastating consequences for an economically fragile region of Ontario in 2010.

Spun off by CP through a lease arrangement in 1997, the 173-mile Huron Central Railway (HCRY) line from Sudbury to Sault Ste. Marie is vital to the survival of many struggling industries in this part of northeastern Ontario. These include such large regional employers as the Essar Steel Algoma mill at the Sault and Domtar's paper mill at Espanola, which jointly account for about 80 per cent of the HCRY's tonnage. Included in the HCRY's traffic mix are coiled and slab steel, scrap, wood pulp, paper products, chemicals for both the steel and forest products industries, petroleum and fuel oil, and a small amount of additional traffic for smaller online customers, including the mining industry.

While the HCRY met with some success under the ownership of the Connecticut-based Genesee & Wyoming (G&W) short line holding company, its revenues did not permit it to decisively tackle the backlog of deferred maintenance that had accumulated during the final years of CP operation.

On June 15, 2009, G&W reported that the economic downturn had cut its traffic and revenue to the point that it could no longer continue operating the HCRY, with a shutdown set for October. This spurred the two levels of government, plus the City of Sault Ste. Marie, Domtar and Essar Steel, into action. G&W received $15.9 million to continue operations until August 15, 2010.

Following this last-minute rescue plan, the two senior levels of government reached an agreement with the railway for a $33 million rehabilitation funding package. The governments of Canada and Ontario provided $15 million each, with G&W picking up the remaining $3 million. This has enabled the HCRY to undertake major track upgrading, similar to the work that is now required on CN's Newcastle Subdivision.

A similar agreement is also in place between the governments of Canada and British Columbia for the rehabilitation of the former CP Esquimalt & Nanaimo Railway on Vancouver Island, although its application is being delayed by VIA's failure to agree with the passenger improvement aspects of the plan.

At the time of the HCRY funding announcement, an Infrastructure Canada press release listed the numerous benefits that will flow from this public investment:

- creating an opportunity for industrial growth and new jobs;
- providing direct rail access to at least 26 communities and First Nations, and indirect rail access to numerous other northeastern Ontario communities;
- ensuring the sustainability of existing industries;
- establishing a foundation for the growth of existing industries and expansion of new ones;
- strengthening the economic and social fabric of northern Ontario by providing a sound transportation infrastructure necessary for the establishment and retention of industry;
- ensuring long-term environmental benefits by reducing truck traffic; and
- ensuring long term safety benefits on improving safety on the existing line.

4.5 Short Line Options

Should CN, VIA and the federal and provincial governments not be able to come to an agreement that is fair financially to all the affected parties, especially the public, and that guarantees the retention and effective management of the Newcastle Subdivision for both freight and passenger service, then the formation of a new regional railway to take over the line should be seriously examined.

While the amount of traffic now on offer across the whole subdivision from Moncton to Campbellton could sustain a for-profit regional railway, it's not sufficient to justify its private purchase and rehabilitation. Those high upfront costs would make it unpalatable for any private short line operator.

Some of Canada's established short line railways have revealed they already considered such an opportunity when CN announced its intention to abandon the Newcastle Subdivision. But these short line companies concluded it was an unattractive investment because of the rehabilitation costs and the fragile state of the New Brunswick economy.

However, two of those established operators also said they would consider operating the property if it included the whole subdivision – and possibly also the CN Mont-Joli Subdivision – and it was owned by one or more government agencies that purchased it from CN and funded its upgrading. This would be a situation similar to the operation of the regionally-owned Gaspésie Railway by Canada's RailTerm and the state-owned branch lines under the Eastern Maine Railway.

If such an approach is adopted, the first order of business will be the negotiation of a purchase from CN. It is difficult to determine a possible purchase price, but some background information will prove useful in any negotiations.

When CN purchased QRC's assets in 2008, the company paid $48.5 million for the complete package. This included the infrastructure comprising the contiguous Newcastle, Nepisiguit, Mont-Joli and Matane Subdivisions, and their related spur and yard tracks, plus a collection of branch lines in eastern Ontario. In total, this amounted to 535.6 miles of main line track.

Additionally, CN received the Matane-Baie Comeau car ferry operation, an aged fleet of approximately 40 locomotives and an assortment of old freight rolling stock, most of which was scrapped or sold. The value of this equipment is unknown.

Discounting the non-infrastructural assets CN acquired in the purchase, the railway paid about $92,000 per main line mile for the property. On this basis, the Newcastle and Nepisiguit Subdivisions, plus the Dalhousie Spur could be valued at $12.8 million.

However, CN recently negotiated for the sale of one of the former QRC lines in eastern Ontario. The deal for the sale of the line to a group of regional governments fell through, largely over the price. For 82.7 miles of track, CN was asking $21 million or $254,000 per mile, which is nearly three times what the company paid for it in 2008.

Any purchase of the Newcastle and Nepisiguit Subdivisions for re-establishment as a publicly-owned short line similar to those in the Gaspé and Maine would have to be accompanied by some tough bargaining with CN.

There are at least three ways in which public ownership of a North Shore short line could be accomplished.

4.5.1 Federal Ownership

The Government of Canada is already in the short line railway business, in a sense. When CN moved to abandon three line segments in Ontario that are critical to the operation of VIA's Quebec-Windsor Corridor, they were purchased by VIA. Maintenance, dispatching of the lines and the provision of freight service is contracted out to various for-profit third parties, including CN in some cases.

There is no reason a similar approach couldn't be taken on the North Shore. As a Crown corporation, VIA could purchase the lines on behalf of the Government of Canada. VIA's current budget couldn't cover such a purchase, so additional funding would have to be provided by the federal government. This amounts to a public policy decision that the current government would have to make.

One drawback to a purchase and continued operation of the line under VIA is the passenger railway's current stance on anything outside the Quebec-Windsor Corridor. The various speeches given by VIA president Marc Laliberté in the fall of 2012 and the corporation's continued questionable management of the *Ocean* give no indication VIA possesses the necessary enthusiasm or skills for such an arrangement.

A 21ST CENTURY PEOPLE'S RAILWAY: While the federal government will no doubt suggest it's not in the business of owning railway infrastructure on behalf of the public, such is not the case. Through VIA, the feds already own 135 miles of track in the Quebec-Windsor Corridor. The upgraded ex-CN properties include Chatham-Windsor, Smiths Falls-Ottawa and Ottawa-Coteau, which is shown here at Carlsbad Springs, Ontario. Photo by Ray Farand

However, there is managerial change coming at VIA. The railway is now seeking a new president, who will hopefully create a more positive corporate attitude on VIA's part, especially concerning service outside the central Canadian corridor.

Should the current federal government choose to do so, it can give VIA clear guidelines concerning the North Shore based on a public policy decision that recognizes the strategic economic and social value of continued rail service to the region.

4.5.2 Provincial Ownership

This is a controversial topic in Canada, where the provinces have traditionally regarded rail matters, especially funding, as strictly federal matters. This was also the view held by the state governments in the U.S. until they faced crises similar to that facing New Brunswick with the Newcastle Subdivision abandonment.

Nova Scotia, Quebec and Saskatchewan have come to the conclusion they must be involved to a reasonable degree if key segments of the rail system upon which their manufacturing, resource and agricultural industries depend are to be maintained.

Similar to what has been done across the U.S. by a long list of state governments, the Government of New Brunswick could purchase the lines and then contract with an outside third party for maintenance, dispatching and the provision of freight service. The outside short line operator would have to be made whole on any losses that might be generated by such a transaction, although the carload traffic and payment from VIA are likely to be adequate to cover the negotiated annual fee paid to an outside operator.

However, this is an unlikely scenario in New Brunswick due to the province's ongoing financial difficulties. Since CN announced its intention to abandon the first 139-mile segment of the Newcastle Subdivision, the current government of New Brunswick has made it clear it was prepared to participate in some way in the rescue plan, but that it would not and could not be the sole stakeholder.

4.5.3 Joint Public Ownership

The third approach would be through a joint purchase by the federal and provincial governments. It could be a 50-50 partnership or an agreement could be structured so the federal government, possibly through VIA, could take title and then share the cost with the Government of New Brunswick. This approach has been applied in Quebec, largely due to the pro-rail policies of successive provincial governments.

No matter which approach is selected, some form of public investment is going to be required. In its current condition, the Newcastle Subdivision's capital needs are too great to interest a for-profit short line railway operator. But, as in the case of the State of Maine's takeover of the former MM&A branch lines, the objective should be to rehabilitate the line at reasonable public expense, contract out the freight service and maintenance to an experienced operator, and aim to eventually turn the property over to the private sector completely once it reaches profitability.

It should be noted that the Newcastle Subdivision would involve higher costs because of the higher standards to which it must be rehabilitated and maintained to host VIA's passenger trains.

4.6 Easing the Freight Car Shortage

One complaint that has been lodged by current, smaller forest products shippers on CN's Newcastle Subdivision and elsewhere has been the difficulty they have had in obtaining sufficient empty cars in a timely and predictable fashion for loading of their products. This is a situation many smaller Class I users have faced as the railways have become leaner and more aggressive in their cost control.

Before deregulation and the intensified competition it brought with it, the Class I railways had large rolling stock fleets that gave them a certain leeway in dealing with the routine fluctuations in traffic demand that are a part of transportation, rail or otherwise. But as the railways looked for ways to boost profitability to satisfy investors in the face of increased competition, they began to "sweat" their assets, although some would say they have made the assets sweat to the point of bleeding.

TIGHTLY RATIONED, READILY AVAILABLE: CN has told smaller New Brunswick forest products shippers there aren't enough centrebeam flat cars in its fleet to reliably meet their time-sensitive needs, but there's a glut of these cars on the leasing market today. A public-private partnership program to create an equipment pool would have no trouble obtaining the necessary cars at a reasonable rate to assist New Brunswick producers who depend on cost-effective rail transportation to build and hold distant markets. Photo by Andy Cassidy

All the North American Class I roads have pruned their fleets and pushed the remaining equipment to higher levels of productivity. Car control is a major driver of operational productivity and it is watched closely on the Class I roads. It is, unfortunately, a fact that large shippers with well-defined contracts get first crack at a Class I railway's rolling stock. The terms of supply are often written into the contracts and penalties exist for a failure to comply.

As well, many large shippers use fleets of leased or owned equipment to assure themselves of equipment availability as and when they need it. This is popular with the railways because it relieves them of the cost and responsibility for this rolling stock.

The situation has grown bad enough for New Brunswick forest products shippers that many have had to turn to trucking to compensate. But even this is problematic. Not only is it more expensive, but there's a shortage of truck drivers. On April 26, 2013, CBC News reported on the situation and quoted Mark Arsenault of the New Brunswick Forest Products Association, who said the combined freight car and truck driver shortages were threatening the health of the industry in New Brunswick, which is the most forest products-dependent province.

There is no easy solution. Ideally, the railways would add more cars. But this is costly, the long-term return unknown and the lead times for equipment delivery are lengthy. One possible solution that would require the involvement of the federal and/or provincial government would be the creation of a freight car pool that would be funded publicly and would earn its cost through lease charges to shippers. This has been done in several cases in the U.S. to assist shippers in developing or retaining their markets.

A prime example is found in Washington State, where the state government partnered in 2006 with the federal government and a private refrigerated rail freight forwarding company to lease and manage of pool of refrigerator cars for the movement of apples, pears, onions, potatoes and other perishable produce to Chicago, New York, Boston and other distant points. This was traffic that had been lost to the railways many years before, but has slowly been reclaimed in the U.S. over the last decade.

The $2.2 million Washington State DOT Produce Railcar Pool Program paid off, easing the refrigerator car shortage that was threatening the agricultural producers' markets by forcing a shift to more expensive and slower trucking. They had been unable to justify the purchase of the highly-specialized rolling stock on their own.

The Washington railcar pool program ended on March 31, 2012, having bolstered the state's agricultural producers and enabling them to keep their traffic on the rails, which paid public benefits in reducing highway wear and tear, traffic congestion and environmental degradation that would have occurred had this traffic shifted to trucking.

This is a solution that the forest products industry, the shippers and the province should explore in order to ease the freight car shortage that has the potential to stymie the New Brunswick industry's growth plans. The timing couldn't be better, in terms of equipment availability. Just because CN is keeping its fleet humming for large shippers and isn't willing to make these tightly-rationed cars available to smaller shippers doesn't mean there isn't equipment available.

While there is strong demand throughout North America for certain types of freight cars to cater to burgeoning segments of the rail freight market, such as tank cars to handle the recent boom in crude oil shipments, this is not the case for the centrebeam flat cars required for the movement of dressed lumber products. As reported in the September 2013 issue of the trade publication, *Railway Age*, with the U.S. housing market only just rebounding from years of depression, there is a glut of these cars available from rail car leasing companies. If a joint public-private program can be created in New Brunswick, there will be no lack of reasonably-priced equipment necessary to make it succeed.

4.7 Funding

The decision to retain CN's Newcastle Subdivision and preserve the North Shore rail options is one of public policy. The line is not currently commercially viable, thanks partially to the deferred maintenance. Correcting this will come with a public cost.

Attempts to craft a private-sector-only solution in similar situations have not gone well because of the inability of railways operating with thin profit margins to catch up with the costly maintenance backlog. The recent MM&A collapse is a glaring example of this.

In these straitened financial times, it is difficult to make the case for additional funding for any worthy project that's in the public interest. But there is a short-term answer to this dilemma and it's in the hands of the federal government.

While this government may resist the very thought of playing a large financial role in the rehabilitation and improvement of the CN Newcastle Subdivision – whether under private or public ownership – it has participated in projects such as this elsewhere in Canada. One of them could hold the financial answer required on the North Shore now.

In 2008, the current federal government made a $150 million commitment to the restoration of rail passenger service on the Toronto-Peterborough run. This service had been discontinued by one government in 1982, revived by another government in 1985 and then cancelled by that same government in 1990. The passenger train was always an important part of life in Peterborough and gave the city a connection not just to Toronto, but with the rest of the VIA national system.

The revival plan is the work of Peterborough MP Dean Del Mastro, assisted by Minister of Finance Jim Flaherty, through whose riding the line also runs. Budgeted at $300 million for passenger rolling stock from Moncton's Industrial Rail Services, Inc., and the rehabilitation of the CP infrastructure that is in a deteriorated condition similar to the CN Newcastle Subdivision, the plan involved a matching $150 million investment from the Government of Ontario, although this commitment was not an enthusiastic one.

The passenger plan morphed into an alternate plan to take over – hopefully by a donation in return for a large tax credit – of the bulk of the required CP infrastructure. This includes the additional portion of the line connecting with the two mines northeast of Peterborough that generate more than 90 per cent of its freight traffic and keep it marginally profitable.

The concept now is for re-establishment of the expanded system under municipal ownership as a stand-alone, not-for-profit short line known as the Shining Waters Railway (SWR). It would be operated by a private railway contractor. The passenger service may also be contracted out to a new private operator, although VIA operation was originally contemplated and, in the opinion of some, would be best.

In the interests of full disclosure, it should be stated that the author of this report worked between 2010 and 2012 on the staff of MP Del Mastro, largely on the SWR project and, in fact, drafted the original concept plan under the MP's direction.

The expansion of the original plan from just a passenger service restoration (complex enough) into a new short line has complicated and delayed it. Promised for a July 1, 2014, launch, the SWR is still in the analysis and planning stages, and it can't possibly be operational for at least two years, likely more. At least two years for the complete reconstruction of the line, as well as the long lead time on the acquisition of passenger rolling stock, still stretch out ahead of the SWR's directors.

Meanwhile, the federal funds to be applied to the SWR came with a sunset provision. The funding must be used by 2015 or they expire. It is unlikely that the bulk of these funds will be employed on the SWR before they vanish and, presumably, have to be agreed upon again by the federal government and contained in the Federal Budget. This funding was reaffirmed once before, in 2013 Federal Budget.

FROM ONE FEDERAL POCKET TO ANOTHER: Federal funding of $150 million has been set aside by the Harper government for the much-delayed and controversial restoration of the Toronto-Peterborough rail passenger service, shown here prior to its discontinuance by the Mulroney government in 1990. Before this funding earmark expires, it could be transferred to a federal program to purchase and rehabilitate the Newcastle Subdivision. Photo by David Onadera

While there are many points in favour of restoring the much-missed Toronto-Peterborough passenger service, there is no guarantee it is going to happen; much preliminary passenger demand, cost and engineering analysis still remain to be done.

Therefore, it is suggested that the funds now earmarked by this federal government for the SWR be transferred for use on any plan to take over the CN Newcastle Subdivision and establish it as a publicly-owned short line. It would also be advisable to attempt to bring the Government of New Brunswick on board with matching funds in the same manner that the Government of Ontario is participating in the federally-initiated SWR project.

Very little of the SWR budget has been spent so far and it has gone strictly for a variety of studies and some basic engineering. Much more will be required and it's easy to make the case for the continuation of that work, which will draw on the federal funding currently allotted. But the surplus available before the funding package is expended and/or "sunseted" will be large and it could very well fully fund the North Shore rail project. This potential funding solution needs to be brought to the attention of recently-appointed federal Minister of Transport Lisa Raitt and investigated.

CAUTIONARY SIGNALS: Without public investment, the 60-mile-long "temporary slow order" on CN's Newcastle Subdivision will grow longer and the current 30-mph restriction on VIA's *Ocean* will drop further, doing more damage to its schedule and its ability to attract passengers. This once superbly-maintained railway is destined to wither away unless the deferred maintenance that has accumulated over many years is attacked vigourously and soon. Photo by Ted Bartlett

5.0 VIA's *Ocean:* Glorious Past, Murky Future

Through all the contortions to which VIA has been subjected by successive Liberal and Conservative governments since its 1977 creation as a Crown corporation, the ICR route from Halifax to Montreal has enjoyed varying levels of passenger service. This service has generated a similarly varying level of track use and maintenance income for CN, successor QRC and once again CN following its 2008 re-acquisition of the property.

From the day they were born, every common carrier railway in New Brunswick – and every other North American railway – derived a considerable portion of its income from passenger traffic. It was the era before hard surfaced highways, automobiles, buses and commercial aviation. As in the freight sector, the railways carried the bulk of all the intercity passenger business, and they generated a profit on both.

One of the principal reasons behind the construction of the ICR was the provision of a reliable form of intercity passenger transportation, connecting the people of the Maritimes to central Canada by rail. Indeed, the first through train to officially ply the full route was an ICR passenger train from Halifax to Levis on July 6, 1876.

Over the ensuing years, the ICR and later CN provided a superb passenger service over the ICR main line. Originally, the prime train was the *Maritime Express*, which linked Halifax and all the intermediate points with Montreal. With growing demand on the route and increasing personal disposable income, which enabled a growing number of Canadians and Americans to travel for pleasure, the ICR launched a seasonal, all-sleeping car train on the route on July 3, 1904: the *Ocean Limited*. At 109 years of age, it is today the second longest-running scheduled, named passenger train in North America, exceeded only by Amtrak's *Sunset Limited*, which was launched in 1894.

With rising travel demand in the years leading up to and following the First World War, the *Ocean Limited* became a year-round train, often operating like the *Maritime Express* in two or more sections during peak periods and ultimately resulting in the launch of the *Scotian* as a third full-service train on the Halifax-Montreal route. Additional local and regional trains supplemented this trio at various times.

During the Second World War, coaches were added to the *Ocean Limited* to meet the high travel demand created by both military and civilian travellers at a time when automobiles were out of production, gasoline and tires were rationed, and commercial aviation was limited and expensive. During 1944, the *Ocean Limited* ran in at least two sections in both directions every day, carrying more than half-a-million passengers in total that year.

While the *Maritime Express* was the slower "working train" that handled the bulk of the mail and high-value express traffic on the route, the *Scotian* and the *Ocean Limited* also carried some of this lucrative "head end" business, particularly that moving between the end points and the major intermediate regional centres. It helped keep them profitable.

NATIONAL PRIDE: With first class equipment and service, the ICR's flagship *Ocean Limited* set a standard in elegant travel that helped make the Maritimes an international tourist destination following its introduction in 1904. Shown here in the Wentworth Valley prior to the First World War, this photograph served as the basis for an engraving used on Canada's five-dollar bill during that period. Photo from Canada Science and Technology Museum CN Collection, Image CN000404

In the 1950s, CN re-equipped the *Ocean Limited* with diesel-electric locomotives and coaches, sleepers, diners and lounges from the 359-piece order it placed with Chicago's Pullman-Standard and Montreal's Canadian Car & Foundry. Cloaked in a new green, black and gold paint scheme, the *Ocean Limited* was proudly hailed by CN as the showcase for the post-war passenger modernization program it had been forced to delay while it rebuilt its war-exhausted physical plant and freight fleet. CN treated the train very much as the equal of its western flagship, the *Super Continental*, which it launched on the Montreal/Toronto-Vancouver route on April 24, 1955.

Also purchased were the innovative, cost-effective Budd rail diesel cars (RDCs) for service on lighter density lines, such as Miramichi-Fredericton and local service on routes such as Campbellton-Moncton.

CP also invested heavily in the 1950s in its national network of passenger trains, including the Montreal-Saint John *Atlantic Limited* and many lighter-density lines, which were reinvigorated with a fleet of self-propelled Budd rail diesel cars (RDCs).

These sincere and costly initiatives were responses to the serious erosion of their passenger businesses immediately after the end of the Second World War. The diversion of traffic from the passenger trains was a direct result of government policies and funding.

The federal government spent heavily on new airports, support services and Crown-owned Trans-Canada Airlines (TCA), which ate into the long-haul rail business. As well, the Liberal government of Prime Minister Mackenzie King – at the urging of cabinet minister C.D. Howe – diverted much of the lucrative mail traffic from the passenger trains to TCA's planes to prop up the struggling airline.

Provincial funding of massive highway construction programs wounded the railways' short-haul passenger market. The feds joined them through the *Trans-Canada Highway Act* of 1949, participating in the construction of a complete two-lane highway system from coast to coast, paralleling the main railway lines.

The two levels of government unwittingly got Canadians hooked on what some have called the junk foods of transportation. Road and air travel looked tasty, but they came with huge financial, social and environmental costs that became apparent decades later, after these subsidized competitors almost decimated the passenger trains.

Despite their numerous improvements and investments, the two railways found it tough to compete with car and air travel. Neither level of government insisted on full cost recovery from highway and aviation system users, providing massive (and often hidden) subsidies. Privately-held CP and publicly-owned CN both had to cover passenger losses from freight revenues; government provided no passenger subsidies. CP contemplated buying more Budd equipment to fully modernize its entire system, but the losses soon became serious and the plans were cancelled.

In 1959, privately-owned CP announced its intention to exit the passenger service, calling it "a step that's taken very reluctantly, very slowly and very regretfully." At Crown-owned CN, the situation was especially daunting financially because of its many light density routes and its larger network. But its public perception as a provider of socially-relevant services meant it couldn't just walk away from the passenger business.

After analyzing the experience of other railways around the world, CN's visionary passenger team concluded trains could thrive under certain conditions on a core network of main routes. CN president Donald Gordon green lighted their experimental plan to boost ridership and revenues, while cutting costs – and public criticism.

First, CN implemented an innovative pricing scheme to stimulate ridership in off-peak, low-demand periods, when its trains ran with light loads. Known as the Red, White and Blue Plan, it was first implemented in the Maritimes and later rolled out across the entire CN system. It was a runaway success, boosting ridership and increasing revenue.

Next, CN refurbished its fleet and improved many aspects of its operation to provide a faster, more attractive and convenient service. The first train to receive a complete makeover was the *Ocean Limited*, whose 60-year-old name was simultaneously streamlined to simply the *Ocean*. As well, the slower and less plush *Maritime Express* was retired and improvements were made to the *Ocean's* running mate, the *Scotian*.

MARITIME CHIC: A new paint scheme, new logo and refurbished equipment acquired from U.S. railways that were exiting the passenger business gave CN's revamped Maritime trains a fresh, appealing look that lured travellers back to rail in the 1960s. Photo from Canada Science and Technology Museum CN Collection, Image CN009772

These improvements worked, giving CN's passenger service a modern image that lured riders aboard, many of whom had not travelled by train for years. But the federal government was unconvinced and unwilling to make the investments to take the passenger service to the next plateau. CP was allowed to discontinue more trains and CN was ordered to minimize investment and eliminate many more of its trains. This was sanctioned under the new *National Transportation Act* of 1967. The government at least paid the railways for 80 per cent of their losses on trains deemed temporarily necessary after public hearings by the Canadian Transport Commission (CTC).

The federal government clearly wanted the passenger trains to die and the new legislation was designed to make it happen. The only politician who ever admitted this was Jack Pickersgill, former minister of transport and first president of the CTC. In a 1986 interview with the author of this report, he said:

> "We laid down in the *National Transportation Act* a program for getting rid of passenger service. It wasn't just to reduce it. It was eventually to get rid of it. Now, we didn't do it as fast as I would've liked because there was an appeal to the cabinet from all our decisions, and I just felt that we should try not to be reversed, if possible. Therefore, it was better to go more gradually."

Inevitably, the ridership decline CN had reversed soon resumed. As the network of remaining passenger trains contracted and the government sought to eliminate the 80 per cent phase-out subsidy, the public spoke out. At CTC hearings and in letters to newspapers, Canadians voiced their support for restored and expanded rail service.

The formation of Amtrak by the U.S. government in 1971 to revive the country's remaining passenger trains provided compelling proof to many that Canada was heading in the wrong direction. The oil shortages and price increases wrought by the OPEC embargo of 1973-1974 further demonstrated the risk in placing far too much faith in cars and planes, which are less fuel efficient than trains and subject to extreme cost increases through their high fuel consumption.

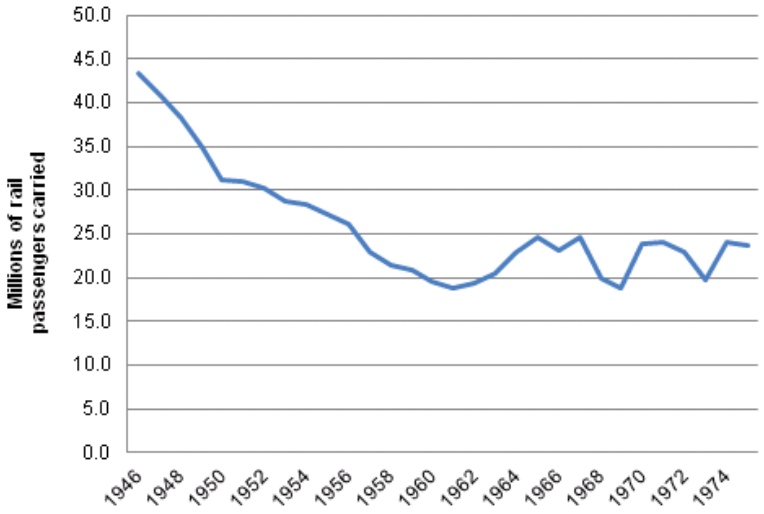
During the 1974 federal election campaign, Liberal Prime Minister Pierre Trudeau promised he would instigate a rail passenger revival if re-elected. He was. But precious little happened, even as many Canadians and opposition party members reminded him of his bold campaign promise.

On January 29, 1976, Minister of Transport Otto Lang announced the Liberal government was taking a new approach to rail passenger service. Unfortunately, his policy statement was couched in the dangerous doublespeak that's bedeviled our rail passenger service ever since. The result was the formation of a Crown corporation to take over the CN and CP passenger services.

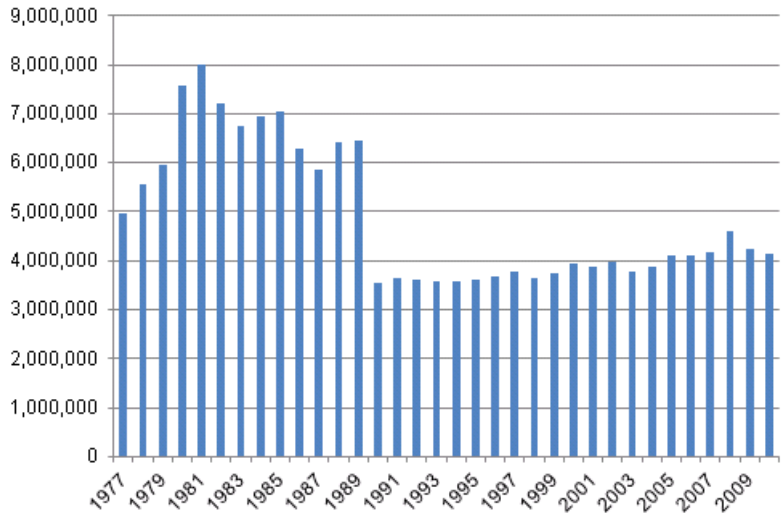
Maps by Matthew Buchanan

VIA began taking over the former CN and CP passenger services on a staged basis on October 29, 1978, with the Maritime trains becoming full VIA responsibilities in April, 1979. Staffed largely by former pro-passenger people from CN, the Maritimes received a high degree of attention. Although the *Scotian* was dropped from the CN North Shore route through New Brunswick, the former CP *Atlantic Limited* on the Montreal-Saint John run was upgraded and extended east to Moncton and Halifax to provide double-daily serve between the Maritimes and eastern Canada. Other regional services were maintained using Budd RDCs and some frequencies and running times were improved. Atlantic Canada was considered good rail passenger territory by the early VIA team.

CANADIAN RAIL PASSENGER RIDERSHIP: 1946-1975



CANADIAN RAIL PASSENGER RIDERSHIP: 1977-2010



However, there were serious problems working away behind the scenes. VIA was hamstrung at the start by a lack of autonomy and investment capital. The disjointed acts and votes that launched VIA gave bureaucrats and cabinet the ultimate power, especially on funding. VIA possessed few rights to ensure it received fair treatment financially and operationally from CN and CP, which placed a higher priority on their own freight trains. VIA ridership increased sharply, but investment didn't. Lacking new equipment and facilities, the cost of VIA's network of popular but aging trains increased.

After Parliament recessed for the summer of 1981, the Liberal government announced it was cutting VIA by 20 per cent, effective November 14. The CTC's public hearing process was bypassed through an order-in-council, denying Canadians the opportunity to formally oppose the cuts.

The *Atlantic* was dropped and the Ocean continued as the sole Halifax-Moncton-Montreal train. Other Maritime services, such as the Moncton-Edmundston and Edmundston-Quebec City trains, were also cut.

The Conservative government of Brian Mulroney promised to change this. Responding to the public outcry over the Liberal's 1981 service cuts, VIA was a major plank in the 1984 Conservative platform. Following the election, Minister of Transport Don Mazankowski appointed the blue-ribbon Rail Passenger Action Force, which was led by former Alberta Deputy Premier Dr. Hugh Horner and included the few knowledgeable and pro-rail analysts and economists in the civil service. Mazankowski charged the team with the development of a blueprint to "renew our National Dream."

The Action Force created a plan breathtaking in its depth and detail. They advocated the complete modernization of VIA physically, financially and managerially. It would have fully renewed VIA and set it up for higher ridership, revenue and cost recovery. The *Ocean* and other long-haul trains would be re-equipped with the double-deck Superliner cars that revived Amtrak's comparable trains. New locomotives, the reinstatement of routes cancelled by the Liberals, stable funding and a change-out of VIA management were part of the grand plan.

Most significantly, VIA would receive comprehensive legislation spelling out its rights, obligations and objectives. It would have become answerable to the entire House of Commons, not just the Minister of Transport and cabinet. This would have mirrored the successful Amtrak approach.

The first visible sign of change came in June 1985, when six trains axed by the Liberals in 1981 were restored, including the daily Montreal-Saint John-Halifax *Atlantic*. With its re-launch, the *Ocean* continued as a daily train, but its eastern terminus was cut back to Moncton, where connections were made with the *Atlantic* to and from Halifax.

None of this sat well with powerful Ottawa forces. High-ranking Transport, Finance and Treasury Board bureaucrats, along with air and bus industry lobbyists, set out to derail the revival. They won. The Action Force was abolished, their reports sealed and their recommendations ignored. VIA's budget was slashed after the six trains axed in 1981 were restored, making the larger system impossible to maintain without modernization.

In his last report to Mazankowski, Action Force chairman Horner wrote:

> "Obviously, we bring the Action Force to a close with much unfinished business. Due to circumstances beyond our control, we have not been able to see most of our recommendations through to implementation. As pointed out above, you will have to depend upon Department officials to monitor and implement our recommendations, with the assistance of the [VIA] Board of Directors. In future, the Department is going to have to deal with the VIA programme in a much more effective and positive manner."

With the Action Force's recommendations unheeded, VIA's costs continued to balloon. As a result, the Mulroney government waited until the House of Commons recessed in the summer of 1989 to announce a 50 per cent VIA cut. Once again, the regulatory process was bypassed through an order-in-council. The *Ocean* and the *Atlantic* were each reduced from daily to tri-weekly service, with the *Ocean* extended from Moncton to Halifax. Every other VIA route in the Maritimes was abandoned.

The one positive development was the government's agreement to allow for the complete modernization of the former CP fleet of Budd stainless steel equipment used on all the long-haul trains. Although not as effective as the re-equipping of these trains with new and more efficient bi-level Superliner cars, which had been recommended by the Action Force, the rebuilt Budd equipment had a dramatic impact on passenger satisfaction, on-time performance and cost recovery.

The most notable feature of the program was the replacement of the old, unreliable steam heating and battery power system with head end power (HEP) for heating, cooling and lighting the cars with electricity supplied by the locomotives. These fully modernized and re-appointed Budd HEP 1 cars slashed operating costs on the eastern and western transcontinental runs and renewed their public image.

However, more change arrived in the Maritimes in December 1994, due to CP's sale of its Montreal-Saint John main line to a combination of Iron Road Railways and J.D. Irving Limited for continued operation. Using the pretext that VIA couldn't operate on short line railways, Liberal Transport Minister Doug Young cancelled the popular *Atlantic*, transferring its funding and equipment to boost the *Ocean* to six days per week on the CN line through Campbellton.

To the credit of the VIA management team then in place, the introduction of refurbished equipment and the launch of the upscale Easterly Class on the Maritime service was well done. The branding of the *Ocean* and the large promotional campaign bore fruit, making the service better known to the travelling public and boosting ridership.

While well intentioned, the purchase and 2003-2004 introduction of the new, British-built Renaissance rolling stock on the *Ocean* did not meet with the same success. This issue is dealt with fully in Chapter 5.4.2 of this report.

Now, as a result of what appears to be an ongoing program of service, cost and funding reductions at VIA, the *Ocean* has been reduced to tri-weekly service, its ridership has dropped and its future remains murky.

The negative comments made by VIA management about the alleged lack of demand for the *Ocean* and other trains across the country have led many industry observers to believe that, with the government's blessing, everything outside the Quebec-Windsor Corridor is subject to discontinuance in the near future.

One wonders how many times VIA executives can point out that passengers on the *Ocean* and its Gaspé running mate, the *Chaleur*, were subsidized to the tune of 59 cents per passenger mile in 2012. They unfailingly make much of the *Ocean's* $35 million operating loss in 2012, while failing to mention that VIA's Quebec-Windsor Corridor trains also lose money despite a massive injection of publicly-supplied capital dollars.

Nor do VIA managers discuss the fact that the high cost of operating these trains is partially a function of the high access charges levied by CN, as well as VIA's own managerial priorities and decisions, all approved by VIA's politically-appointed board.

While many public transportation advocates, opposition politicians and passengers have called for a halt to this ongoing Canadian passenger train reduction and the adoption of the pro-rail passenger policies that are in full effect in other industrialized nations, including the U.S., there has been little response from this federal government. There certainly is no indication from VIA or the current government that any steps are being taken to correct the damage done by the 2012 cuts.

5.1 VIA's Troubling Track Record

There are four major institutional and/or political roadblocks facing the renaissance of VIA and vital rail passenger services nationwide, including the *Ocean*:

- A lack of federal government rail passenger policy;
- A lack of adequate and sustainable funding for VIA;
- CN's lack of co-operation in accommodating VIA; and
- VIA's managerial attitude and competency.

All four issues are interlocked and resolvable. However, that resolution is going to have to come in each case through leadership from the federal government.

5.1.1 National Rail Passenger Policy

VIA faces considerable hostility from the federal civil service due to a variety of factors. They want VIA to be under their complete control, far beyond the already-strict provisions of the governing *Financial Administration Act*.

VIA itself is not well informed on many aspects of rail passenger service – or even in favour of maintaining the operation nationally. The board of directors is politically appointed, short on relevant transportation expertise, and wholly reliant on advice and direction from senior VIA staff, which itself has a dubious track record.

Current VIA management is undermining the national system as a result of the absence of a defined rail passenger policy. VIA's own vision is flawed. VIA president Marc Laliberté says there is no justification for intercity passenger trains on runs in excess of 800 km or less than 160 km. He rejects the provision of short-haul VIA services around large urban centres in favour of commuter trains.

In place of constant incremental improvements to the existing VIA system, Mr. Laliberté envisions the construction of an all-new high-speed rail passenger system serving the Montreal-Ottawa-Toronto triangle, with a possible extension east to Quebec City. This idea has been rejected repeatedly over the last 30 years.

Other than Toronto, Kingston, Ottawa and Montreal, all other cities would have their trains replaced by buses. Public investment in the existing infrastructure would be wasted in favour of a $14-16 billion "greenfield" system that wouldn't carry its first passenger for 15 years.

HIGH-SPEED RAIL AND OTHER FANTASIES: For 30 years, VIA and government commissions have spent millions of public dollars studying without resolution the construction of a Canadian version of foreign high-speed passenger system, such as the German ICE (left) or the French TGV (right). Photo by Stefan Wohlfahrt

With this intense focus on the Golden Triangle, it is little wonder that VIA chose these routes for the investment of most of the $923 million from the current government. The project is late and over-budget. After adding long segments of third main line to this double-track route, CN is balking at allowing additional VIA trains on certain segments of the corridor, notably Toronto-Montreal.

VIA's routes from Toronto to Ottawa and Montreal now face intensified competition from short-haul air services for the end-to-end traffic. VIA continues to chase after this business at great cost, while reducing service to intermediate cities and towns in the triangle, which don't have air or adequate bus service and strongly support VIA.

This is a prime example of how Canada has failed to adopt a logical and *national* rail passenger policy. It contrasts sharply with the policies throughout most of the industrialized world. Until this narrow, Montreal-centric thinking is replaced with an all-inclusive vision reflecting the needs of Canadians nationwide, VIA will go nowhere.

A new management team dedicated to the operation of a national system is required. The decision of VIA president Marc Laliberté to retire at the end of 2013 is encouraging news for those who believe the corporation completely lost its desire to operate a coast-to-coast system under his stewardship. It can only be hoped that the next VIA president will take a national approach to the running of what is, after all, a passenger railway paid for by taxpayers from one end of the nation to the other.

5.1.2 VIA's Uncertain Funding

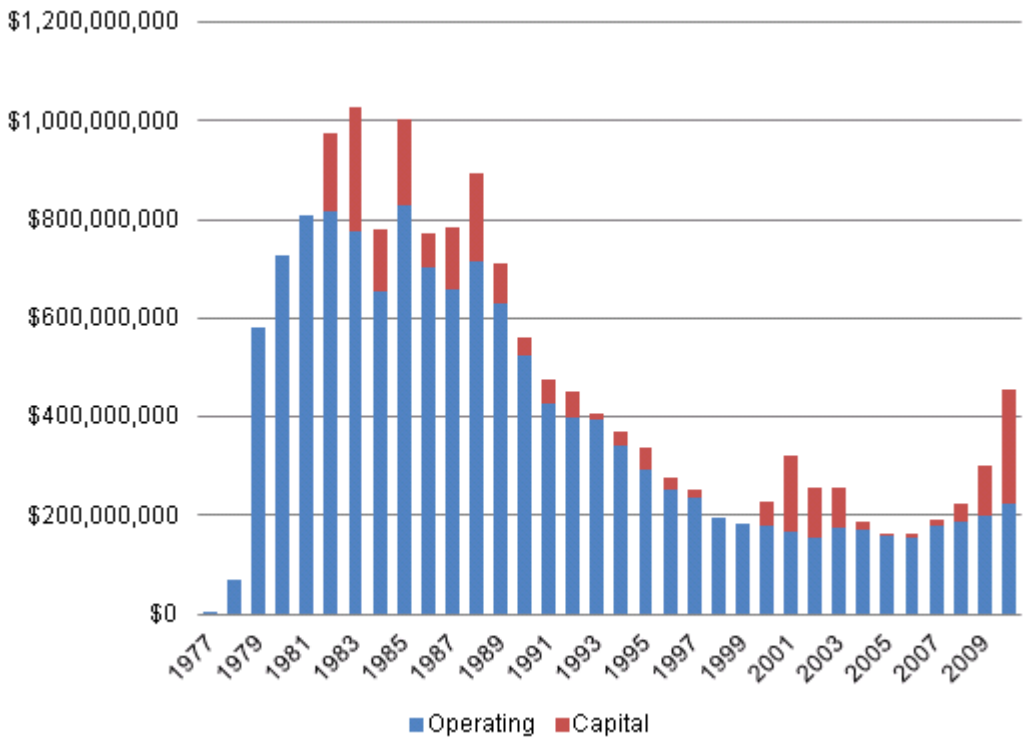
Successive governments have failed to give VIA adequate, predictable and targeted funding. Anti-rail bureaucrats always comment on the public spending made on VIA's behalf. This must be put in perspective by considering the even larger and un-recouped amounts that have gone to highways and aviation.

Much of the money that has flowed to VIA – as approved by these critical civil servants – has not been wisely spent. Without adequate funding to fully modernize, VIA has consumed public funds for an inadequate, obsolete and high-cost service.

An argument used by bureaucrats, unsupportive politicians and VIA's competitors is that rail passenger service requires a subsidy. Many public services require subsidies, but they return more than their cost in public security, health, economic stimulation and social development. As well, bus lines and airlines have enjoyed hefty direct and indirect subsidies much longer than rail.

There isn't a rail passenger system in the world that operates without public investment. While certain heavily-travelled routes on other publicly-funded rail systems generate an operating profit, the entire systems do not. Not only are the unprofitable routes maintained to provide important public services, they also feed the profitable corridors. Without this feeder traffic, many profitable lines would dip into the red.

VIA RAIL CANADA FUNDING: 1977-2010



Canada is unique in funding its rail passenger service from federal general revenues. VIA receives nothing from the federal fuel tax or any other dedicated revenue stream. The provinces have always rejected the idea of contributing to VIA, saying this is a federal responsibility. But intra-provincial intercity transportation needs are increasing, due to the ongoing deterioration of intercity bus service. Mobility is not strictly a federal issue, and it's time for the provinces to face that fact.

It is high time for the federal government to sit down with the provincial, territorial, regional and municipal governments to develop a national mobility strategy that sees all levels of government sharing in the design, funding and operation of a public transportation system that affords the maximum mobility to all Canadians, especially those without access to the overly dominant automobile. A failure to do so now will leave Canada unsustainable, let alone competitive with those nations that have taken this co-operative approach to mobility.

One need only look south to see how this can be accomplished in terms of rail passenger service. There, the states have partnered with Amtrak to expand and restore service on 22 routes in 15 states. As well, many municipalities share the cost of maintaining their local Amtrak stations. This joint funding has played a major role in Amtrak's success in building regional corridors as important components of its expanding national network.

State involvement in Amtrak's corridor routes has increased recently under the *Passenger Rail Investment and Improvement Act*. Among the provisions of this legislation is the requirement that 19 states pay the full operating loss on 28 corridor trains on routes of 750 miles or less that are outside Amtrak's national route network.

The flip side of this is the increased federal capital funding for these routes, including including infrastructure upgrading and new equipment purchased in partnership with the states. In combination, and with increased state planning and operating input, it is expected that the Amtrak network will grow further in terms of routes and frequencies.

Canada is out of step with the U.S. and the other G8 nations in failing to craft such a co-operative approach. A logical starting point would be with the expensive, mandated remote trains, which do not fulfill national objectives, although they remain important regionally or locally. The relevant provincial governments should share in their funding.

VIA's funding mechanisms and the amounts are both inadequate today, as they have always been. This must be resolved if VIA is to thrive.

5.1.3 VIA and Canada's Freight Railways

On all but 135 miles of its 7,500-mile route network, VIA is dependent on Canada's two largest freight railways, CN and CP; the bulk of the operation is on CN lines. VIA doesn't appear to receive good value for the funds it provides to gain track access.

Until CN's 1995 privatization, there had always been a general philosophy in Ottawa that the freight railways had to adequately accommodate VIA because they had been relieved of their statutory obligation to provide passenger service. But in trying to make CN an attractive shareholder investment, the Chretien government began rewriting the agreements that had protected VIA from the freight railways.

Today, VIA is highly dependent on the co-operation of the freight railways, especially CN, on whose tracks it principally operates. The worst aspect of this one-sided relationship is contained in the 10-year train service agreement VIA was left to negotiate on its own with CN in 2007 without government assistance.

During the first five years of the contract, CN's charges to VIA increased 42 per cent. Those charges will rise another 40 per cent by 2017, according to an inside government source thoroughly familiar with the confidential train service agreement. Other provisions detrimental to VIA are unknown.

Dealings like this will forever stand in the way of converting VIA into an innovative and cost-effective public rail corporation. Other pieces of government legislation offer no protection for VIA in its dealings with the freight railways, leaving it at the mercy of companies with no interest in the success or failure of the rail passenger business.

This is in sharp contrast with the U.S. situation, where Amtrak has taken a tough stand with freight railways that have, on several occasions, been even less accommodating of its trains as the Canadian railways are of VIA. But Amtrak enjoys considerable legislative clout in this regard and isn't reluctant to use it.

Amtrak recently brought a petition against CN before the U. S. Surface Transportation Board for sub-standard handling of its trains. As a result, CN has begun delivering improved service to Amtrak, although it still has the worst performance record of all six Class I railways upon which Amtrak depends for track access outside the Northeast Corridor and the small amount of additional Amtrak-owned trackage elsewhere.

VIA management must be held partially accountable for the railway's dilemma. The current managers have until recently failed to speak out, allegedly because they fear CN will retaliate by hampering the on-time performance of VIA's trains even further.

Section 152 of the *Canada Transportation Act* can help to correct the sub-standard treatment VIA receives from the freight railways, but it has rarely been invoked. However, VIA recently challenged CP under this section of the Act over an issue involving the freight railway's refusal to allow the passenger railway to implement additional trains on a route for which VIA had paid CP good money for substantial upgrading. VIA won the case. Here is proof that VIA must hold the freight railways' feet to the fire, just as Amtrak has done in the U.S.

SECOND CLASS *CANADIAN*: VIA's Toronto-Vancouver *Canadian* cools its heels in the siding – "in the hole" in railway terminology – as a CN freight train races by on the main line. VIA's on-time performance is regularly made a shambles by CN shoving the passenger trains aside for its own freights. Photo by Steve Bradley

5.1.4 The Long-Haul Issue

Any attempt to revive VIA service in New Brunswick – and on many other routes across Canada – inevitably comes face-to-face with an argument from bureaucrats and VIA executives that trains on routes of 500 miles or more are costly and lack marketability. These arguments are specious; they need to be quashed once and for all if the *Ocean* and other long-haul trains are going to survive and thrive.

Amtrak currently operates 15 long-haul, full-service trains and wants to add more. These trains are the glue that holds the entire network together, accounting for 43 per cent of all Amtrak passenger-miles and carrying passenger loads comparable to those on the short-haul corridor routes.

The most consistent argument against these trains is their high cost to accommodate the overnight riders. But sleeping car passengers pay fares higher than in the coaches and tend to travel longer distances, accounting for a disproportionately high percentage of revenue. On Amtrak, sleeping cars passengers account for 17 per cent of ridership, but 44 per cent of revenues. This is equally true on the *Ocean*, which ranks as one of VIA's most popular trains and carries large numbers of higher-fare sleeping car passengers.

In recent years, Amtrak has become a staunch defender of its long-haul trains, making the point repeatedly that they often offer the only form of public transportation to many smaller communities, many of which have lost all air and bus service. A prime example is the Chicago-Los Angeles *Southwest Chief*. The train carries 355,000 passengers annually or 466 per departure. It also serves 35 intermediate markets with little or no other public transportation. While the *Southwest Chief* draws three-quarters of its traffic from the large cities at either end of its route, the intermediate towns are at the heart of its success and underscore its true public utility.

The passenger breakdown for Amtrak's *Southwest Chief* is:

- 8 per cent travelling the entire distance from Chicago to L.A.;
- 64 per cent travelling between one end point city and intermediate points;
- 28 per cent travelling between intermediate cities; and
- 19 per cent travelling between city pairs where ridership is so small that only trains with multiple intermediate stops could serve them economically.

Amtrak's commitment to these trains and the intermediate markets they serve was demonstrated in October with the unveiling of the first of 130 single-level long-haul cars now being built in Elmira, NY, at a cost of $298.1 million for use primarily on eastern trains comparable to the *Ocean*.

LONG-HAUL COMMITMENT: Unlike VIA's managers, Amtrak's executive team is fully committed to improving and expanding its network of 15 long-haul trains. This commitment, approved by the current U.S. federal government, has included the purchase of 130 single-level Viewliner cars to re-equip its eastern long-haul trains. Amtrak's fleet renewal strategy calls for the purchase of 508 bi-level Superliners between 2018 and 2022 for its western routes.

5.2 The Current VIA Crisis

The situation that brought the future of Maritime rail passenger service to a head was VIA's June 27, 2012, announcement that the Crown corporation would slash the frequency of several "under-performing" trains, including the *Ocean*, which was to be reduced from six departures in each direction weekly to only three. VIA said this wasn't related to the Harper government's $41-million VIA funding reduction. Instead, it was described as "modernization" and "rightsizing."

In truth, the *Ocean* had been in trouble for some time, but not through any fault of its loyal patrons. Current VIA management has shown no interest in it or any other services outside the Golden Triangle within the Quebec-Windsor Corridor, namely the routes connecting Montreal, Ottawa and Toronto.

Recent VIA marketing efforts could be described as anywhere from limp to non-existent. This contrasts sharply with the marketing of the *Ocean* that occurred under VIA president Marc Laliberté's predecessor, Paul Côté, a passenger railroader who worked his way up to the presidency from a frontline service position with CN. He was also a frequent *Ocean* user.

Ocean Ridership: 2003-2012

YEAR	TOTAL PASSENGERS
2003	175,456
2004	160,280
2005	160,537
2006	147,725
2007	146,606
2008	151,544
2009	132,813
2010	128,737
2011	132,704
2012	130,674

During Mr. Côté's presidency, VIA mounted an impressive publicity tour of the Renaissance equipment in the Quebec-Windsor Corridor to stimulate ridership on the *Ocean*. The tour featured no end of promotional exhibits, food tasting sessions and musical performances celebrating the cultural, culinary and scenic delights of New Brunswick and Nova Scotia, all of them aimed at stimulating ridership on the *Ocean*.

One factor in the *Ocean's* ridership decline prior to 2011 was the re-equipping of the train with the European-built Renaissance rolling stock. While the purchase of this equipment during the time of Liberal Minister of Transport David Collenette was well intentioned, it has turned out to be problematic, as discussed in Chapter 5.4.2.

On top of this, air competition has heated up on certain routes, notably Moncton-Toronto, with new carriers such as Porter Airlines offering deep discount fares and competitors moving to counter them in an effort to retain market share.

As a result, the *Ocean's* ridership declined from 254,156 in 1997 to a low of 128,737 in 2010. However, ridership rose in 2011 to 132,704 and every indication is that 2012 would have outperformed the previous year if not for the cut at the end of October. With the loss of frequency and capacity, *Ocean* ridership dropped only 2,030 to 130,674.

Ocean ridership has remained strong in 2013, although the train can't accommodate the same number of passengers with only half of its previous frequencies. VIA's recent reports demonstrate that, despite a 50 per cent frequency cut, the *Ocean* has retained 60 per cent of its ridership. But what VIA never makes known in its press releases and quarterly statements is that it has been turning paying passengers away from the *Ocean*.

This had already been occurring with the previous schedule of six weekly trains and it was exacerbated by the October, 2012, frequency reduction. In 2011, the *Ocean's* coaches and sleepers were sold out for 156 and 179 departures, respectively. This increased in 2012 to 200 departures for the coaches and 202 for sleeping car space. Numbers have not been made available by VIA for the first half of 2013.

Adding to this self-inflicted decline has been VIA's slashing of station personnel. Some stations, such as Sackville and Amherst, had their agents removed coincidental with the frequency chop, leaving some totally unstaffed.

Another round of station staff reductions was slated to occur on a progressive basis beginning in late 2013, affecting major terminals such as Campbellton, Bathurst and Miramichi. Although no closures are involved, senior station employees who retire will not be replaced and the work will be spread out using part-time employees. Station hours will be reduced to match the arrival and departure times of the trains.

VIA's response to complaints about the reductions has been to point out that passengers can get information and book tickets online. This ignores the fact that there are many VIA passengers – particularly the more mature ones – who are not comfortable with this "e-ticketing" and often don't even have computers and Internet access.

To add to this list of disincentives to travel on the *Ocean*, prospective passengers will soon have to contend with a longer, slower trip. Although VIA made no announcement of the change, a leak to the media and subsequent revelations by VIA public affairs staff confirmed that the *Ocean's* schedule would be lengthened by one hour and 10 minutes eastbound and one hour and 20 minutes westbound, effective January 7, 2014. VIA's explanation is that the train will now skip Charny and cross the Quebec Bridge to the more popular suburban station at Ste-Foy, in suburban Quebec City.

Ste-Foy does, indeed, generate more business than Charny. VIA reports that 146,000 passengers use the former annually, while only 13,000 patronize the latter. But accessing this station will come with operational complications that will penalize *Ocean* passengers who are not boarding or alighting in the Quebec City area.

To access the Ste-Foy station, the *Ocean* will have to make a slow backup move in one direction for three miles between Charny and Ste-Foy. As well, CN revealed that further deterioration of its Newcastle Subdivision has resulted in additional slow orders for the *Ocean*. The result is that the train will now take longer to complete the Halifax-Montreal run than at any time since it was converted from steam to diesel-electric motive power in the early 1950s.

This is hardly a formula for improving a service which the public pays for through its taxes and ticket dollars, or one to boost the financial performance of a train that remains a true lifeline to many New Brunswickers. It is typical of the current VIA management team and their government masters, who constantly plead innocence and say VIA is an arm's length, independent Crown corporation. To use an old yet appropriate phrase, this is no way to run a railroad – passenger or otherwise.

Ocean Running Times: 1941-2014

YEAR	EASTBOUND	WESTBOUND
1941	23:30	23:25
1955	20:45	22:10
1957	20:45	22:10
1960	20:15	21:05
1966	19:55	20:45
1968	19:55	20:00
1976	21:50	22:00
1981	20:50	20:45
1987	21:00	21:10
1991	20:40	20:15
1998	19:45	19:50
2002	20:10	19:55
2007	20:50	20:40
2012	21:33	21:55
2014	22:43	23:15

As for VIA's future, it was eloquently and bluntly summed up by retired Amtrak president David Gunn in a September 5, 2013, Moncton *Times & Transcript* article. The following is a portion of reporter Cole Hobson's story:

> "My sense of what's happening to VIA is it's dying, to be blunt. I don't think they have any focus at all. There's no question that the extent they try to do anything at this point they are focusing on Toronto to Montreal, but what have they done? They've never focused on any service and made it a really important part of the transportation scene and I think that's a terrible mistake.
>
> "VIA has basically been going out of business. All of the actions from VIA have been basically reducing service since it was set up....
>
> "Amtrak had been struggling in the U.S., but it had a lot of support congressionally and it's actually prospered, amazingly enough," he said. "Ridership is setting new records every year, they have been able to build [the] Northeast Corridor into a respectable operation; it's high speed and it's actually a very good operation....
>
> "It's different (in Canada) than the U.S. and if the government doesn't push it as a Crown corporation, it doesn't happen. Whereas in the U.S., Amtrak sort of developed a mindset of its own and it used its supporting Congress to move forward," Gunn said.
>
> "There are a lot of problems with Amtrak, don't get me wrong. I'm just saying they are in much better shape than VIA because, let's face it, the VIA management is totally controlled by the minister ... Even though in question period they always say it's a Crown corporation, independent ... the reality is that they are totally beholden to the Department of Transportation....
>
> "If you just look at the tone of what they do, it's all negative. Then, they'll say it's positive. For example, when they cut the *Ocean* (from six times weekly to three times), they made these public statements they were going to co-ordinate rail with the bus. Well, the trains were always co-ordinated with the bus until VIA ran into slowdowns because of track conditions on the line up through Newcastle and Bathurst and that broke the connection," Gunn said....
>
> "It all goes to the overall strategy of what they are trying to do with passenger rail service. If Marc Laliberté said he's trying to build a train culture in the country, you don't do that by cutting back the trains, "he said. "The fact of the matter is, I think, the budget is being cut and they don't have a lot of options left....
>
> "I met the VIA people. The culture in that company – aside from the good passenger service stuff, which I give them very high marks on, the on-board service stuff – the culture in terms of the business strategy, it's horrendous, it's awful. I couldn't believe it," he said. "They've got some really tough sledding ahead, but they are not making it any easier on themselves."

5.3 VIA's Untenable Fallback Position

The CN announcement of its intention to abandon 139 miles of the Newcastle Subdivision over which the *Ocean* operates resulted in VIA saying it would not take over the line and, if necessary, might re-route the train over CN's Napadogan and Pelletier Subdivisions between Moncton and the existing North Shore route at St. André Junction, 15.3 miles west of Rivière-du-Loup.

This is no option at all. First, CN has not said it will accept the *Ocean* on this line, which is its main Halifax-Montreal freight route. In a June 20, 2013, phone conversation with this consultant, CN executive vice-president Sean Finn said the railway had not necessarily accepted such a proposition, "but we've said we'll consider it."

There is a fear that CN may demand a large infusion of VIA capital funding to alter the route to accommodate the passenger service. This view flows from the fact that, as has been made abundantly clear elsewhere in this report, CN is a reluctant supplier of track access and related services to VIA and Amtrak. In fact, many passenger railroaders consider CN to be North America's most hostile railway when it comes to relations with the passenger railways that must out of necessity make use of its tracks.

The blunt-speaking former president of CN, Paul Tellier, expressed his railway's negative view of VIA's use of CN lines when he appeared before the House of Commons Standing Committee on Transport on March 11, 1998. Tellier said:

> "VIA Rail paid us in 1997 just under $50 million; I think it was $46 million. Of this, about $14 million was directly related to our level of performance.... I don't want to compare VIA to anything, but this is really the tail wagging the dog. CP and CN, in freight, are a $7-billion business; VIA Rail is a $600-million business, of which $200 million comes from taxpayers. So let's not try to fix a $600-million problem by putting in jeopardy one of the best rail systems in North America....
>
> "If I had the choice, I would prefer not to have VIA Rail on our tracks, because I don't like to have a customer that I cannot satisfy. I'm very much aware that they are not totally satisfied, and again, it is not out of a lack of goodwill."

In the intervening 15 years, the CN-VIA relationship hasn't improved. It has gotten worse, particularly under Tellier's successor, E. Hunter Harrison, now president of CP. Recent actions under the leadership of current CN president Claude Mongeau give no indication the railway has modified its anti-passenger attitude. Quite the opposite, especially in terms of contractual infrastructure work that CN has undertaken for VIA on its line between Montreal and Toronto, as discussed in Chapter 3.3 of this report.

LOW DENSITY: While there may be a case for rail passenger service to locations such as McGivney, CN's Moncton-Edmundston line is undeniably less populous than the North Shore route of VIA's *Ocean*. Even prior to the discontinuance of the passenger service, it was more than adequately served with short, tri-weekly trains, such as the one shown here in 1976. Photo by David Morris

Given CN's stance on the Montreal-Toronto project, it isn't unreasonable to assume CN would try to wring some infrastructure funding out of VIA if the *Ocean* is forced, by CN's own actions, off the North Shore and on to the line through Edmundston. The *Ocean* would have to compete with the higher level of freight traffic on the Edmundston line.

The Edmundston line is now booming as a result of the rapid adoption of "crude by rail" to get domestic oil to refineries and markets not served by pipelines. This movement of western crude on the CN Edmundston line has increased as a result of the closure of the Montreal, Maine & Atlantic (MM&A) through Lac-Mégantic, Quebec.

All of the rail-hauled oil arriving at Irving Oil's Saint John refinery is now moving over the CN route through Edmundston to Moncton, then west to Saint John. This will not ease up for many months, when a new operator takes over the bankrupt MM&A and a bypass is built around the Lac-Mégantic accident site.

While the route through Edmundston is 61 miles shorter than by way of the North Shore, it runs through a less populous region of New Brunswick and Quebec. This would negatively affect ridership.

During the CN Red, White and Blue program of the 1960s, the Edmundston line was used briefly for some through passenger trains on the Montreal-Maritimes runs. CN added an all-new Montreal-Moncton-Sydney train, the *Cabot*, and later tried to re-route some trains from the North Shore route. This included the *Ocean*, which operated over this route for six months in 1968.

The operation of long-haul, full-service trains via Edmundston was not successful. The *Cabot* was eventually dropped, the *Ocean* was soon switched back to its more populous North Shore route, and more appropriate local services using self-propelled Budd RDCs were operated through Edmundston between Moncton and Quebec City.

There are no stations or passenger facilities on the CN Edmundston line, so VIA would have to construct them, even though one would assume they would be minimal, given VIA's approach to the provision of rural station facilities elsewhere on its system today.

Such a re-routing would deprive North Shore residents of the one first-class public transportation option still available to them. Although Maritime Bus recently added a daily Miramichi-Moncton service, it is inferior to the train. It takes a more meandering route over a portion of its run, with a longer end-to-end running time than the *Ocean*.

ICR ROUTE VIA CAMPBELLTON	
CITY	**POPULATION**
Rogersville	1,170
Miramichi	24,737
Bathurst	30,424
Petit Rocher	1,949
Belledune	1,711
Charlo	1,324
Campbellton	17,842
TOTAL	**79,157**

NTR ROUTE VIA EDMUNDSTON	
CITY	**POPULATION**
Plaster Rock	1,135
Chipman	1,291
Grand Falls	5,706
St. Leonard	1,343
Edmundston	21,442
	30,917

The Maritime Bus schedule, unlike the previous six-day-per-week *Ocean* schedule, does not enable travellers to depart from their communities in the morning, spend several productive hours in anywhere east along the route as far as Moncton, and then conveniently return the same day. The return departure time from Moncton is too early for useful day-return trips.

Even with the lengthened schedule which has been forced on the *Ocean* by the speed restriction on the 60 miles between Rogersville and Bathurst, the bus is slower than the train. As well, the re-routed *Ocean* would be subject to competition from what is one of Maritime Bus' main intercity services, fragmenting what is far from a large market. This would be detrimental to both carriers.

Finally, such a re-routing would negatively affect the performance of VIA's tri-weekly Montreal-Gaspé *Chaleur*, if and when it is restored. The train is temporarily suspended over the full length of its route due to serious infrastructure problems on the Matapedia-Gaspé line. Because the *Chaleur* is coupled with the *Ocean* to and from Matapedia, the two trains share costs and enjoy certain economies of scale. For example, only one locomotive crew is currently required to handle the two coupled trains over the 451.6 miles from Montreal to Matapedia. This represents a considerable labour cost saving.

Should the *Ocean* be re-routed via Edmundston, it would leave the current CN North Shore route at St. André Junction, 15.3 miles west of Rivière-du-Loup. The nearest point where the two trains could be separated eastbound and consolidated westbound is La Pocatiere, which currently has no facilities to do so.

The *Chaleur* would be required to operate as a stand-alone train for an additional 191.3 miles, requiring an additional locomotive crew in each direction. This would drive the costs up on a train that is already in the crosshairs of VIA management.

With VIA's negative view of its long-haul trains and its recent habit of showing them in the worst light possible, one could easily see VIA using the additional costs for the *Chaleur* as yet another reason to push for its discontinuance. Thanks to the ongoing infrastructure problems that have affected this train for nearly two years, it doesn't need to have yet another black mark added to its record.

Re-routing the *Ocean* is no option at all. It would likely be the train's death sentence.

5.4 Service Enhancements

If VIA is to succeed as a customer-driven, cost-effective *national* service, changes are necessary in its managerial outlook and coast-to-coast service delivery. This is certainly case in the Maritimes, where current VIA management has shown little interest.

5.4.1 Frequency Increase

It is often said the three keys to success in the public transport business are frequency, frequency and frequency. Certainly, Amtrak has learned this lesson and is moving vigourously to increase the number of trains and departures on its main corridor routes. VIA seemingly has not. Cutting the frequency of popular trains such as the *Ocean* makes a mockery of VIA president Marc Laliberté's recent boast that, during 2013, his management team "continued our efforts to build a train culture in Canada."

Cutting frequency is a formula for the destruction of a train's ridership, its financial performance and its public utility. Amtrak learned this many years ago when, having budget cuts forced on it by unsupportive presidential administrations, it tried to slash its way to financial stability, including reductions in certain weaker long-haul services from daily to tri-weekly. This strategy failed and Amtrak soon began to work for funding levels that would allow it to add, not subtract, trains from its timetable.

Today, Amtrak is growing. Only two trains in its network remain tri-weekly and they are the railway's weakest long-haul performers because of their lack of daily service. In both cases, Amtrak has plans for the conversion of these trains to daily service, which are only being delayed by a lack of equipment and negotiations with the two host freight railways over which the trains operate for infrastructure upgrades due to existing traffic congestion.

In light of the 2012 halving of the *Ocean's* service, Amtrak's experience with its New York City-Chicago *Cardinal* is enlightening. At 1,147 miles, this train serves a route slightly longer than that of the *Ocean*, linking two major end points and serving a region of scenic beauty that is not blessed with useful alternate public transportation services. In its congressionally-mandated 2010 performance enhancement plan for the *Cardinal* (http://www.amtrak.com/ccurl/536/878/PRIIA-210-Cardinal-PIP.pdf), Amtrak states:

> "Tri-weekly service is a major driver of inefficiency in the current *Cardinal* service. At the end of most trips, and on two of the five route segments on which train and engine crews work, the *Cardinal*'s employees and/or equipment have a one to two day turnaround delay during which employees receive held-away pay and equipment sits idle without generating any ticket revenues....
>
> "Daily service results in better utilization because it eliminates the time that equipment sits idle at end points between alternate day departures. Much of the maintenance cost associated with locomotives and cars is calendar based. It therefore constitutes a fixed cost that can be allocated over more car and locomotive miles.
>
> "The efficient scheduling of train and engine operating crews is particularly important on long distance trains because there are limited opportunities each day to return them from away from home terminals to their home crew bases. These personnel include conductors, locomotive engineers and assistant conductors....
>
> "When crews are not put back to work within specified time limits, they earn 'held away pay' because they cannot get home or (otherwise) be paid for time required by the nature of their jobs."

As a result of the planned increase to daily service on the *Cardinal*:

- Ridership increases 96 per cent;
- Revenue increases from $7.3 million to $16.3 million annually;
- Cost recovery increases from 27 per cent to 35 per cent;
- Loss per passenger-mile decreases 31 per cent from $0.42 to $0.29;
- Passenger-miles increases 122 per cent, but train-miles rise only 93 per cent; and
- Passenger-miles per train-mile improve 15 per cent from 109.1 to 125.5.

This service increase has a relatively low price tag. Increasing the *Cardinal's* frequency from tri-weekly to daily will only increase its annual operating cost from $19.5 million to $21.6 million. So, for a nine per cent increase in costs, the public will receive more than twice the service. The American view is that $21.6 million for a train providing an irreplaceable public transportation service for 275,100 passengers annually (or 134,900 more than are now able to make use of the *Cardinal*) is a wise investment of public funds and a rather paltry sum compared with other government-supported programs.

DAILY ROLE MODEL: Amtrak's plan to convert its tri-weekly *Cardinal* (shown here at Thurmond, West Virginia) to daily service should serve as a template for a similar frequency increase on VIA's *Ocean*. A 2010 Amtrak study verifies that such a service improvement not only improves a train's utility to the public, but also boosts its revenue with little additional capital and operating costs.

While converting the *Cardinal* from tri-weekly to daily operation will require the acquisition of an additional trainset, a similar increase for the *Ocean* would not. VIA already owns the required three sets of Renaissance long-haul cars for daily service. The only increase would be for maintenance on equipment that is sitting idle and not generating any revenue under the tri-weekly operating plan.

It is impossible for an outsider to calculate the amount this service improvement would cost or the revenue it would produce. This is because VIA operates under what many consider a veil of secrecy on virtually all matters concerning its finances. Numerous attempts have been made over the years by interested outside parties to obtain this data.

VIA routinely denies these requests with a boilerplate response stating "this information is considered to be financial information that belongs to a government institution (VIA Rail), the disclosure of which could reasonably be expected to prejudice the competitive position of VIA Rail or interfere with VIA Rail's contractual or other negotiations in accordance with sections 18(a) and 18(b) of the *Access to Information Act*.

"This information is also protected because its disclosure could reasonably be expected to be materially injurious to the financial interests of VIA Rail in accordance with sections 18(d) and 18.1(1Xd) of the *Access to lnformation Act*, a copy of which is enclosed for your reference."

This blocking of public access especially applies to information pertaining to VIA's business dealings with suppliers such as CN, which is invariably denied "in accordance with section 20(1)(c) and 20(1)(d) of the *Access to Information Act*, as the this is confidential information which would compromise CN's (Third Party's) negotiating position in the future. Accordingly, you will find enclosed a copy of sections 20(1)(c) and 20(1)(d) of the *Access to Information Act* for your information."

This is in sharp contrast with Amtrak, which makes much of this type of information available to members of the public – who not only own Amtrak, but pay for its operation through their taxes and ticket dollars. A similar claim could be made by Canadian citizens regarding VIA.

Should such a plan still remain unpalatable to VIA and its government custodians, then a more modest service improvement plan should be considered. It is the Moncton-Campbellton route segment that has suffered the most from the frequency reduction. The new daily Campbellton-Moncton Maritime Bus service falls far short of being an adequate, all-weather replacement, especially for those with accessibility needs.

While the re-establishment of the *Ocean* as a daily train over its full route should clearly be the ultimate objective, one workable option would be to launch a complementary service using Budd RDCs on the Campbellton-Moncton segment of the route. This train would operate on the *Ocean's* schedule on the days the Montreal-Halifax train does not.

There is no physical impediment to implementing this plan within a matter of months. VIA has the required RDCs on hand. VIA contracted in 2010 with Moncton's Industrial Rail Services, Inc., (IRSI) for six rebuilt RDCs for use on the Sudbury-White River and Victoria-Courtenay routes. The contract signing was accompanied by a media event and much fanfare by the current VIA management team and members of the current federal government.

While three RDCs have gone into service on the northern Ontario route, the other three have gone into limbo because the Vancouver Island line was shut down on March 18, 2012, for safety reasons related to track and bridge deterioration. The federal-provincial deal to restart service on Vancouver Island requires VIA's participation, which has not been forthcoming. If VIA does not resume the passenger operation and agree to the service improvements requested by the public agency that owns and operates the line, then the governments of Canada and British Columbia will not invest the funds required rehabilitation funds. Even if this impasse is resolved, a source close to the project reports it will be at least two (more likely three) years before VIA service can resume.

In a surprising move, VIA recently sent two of the remanufactured RDCs to Jasper, Alberta, to substitute for one of the conventional locomotive-hauled trains assigned to the Jasper-Prince George-Prince Rupert train, formerly known as the *Skeena*. Why this move has been made is unclear and VIA has not responded to requests for information, as is typical of the corporation today.

ASSET MISALLOCATION: On November 26, 2013, two of VIA's three surplus Moncton-rebuilt RDCs head west on the tail end of the Toronto-Vancouver *Canadian* for an illogical and still-unexplained deployment on the Jasper-Prince Rupert run. The cars would be put to better use on the Campbellton-Moncton route on the days when the tri-weekly *Ocean* doesn't operate. Photo by Tim Stevens

The *Skeena* operates on a bizarre two-day schedule that requires an overnight stay in a Prince George hotel for anyone travelling the full route. It also requires two sets of equipment, meaning the two-car RDC trainset will not be able to cover the full assignment. This deployment of the cars is highly illogical from an operational perspective, unless VIA intends to obtain more remanufactured RDCs and fully equip this service with this equipment.

Meanwhile, those RDCs could serve on the Campbellton-Moncton service. If and when they are required for the resumption of the VIA Vancouver Island service, it would be possible to continue providing the Campbellton-Moncton service through the purchase and remanufacturing of replacement RDCs from a revived IRSI in Moncton. This is a matter discussed in greater detail in Chapter 6 of this report.

There is currently one troublesome but resolvable complication with this proposal. CN has taken a stand against the use of RDCs on its lines due to safety concerns relating to their alleged failure to reliably "trip" signal and grade crossing protection circuits. As a result, CN will not allow such "light equipment" to travel any faster than 50 mph. It is presumed that the RDCs will be operated under this speed restriction on the Jasper-Prince Rupert run, where the service's slow, overly-long schedule hardly makes this an issue. However, this CN blanket prohibition against the use of the RDCs at the speeds of which they are capable is distressing.

Prior to VIA's takeover of the passenger services then operated by CN and CP, CN owned one of the world's largest RDC fleets. Under public ownership, CN had no problem with VIA operating an even larger RDC fleet on its tracks. What's more, CP currently allows RDCs on the Sudbury-White River portion of its main line, where VIA is now operating three of the six cars that were remanufactured in Moncton by IRSI.

Furthermore, rebuilt RDCs are or have recently been in operation in commuter service on the Denton County A Train in the Dallas-Fort Worth area and on Tri-Met's West Side Express line in Portland, Oregon. The cars in Texas are ex-VIA RDCs that were rebuilt in 1995 at the former CN Point St. Charles Shops in Montreal. In both cases, these RDCs are required to trip signal and grade crossing circuits repeatedly every day.

CN's safety concerns have already been investigated and found to be surmountable. When the original public-private sector plan for the construction of a rail link between Toronto Union Station and Pearson International Airport was first announced in 2003, it centred on the use of remanufactured three-car RDC sets from IRSI in Moncton. The service would have operated largely on CN's Weston Subdivision. CN refused to allow the use of the RDCs, which would have had a maximum operating speed of 80 mph.

To counter this objection, a well-known rail signalling consultant was hired to examine CN's claims and, if necessary, suggest technologies that would make the use of the RDCs possible. CP confirmed for him that it had experienced no problems with the RDCs and was content to allow them to operate at speeds of up to 65 mph on its Sudbury and Schreiber Divisions.

An investigation was also undertaken of the use of lightweight diesel multiple unit (DMU) cars on the railways of the U.K. and Ireland. There, to assure that these equivalents of the North American RDCs trip the signal circuits, a device is employed on each car that sends a low-voltage electrical charge through the wheels and into the rails. As part of the Toronto airport rail link project, it was proposed that a similar system be employed. The issue was never resolved because the plans for the project changed, with the private sector firm abandoning it and the Government of Ontario taking it over.

Since then, the provincially-owned GO Transit commuter system has purchased the CN line and the decision has been made to use foreign-built DMUs.

If VIA's Moncton-rebuilt RDCs are to be used to provide additional and much-needed service on the CN-owned Campbellton-Moncton route, then VIA, the federal government and the regulatory authorities should take action on this issue, building on the studies undertaken as part of the Toronto airport rail link project.

As with the reinstitution of daily *Ocean* service, it is impossible for anyone outside VIA to calculate the cost of implementing the proposed Campbellton-Moncton RDC service because of VIA's refusal to release the necessary costing and revenue data.

5.4.2 Fleet Upgrading

In June 2003, VIA began to re-equip the *Ocean* with a new type of rolling stock it had acquired in a deal that can only be described as a good intention gone wrong. Known as the Renaissance fleet, this equipment had a checkered past. It has evolved into, at best, a complication and, at worst, an impediment to realizing the *Ocean's* full potential.

Built by Alstom for publicly-owned British Railways, the 139 cars VIA bought in December 2000, were intended for overnight service through the Channel Tunnel to link various British cities with major European centres. But British Railways' privatization and a lack of interest by the franchise operators that picked up the railway operation piecemeal led to the cars being mothballed before completion. Alstom was then allowed to shop the cars around to try to find a buyer in Europe or Africa, but ultimately no one wanted them.

In 1999, Alstom interested VIA in the equipment at what seemed like a bargain basement price of less than $1 million per car. At the time, new single-level North American cars would have cost VIA about $3 million apiece. With modifications to be made to 106 of the cars by Bombardier at its Thunder Bay, Ontario, plant, it was anticipated the final cost would come to $130 million. The remaining 33 incomplete car shells and parts would also be available for addition to the VIA fleet at a later date if government funding became available.

VIA tested three of the Nightstock cars in 1999 and a plan to modify them for Canadian operation was produced. But dimensional and safety standards vary widely between North American and Continental equipment. While most British and European railways operate on the same track gauge of 4' 8½" employed on all of North America's Class I railways, virtually every other technical detail differs in at least small ways.

A principal difference between North American and Continental railway equipment is the loading gauge. This dictates the length, width and height of motive power and rolling stock based on the geometry of the track and the "clearances" on the lines, as determined by the proximity of adjacent tracks, wayside signals, station platforms, bridges, tunnels and other structures. The loading gauge in the U.K. is more restricting than in North America. Consequently, the Nightstock cars are smaller than typical North American passenger rolling stock.

Rechristened as the Renaissance fleet, the cars were trouble as soon as they emerged from their "Canadianization" by Bombardier. Numerous subsequent upgrades had to be made to enable them to withstand Canada's harsher climatic conditions.

Immediately after VIA announced the purchase, the Canadian Council of Canadians with Disabilities filed a complaint with the Canadian Transportation Agency (CTA) regarding the accessibility of the cars. The CTA ordered VIA to correct 14 deficiencies in accessibility in the entire fleet, driving the original cost up by $30 million. Another $5.8 million of upgrading work was later contracted to Moncton's Industrial Rail Services, Inc., in order to completely fulfill the CTA's 2003 decision and order on accessibility.

SMALL, CRAMPED AND ILL ADVISED: VIA's 2000 purchase of disused Renaissance rolling stock from the UK seemed like a bargain, but it has proven to be anything but. Considerably smaller than the North American rolling stock it replaced on the *Ocean* and some Quebec-Windsor Corridor trains, it has experienced ongoing reliability problems and downgraded the quality of rail passenger service to the Maritimes. Photo by David Othen

The cost of the Renaissance fleet has now risen to $1.6 million per car, which is still slightly less than what Amtrak is paying for the new single-level long-haul equipment it is receiving. But it's no bargain given its deficiencies, including its lower per-car passenger capacity and revenue-generating ability compared with North American rolling stock. Deployed on the *Ocean* beginning in 2003 and also on daylight runs in the Quebec-Windsor Corridor, the Renaissance cars have drawn negative reviews from passengers and many VIA employees who work on them.

The most basic problem relates to the dimensional differences between Renaissance and typical North American passenger cars. They are not only smaller than conventional cars, they have a cramped feeling about them. Safety concerns led to the loss of what VIA had hoped would be usable space at the ends of the cars in what is known as the crumple zones. Many passengers, particularly on the *Ocean*, dislike the cars compared with the classic, fully-modernized Budd stainless steel cars of the 1950s they replaced.

The sleeping cars are especially cramped and they only offer one type of space, whereas the Budd equipment offered single-passenger roomettes, two-passenger bedrooms and the traditional open sections with upper and lower berths, which were popular on the *Ocean* and priced lower than the spaces on the Renaissance cars. Built for shorter overnight runs between the U.K. and Western European cities, the Renaissance cars are not well suited to what is a trip of nearly 24 hours for passengers travelling the *Ocean's* full route from Montreal to Halifax.

In a December, 2004, article in *Trains* magazine, columnist Bob Johnston wrote:

> "... the Renaissance fleet's lack of domes, its puny and uncomfortable service-car lounges, warmed-over meals from the service cars (the diner has a serving pantry but no kitchen), and the absence of open sections, roomettes, and triple bedrooms (drawing rooms) have – many passengers argue – significantly downgraded the *Ocean's* appeal and operational flexibility."

The loss of the dome cars that previously operated as part of the Budd-equipped *Ocean* was partially corrected through the seasonal addition of a Park-series dome-lounge-observation-sleeping car on the tail end of each of the three Renaissance consists assigned to the train. But this additional car, which is typically open only to passengers paying premium fares, created complications of its own.

The Renaissance cars use a semi-permanent, European coupling system. It takes four hours to separate and re-couple them. To couple them with the locomotives, each baggage car had to receive a standard North American passenger coupler on the front end. To handle the Budd Park car on the rear, VIA had to create transition cars. Carpeting and lighting have been applied, but these are basically empty, non-revenue-generating cars with North American couplers on the trailing ends to couple with the Budd Park cars. They add weight, but no revenue.

The Renaissance cars weigh about the same as the Budd cars they replaced, but they are considerably smaller, carrying fewer passengers. Each coach has 48 seats. VIA's Budd HEP 1 long-haul coaches have 62 seats and provide more passenger leg room.

The Renaissance sleepers contain 10 two-person cabins for a total of 20 passengers per car. One sleeper per train has eight standard cabins plus a larger one for passengers with accessibility needs, bringing the capacity down to 18. This design is highly inefficient. A single sleeping car traveller occupies a room built for two, bringing the load factor down. As a result, a 20-passenger Renaissance sleeper rarely has a full complement of 20 because of the use of several two-person cabins for only one.

VIA's Budd Manor and Chateau sleepers have a variety of one- and two-passenger spaces that accommodate 22 or 23 passengers, respectively. The Budd-equipped trains also included a Skyline dome-lounge-buffet car and a dining car with a full kitchen in which meals could be prepared fresh on board.

EFFICIENT, EFFECTIVE AND ELEGANT: Rebuilt at a cost of $1 million per car in the early 1990s, VIA's streamlined Budd stainless steel rolling stock has exceeded expectations in terms of operating cost, reliability and passenger satisfaction. Replaced by the questionable Renaissance equipment on the *Ocean*, these classic Budd cars are still racking up impressive performance figures on VIA's highly popular Toronto-Vancouver *Canadian*. Photos by Andy Cassidy

The Renaissance sets use two so-called "service cars" as lounges, bracketing a dining car with a pantry where prepared meals are warmed up. The pantries are too small for the preparation of fresh meals; the quality of the food service has declined markedly.

The result is VIA must use more cars and locomotives than is the case with the Budd trains to handle roughly the same number of passengers, driving fuel-efficiency and cost-effectiveness down on a ton-per-passenger-seat basis. This also increases maintenance costs by requiring more cars and locomotives per train.

The longer Renaissance-equipped *Ocean* also experiences intermediate station problems, often making two stops at stations with shorter platforms to entrain and de-train coach passengers at the front and sleeping car passengers at the rear.

The complicated, non-standard coupling system on the Renaissance cars makes it difficult to add or subtract cars to quickly match traffic fluctuations. This partially accounts for the number of passengers being turned away from the *Ocean* regularly. With their standard North American couplers, the Budd HEP 1 trains can be expanded or contracted quickly in the coach yards before each run.

Then, there's the issue of maintenance and longevity. The Renaissance cars are not holding up well under Canada's harsh winter conditions and the rough ride they get on some of the track that comprises the route of the *Ocean*; European track is engineered to passenger standards that provide a much smoother ride.

In short, the Renaissance cars have not been successful. Their suitability, marketability and life expectancy should be compared with the solidly-built Budd rolling stock they replaced. In its advertising, the Budd Company accurately boasted, "No Budd passenger car has ever been retired because it was worn out." That still holds true. Budd stainless steel rolling stock represented a high water mark in the history of North American passenger car design; it is still relevant in many current operating situations.

VIA's Budd HEP 1 cars have a classic streamlined look that evokes a crowd-pleasing feeling about train travel and its many pleasures. They are also mechanically rugged and, since their rebuilding by VIA in the early 1990s, extremely reliable and efficient.

VIA's Budd HEP 1 long-haul fleet is composed of 157 cars built in 1953-1955 for CP, which assigned them principally to its transcontinental flagship, *The Canadian*. They also operated on the Montreal-Saint John *Atlantic Limited* and other frontline trains. As part of the 1990s modernization program, VIA acquired 24 additional Budd cars secondhand from various U.S. owners to add to this ex-CP fleet.

When VIA put the Budd cars through the $1-million-per-car rebuilding program in the early 1990s, the goal was to boost their reliability to 500,000 miles between failures requiring more than five minutes of repair time. The cars actually achieved more than 2 million miles between failures and surpassed the original estimate of $20 million in annual maintenance and operating cost savings.

VIA recently gave 78 of the Budd long-haul cars and 21 locomotives overhauls at a cost of $20 million. The cars are good for several more years of efficient, reliable service.

There is an obvious answer to the problems created by use of the Renaissance cars on the *Ocean*: replace them with Budd equipment out of VIA's existing fleet. VIA currently has 162 Budd cars in its active long-haul fleet. These are used principally on the Toronto-Vancouver *Canadian*, as well as the Jasper-Prince Rupert *Skeena*, the Winnipeg-Churchill *Hudson Bay* and the Montreal-Gaspé *Chaleur*, although the latter is temporarily suspended due to the closure of the deteriorated Matapedia-Gaspé line.

VIA owns enough Budd HEP 1 cars to cover all those assignments and provide two sets for the tri-weekly *Ocean*. There would, in fact, be enough equipment to convert the *Ocean* to daily service during most of the year and protect all of VIA's other Budd-equipped trains, as was case prior to the arrival of the Renaissance cars.

However, since that time, CN has forced VIA to lengthen the schedule of its western transcontinental train, the *Canadian*, consequently requiring more trainsets than in the past. When the rebuilt HEP-1 Budd equipment went into service in the early 1990s, VIA was able to operate the Toronto-Vancouver train on a 74-hour schedule. Now, thanks to CN giving it a low priority compared with its own freight trains, the *Canadian* requires nearly 87 hours. Expediting trains reduces equipment and crew requirements, as well as costs. Still, VIA allowed itself to be bullied into this excessive schedule, fearing CN would retaliate by delaying its trains out on the road. Even with the lengthened schedule, the *Canadian* frequently runs hours late thanks to CN-induced delays.

MORE ASSET MISALLOCATION: Rather than use its allegedly surplus Budd equipment to boost capacity on trains such as the *Ocean*, VIA chose instead to lease 12 cars to Amtrak in the fall of 2012. Shown here behind the Amtrak locomotives dispatched to ferry them south for service on the *Adirondack* between Albany, New York, and Montreal, the leased equipment included 10 of VIA's Budd HEP 1 long-haul cars. Photo by François Jolin

Another factor is VIA's ineffective management of this irreplaceable rolling stock. First, the corporation disposed of 18 pieces of Budd locomotive-hauled equipment it acquired but never rebuilt as part of the HEP modernization projects in the 1990s, as well as three ex-CP cars that had been on its roster since 1978. Given the durability of this equipment, it would have been more logical for VIA to have simply stored the cars to protect against traffic increases or the loss of other equipment in accidents.

As well, rather than beef up capacity with Budd equipment that was then surplus to its daily needs, VIA leased 12 cars to Amtrak in the fall of 2012, when the U.S. passenger carrier was running extra services to cover for trains cancelled by New Jersey Transit in the wake of Hurricane Sandy. At the same time, VIA was turning passengers away from many of its more popular trains, such as the *Ocean*, which it claimed was a demonstration of its adeptness in managing its passenger yield.

Now, VIA is short of equipment due to the deterioration of the non-Budd elements of its fleet and is having difficulty meeting passenger demand in the Quebec-Windsor Corridor, using Budd cars to fill in for other less reliable equipment. It is questionable as to whether there is enough Budd equipment to provide all three sets required for a daily *Ocean* during the summer, when the *Canadian's* four trainsets swell to more than 20 cars. However, it might be possible to use one Renaissance set during the peak summer months, when most Budd HEP 1 equipment is assigned to the *Canadian*.

The ideal situation would be to have VIA enforce the few legislative rights it possesses under Section 152 of the *Canada Transportation Act* and compel CN to return the *Canadian* to its old, faster schedule. This would require fewer trainsets and it would free up the required Budd equipment to fully convert the *Ocean* year-round.

The point is that any change that employs the Budd equipment for all or even most of the year on the *Ocean* will lower its costs, improve operational flexibility, please current and prospective passengers, and boost ridership. This can be done without incurring any additional equipment acquisition costs.

It is impossible to determine the cost (if any) and the improved results from the proposed rolling stock replacement. Once again, this is because VIA keeps all such data away from the public and won't release it even under the *Access to Information Act*.

Nonetheless, replacement of the star-crossed Renaissance equipment on the *Ocean* with the robust and efficient Budd HEP 1 cars should be done at the earliest opportunity.

5.4.3 Fleet Renewal

Railroading is a capital and asset intensive business. Constant investment and physical renewal are keys to success in what is a highly competitive environment. Any railway that does not engage in ongoing renewal is doomed to obsolescence, declining commercial competitiveness and, ultimately, collapse. By these measures, VIA has slowly been dying through a failure to renew itself. Nowhere is it more apparent that this strategy has failed than on the issue of fleet renewal.

Throughout its troubled life, VIA has only been able to engage in partial fleet renewal due to the erratic, unpredictable nature of its government funding. In 1981, VIA began receiving its first all-new equipment, which consisted of 10 five-car Bombardier Light, Rapid, Comfortable (LRC) trains for its Quebec City-Windsor Corridor. When the Liberal government cut 20 per cent of the VIA system that same year, Minister of Transport Jean-Luc Pepin said this cut would enable VIA to buy more LRC equipment, some of which would be dedicated to services in Atlantic and western Canada. But LRC deployment outside the central Canadian corridor never occurred.

While the LRCs were problematic for several years, they were eventually debugged and represented at least an attempt to begin VIA's long overdue modernization. But the LRCs represented less than one-quarter of VIA's total fleet at the time. The bulk of its trains were still operated with steam-heated equipment long past the date when it should have been fully remanufactured or replaced with more efficient equipment.

In the last report they submitted before being eliminated by the government that had created the group, the Rail Passenger Action Force of 1984-1985 advised:

> "As before, [our] recommendations are based on two givens, referred to in our previous report as 'twin pillars of policy': A cap of 600 million constant dollars on the annual budget, and our goal of 50 per cent cost recovery by 1989. We remain convinced that, whatever the budget finally provided to VIA, the only way to stop the drain of government funds to VIA is to modernize the corporation. In fact, the only alternative is to shut it down completely."

This modernization didn't occur. The far from benevolent actions of Transport Canada, Finance and Treasury Board civil servants are largely to blame for this situation, which continues today. Preventing the physical renewal of VIA's most important assets, namely its trains, is a sure way to kill a government-funded program they have always opposed. The Action Force recognized this and said it repeatedly in the insightful reports they wrote for the Mulroney Conservative government.

The situation hasn't changed in the 28 years since the elimination of the Action Force. In fact, it has grown worse and current VIA management can take partial responsibility. They have failed to make the case with the government for the complete fleet renewal.

Instead, VIA obtained inadequate funding for the questionable refurbishment of portions of its fleet that need to be replaced, not renewed. This equipment is past its commercial life, even if it can still be made mechanically acceptable. There is no long-term future for VIA without complete fleet renewal, especially for long-haul service.

The obvious answer is bi-level rolling stock similar to the equipment Amtrak began acquiring in the late 1970s. Known as Superliners, they evolved from the Hi-Level cars devised in the mid-1950s by the Budd Company and the pro-passenger Atchison, Topeka & Santa Fe Railway. The fleet of 73 Hi-Level coaches, diners and glass-roofed lounge cars lowered operating costs and increased passenger comfort on Santa Fe's many long-haul routes.

PASSENGER TRAIN SAVIOURS: The arrival of the first of 424 bi-level Superliner cars radically improved the economics and attractiveness of Amtrak's long-haul trains. Canada's Rail Passenger Action Force recommended the purchase of 214 from Bombardier for VIA, but their advice was ignored.

CN also looked closely at this equipment as part of its passenger rejuvenation program in the 1960s. CN came close to placing an order for these cars in 1964 and photographs of them mocked up in CN colours still exist. They would have been used to modernize all of CN's eastern and western long-haul trains, including the *Ocean* and the *Scotian*. But the government-ordered CN passenger retreat ultimately killed the plan in 1968.

Santa Fe would have bought more of these revolutionary bi-level cars, too, had the federal and state governments not undermined the profitability of its trains through continued and massive subsidization of highways and commercial aviation. When Amtrak was formed in 1971 to take over the remaining trains operated by Santa Fe and the other freight railways, the Budd Hi-Level cars became important components of its initial fleet. They set the stage for Amtrak's long-haul re-equipment program and resulted in the next generation of bi-levels, known as Superliners.

The first of Amtrak's 284 Superliner I cars began arriving from Pullman-Standard in 1979. They replaced obsolete, steam heated rolling stock on the western long-haul trains out of Chicago and they had a dramatic effect on reliability, operating costs and passenger appeal. It has been said the Superliners saved Amtrak's long-haul services.

The success of Amtrak's Superliners was well known to VIA executives at the time. But they dithered about their suitability for Canadian operation and never made more than a half-hearted attempt to get the disinterested senior bureaucrats in Ottawa to even approve of the concept of re-equipping VIA's long-haul trains, which both VIA and the government saw as money burners that should be axed as soon as possible.

Transport 2000 – as Transport Action was then known – took a different view. In 1983, the organization released a report advocating and justifying the purchase of Superliners or similar bi-level equipment for the *Ocean*, the *Canadian* and other VIA long-haul trains. Authored by a government rail costing and policy adviser who remained anonymous, the report built its case using data from Amtrak and VIA's own costing information.

Transport 2000's 1983 study called for seven new, high-horsepower locomotives and 34 bi-levels (28 assigned cars plus six spares) for the *Ocean*, which would replace 10 old locomotives and 49 equally-aged conventional passenger cars. The capital investment would be repaid in 6.4 years through decreased costs and increased revenue. For the *Ocean*, the cost per seat-mile would decrease by 35 per cent and total operating costs would decrease by 26.7 per cent.

Similar improvements in financial performance as a result of bi-level equipment had previously been verified by the Canadian Transport Commission as part of its *Preferred Plan for Western Transcontinental Service* in 1978.

The Transport 2000 report stated:

> "While the case for re-equipping the transcontinental services with bi-level cars is impressive on a pure cost savings basis, the new equipment should improve on-time schedule reliability and provide a new image for the service. Better on-time reliability and a return to the faster schedules of the 1960s would encourage the redevelopment of intercity travel markets on the transcontinental service. Increased passenger handlings would increase load factors and revenues, thereby decreasing deficits.
>
> "Consider the analogous case of Amtrak's train, the *Empire Builder*, which operates between Chicago, Illinois, and Seattle, Washington …. During the first 10 months of 1980, after it was equipped with new bi-level cars, ridership increased 27 per cent compared with a system-wide increase of 7 per cent for other long-haul trains…."

Still, VIA and the government of the day took no action. But the Mulroney Conservative government's Rail Passenger Action Force did when it was created in the fall of 1984. In its final report, the frustrated members of the Action Force once again pointed out to the same government that had formed the group and was now extinguishing it:

> "The Action Force remains convinced of the very large advantage available to VIA through the early acquisition of proven, new bi-level cars and locomotives. Such equipment has proven itself conclusively in Amtrak service and, when applied to the Canadian transcontinental situation, offers the scope for very significant improvement in overall performance, through reduced costs and increased revenues. The favourable result on VIA's 'bottom line' will be larger than that available through any other major capital investment….

> "We believe there is no value in debating the early acquisition of all of these proven locomotives and cars. The equipment is absolutely necessary if the national VIA system is to survive any longer than the rest of this decade. Treasury Board must somehow be convinced that modernization is the only way by which the deficits of a continuing, national VIA system can be brought under control."

The Action Force also pointed out that the selection of the Superliner design – which had become the property of Canada's Bombardier through its purchase of the assets of the defunct Pullman-Standard firm in the U.S. – would not only produce efficient, reliable and attractive transcontinental service east and west, but "Canadian content … will be considerable and the benefits will occur not only in Ontario and Quebec, but also in other regions."

Everything advocated by the Action Force still applies. Re-equipping the *Ocean*, the *Chaleur* and VIA's few remaining long-haul trains with Superliners would have a massive and positive effect on VIA's costs, revenues, marketing abilities and image.

Since buying its original 284-car fleet, Amtrak has added another 170 Bombardier-built Superliner II cars. It will soon be in the market for more of these cars for renewal and expansion of its long-haul system. This is the perfect time for VIA to place an order, which could help stimulate the Amtrak order and result in savings for both railways through economies of scale. As well, the Canadian economic stimulus produced by such an order with Bombardier would be large.

Based on the 1985 Rail Passenger Action Force plan, re-equipping the *Ocean* for daily service would require 34 Superliner III cars of various configurations. Another three cars would be required for the *Chaleur*, bringing the total fleet to 37 cars. At about $4 million per car, the capital cost for this total modernization of VIA's eastern long-haul service would come to roughly $150 million, which would be repaid in 6.4 years through cost savings and increased revenues.

Conversion of the *Ocean* from Renaissance to Budd HEP 1 equipment should be the first step in a strategic, phased modernization plan. It should be a lead-in to re-equipping this train and VIA's other long-haul trains with Bombardier Superliner III cars.

A failure to modernize and re-equip the *Ocean* and many other VIA trains will only condemn them to eventual elimination. The Action Force recognized this in 1985 and only the Budd HEP 1 project temporarily prevented it from happening. Purchasing Superliner III rolling stock will decisively and positively alter this situation.

This situation is even more pressing today. As this report was being completed, it was learned the Renaissance cars used on certain Quebec-Windsor Corridor routes were about to be removed from service. Although VIA will not confirm or deny the increasing unreliability of the Renaissance fleet, inside sources have revealed that the equipment is deteriorating rapidly. This does not bode well for the *Ocean's* future.

5.4.4 Intermodal Integration

In his presentation to a 1993 Van Horne Institute symposium on the report of the recently-concluded Royal Commission on National Passenger Transportation, J.J. Bakker of Transport Action hit on one of the key failings of the Canadian system: randomness. He pointed out that Canada has:

- Randomness in services;
- Randomness in terminals;
- Randomness in connections;
- Randomness in co-ordination;
- Randomness in regulations;
- Randomness in funding;
- Randomness in transportation philosophy; and
- Randomness in jurisdiction.

Professor Bakker commented on the fact that the Canadian system of public transportation is one of missing links that make it virtually impossible to connect the modes and offer a seamless service making the best use of each of those modes. He contrasted this with Europe, where "all modes are designed to complement each other into a system or network. There is great emphasis that airports shall have rail and bus stations. Rail stations are also regional bus and city transit terminals. Schedules, routes and terminal locations are coordinated. Taxis have become part of the system. The control is with franchising and contracting, but sometimes also with public ownership."

One of the main problems in Canada is the plethora of operators of different modes chasing too few customers. Competing with each other in what is a transportation market dominated by the private automobile only fragments a small market and results in a lack of revenue for many of the carriers, including VIA and the bus lines.

Then, there are the destructive lobbying efforts of some of these carriers. The bus industry for years has wailed on about how VIA represents unfair, government-supported competition for its privately-funded, unsubsidized services, as if the public funding of a nationwide system of highways doesn't represent a hidden subsidy which no road user ever pays for fully through direct fees.

The bus industry long suggested that scrapping VIA would boost its profitability without public subsidies. But the axing of 20 per cent of the VIA system in 1981 and 52 per cent cut in 1990 didn't result in a boom in bus ridership. The bus industry's long decline has accelerated since the disastrous cuts inflicted on VIA in 1990. Many main routes have been abandoned and hundreds of towns have been deprived of all public transportation, having previously lost their VIA passenger trains.

One needs to look no further than VIA to see the randomness identified by Professor Bakker. A lack of co-ordinated and connected transportation that is widely labeled "intermodalism" is still the order of the day.

As part of the 2012 VIA cuts, the corporation's president crowed about how intermodal partnerships were being forged to replace the deleted trains and boost mobility. They've been a wash out. These partnerships have been insignificant and they've generated little traffic. VIA has raved about the partnerships it has struck with minor carriers such as Royal Jordanian Airlines at Montreal's Pierre Trudeau International Airport. The convenience of this interline, intermodal arrangement is open to question.

As is far too typical of VIA, the idea of connecting rail, bus and air is sound, but the execution is ham-handed and ultimately ineffective.

A perfect example in Atlantic Canada is the alleged partnership between VIA and Maritime Bus. Proof of the lack of co-ordination is the new Campbellton-Moncton bus service, which supposedly makes up for the loss of half of the *Ocean's* frequencies.

First, the bus line largely uses alternate terminals in towns with VIA stations. Rather than use the under-utilized VIA station in Campbellton, Maritime Bus' "station" is the Pik Quik on Water Street. Only in Halifax and Moncton do the two carriers share VIA's station; Maritime Bus recently ceased using the VIA station in Truro.

Next, the bus departs Campbellton in the morning, as does the train. It would be preferable to have the buses running on other schedules that, in combination with the train, offer travelers a choice of two departures at different times daily. To be fair to Maritime Bus, this would be difficult to arrange given the fact that VIA only operates on three days eastbound and a different three days westbound.

Finally, after taking longer to make the Campbellton-Moncton run than the *Ocean* (even with the 60 miles of 30-mph running due to deteriorated track conditions between Bathurst and Rogersville), the return departure for Campbellton makes a same day roundtrip impossible.

Launched as a three-month trial, the Maritime Bus service is not proving successful, averaging only 10 passengers per trip. In November, a company spokesman said the numbers must rise or else it will be discontinued.

Connecting, coordinated rail and bus services makes perfect sense, just as both should be directly connected with local transit and air services. In setting such a course, VIA and the bus lines would be well advised to study Amtrak's Thruway bus operation. Amtrak describes the service as follows:

> "To extend the reach of Amtrak service to communities without rail service and offer a wider selection of destinations, Amtrak established Thruway service with guaranteed connections to Amtrak trains. Dedicated buses carry Amtrak passengers only; coordinated buses operate on individual carrier schedules but create easy access to the Amtrak network.... Most routes are served by modern intercity buses ... that feature restrooms, roomy reclining seating with leg rests and individual lighting."

SEAMLESS: Amtrak's Thruway buses connect directly with its trains and feature coordinated scheduling and through ticketing. The buses extend Amtrak's reach to towns without adequate ridership to justify rail service or where the rail lines vanished long ago. Amtrak photo

Amtrak's Thruway service isn't perfect, but it's an important component of the railway's network. It provides service to points that passenger trains can't possibly serve, either because of low traffic volume or the total absence of rail infrastructure. In some cases in the past, it has been used as a means to build ridership in anticipation of a conversion to rail service, such as some of the current rail routes in Michigan.

There is no reason why VIA couldn't do the same. This would pay large mobility dividends across the country. However, it would be more difficult for VIA to accomplish this given its minimal service on routes such as Halifax-Moncton-Montreal and Toronto-Vancouver. Daily rail service is needed to make any intermodal system comparable to the Amtrak Thruway operation truly effective.

In New Brunswick, there are some routes that can no longer be served by rail, but would be ideal for connecting bus services tied directly to expanded operation of the *Ocean*. Although the rails are long gone, connecting buses on routes such as Bathurst-Tracadie and Miramichi-Fredricton could not only extend the effective reach of VIA, but generate additional ridership for the railway and the bus company with which it partners. CN did this prior to VIA's 1978 takeover of its services.

It is bitterly ironic that the November 20, 2012, press release ballyhooing VIA's partnership Maritime Bus contained some fine words that make good sense:

> "VIA Rail thinks the more we integrate transportation services, the easier it is for travelers to use our services, and the better it is for all carriers. We propose to integrate web ticketing, harmonize schedules and cross-promote intermodal services to increase the mobility of Canadians and help them make the most efficient use of the transport system."

It is unfortunate that the reality is far different from this lofty rhetoric.

5.4.5 Municipal Station Ownership

Rail passenger and intercity bus service delivery and funding are not municipal responsibilities. It is, therefore, a pity that the future of these useful forms of public transportation, which can make a difference in the life of communities across Canada, must be the subject of an investigation by five New Brunswick municipalities.

That being said, there is one way in which municipalities can have a stake in the future direction of VIA and complementary, interconnected bus services: station ownership.

VIA's ownership and management of its station properties have left much to be desired. The current management simply doesn't understand the strategic value of these properties, either in transportation or economic development terms. Once again, Canadians need only look at what is being accomplished on this front by Amtrak and municipal governments across the U.S.

Labeled the Great American Stations Project, it is a partnership between Amtrak, municipal governments and private owners that aims to maximize the value of the historic station properties along numerous Amtrak routes across the nation. Constantly hammered by calls to reduce its operating grant from Congress, Amtrak has often had to opt out of providing the station facilities it would like in smaller communities that want to preserve their rail passenger connections.

Municipal and even private ownership of the stations has been the answer. As well, through the Great American Stations Project, Amtrak works with the communities to obtain funding to restore, maintain and operate these magnificent and highly useful heritage properties.

Amtrak's view is that "a well-planned train station is one of the best investments a community can make as it seeks to expand greater tourism and business opportunities. Whether used by tourists or local residents, stations are proven to be fertile economic ground. Experience has shown that local communities come together with unique and productive ideas and approaches to improving their stations and the surrounding environment. Amtrak is dedicated to building relationships with local cities to work together around the country to help build and restore the stations we serve."

Among the reasons cited for municipalities taking ownership of the stations and partnering with Amtrak and numerous government funding sources are:

- Economic development;
- Tourism growth;
- Historic preservation;
- Civic pride;
- Aesthetic and architectural improvements;
- Space for cultural sites and museums; and
- Space for commercial development and municipal income.

WORKING MODELS: Rogersville, New Brunswick, (above) and Guelph, Ontario (below) are among the handful of Canadian communities that have taken over ownership and operation of their VIA stations. These projects can provide lessons for those towns that want to improve the quality of their public transportation options by creating convenient, seamless transfer points for patrons of all modes.

Headquartered in Montreal, VIA managers are too remote from the communities these stations serve to do a proper job managing and maximizing their roles. The time has come to correct this, for the benefit of VIA, its passengers and the communities.

Ownership of VIA's stations outside the major Canadian centres should be transferred at no cost to the municipalities. Not only will this spur all of the benefits Amtrak lists for such an arrangement, but it will assist in bringing about the connection of passenger trains, intercity buses and local transit services that has been almost totally missing from our public transportation system for decades.

Such a program could easily be tested along the route of the *Ocean* all the way from St. Lambert, Quebec, to Truro, Nova Scotia. It should be explored and promoted by the municipalities of New Brunswick at the earliest convenience. One-time federal and provincial capital funds should be made available to assist in making this happen, as well as ongoing contributions from VIA for the use of the municipally-owned stations.

5.5 VIA Management Renewal and Redirection

There are no easy answers to the problems afflicting VIA and the communities dependent on its services. This is a situation that has been brewing for decades, but now it's at the crisis stage. It will take time, money and political will to resolve it.

However, there is one thing that can begin the process of renewal – and at no additional cost to a federal government that is trying to limit its financial exposure on VIA and so many other publicly-funded programs across Canada.

Quite simply, VIA is not being well managed. Only one example needs to be cited to demonstrate this. At the time of the $41 million reduction in VIA's federal grant, the corporation was asked to prepare scenarios based on cuts of five, 10 and 20 percent. In the end, and more fortunate than most government programs, VIA only had to take a 10 per cent cut. Such a cut would have allowed VIA to operate the *Ocean* six days per week during the peak summer season and tri-weekly the rest of the year. Inside sources reveal Transport Canada was agreeable to such an arrangement.

Instead, VIA management decided to make the *Ocean* a tri-weekly train year-round solely because the CEO disliked the idea of alternating its schedule. This decision was insensitive to the hardships it has brought to the communities the train serves.

There has been a great loss of seasoned VIA employees during this administration's so-called stewardship of a railway that is owned and funded by the people of Canada. It would be difficult to find a single thing they have initiated and gotten right. The discouraging financial and ridership performance VIA reported in its last annual report and its most recent quarterly report are proof of this.

But there is a way to begin repairing this damage. Positive change has long been required in VIA's upper managerial levels and on its politically-appointed board. Finding new, competent managers skilled in rail passenger service delivery will not be easy. But board reform to redirect the corporation can begin immediately.

One of the most knowledgeable and experienced passenger railroaders in North America is David Gunn, the retired president of Amtrak. In his 40 years in public transportation, he directed the turnarounds of five of North America's largest and most troublesome transit systems: Boston, Philadelphia, New York, Washington and Toronto. His final assignment before he retired to his home in Cape Breton was getting Amtrak on its feet after a long period of mismanagement and misguided political interference or indifference. More than any other president, Gunn set Amtrak on the right track.

It is experienced transportation practitioners such as Mr. Gunn who need to comprise VIA's board of directors, not political appointees lacking real world experience that is relevant to the functioning of a passenger railway in dire straits. It is up to this federal government to make the change, if they are serious about maintaining an efficient and affordable national rail passenger service. The municipalities that commissioned this report should work to encourage such a decision.

PROFESSIONAL RAILROADER REQUIRED: If VIA is to become a passenger-responsive, cost-effective national rail passenger system, it requires professionalism at the top, not inexperienced political appointees. This glaring deficiency can be corrected with the appointment of former Amtrak president and Cape Breton resident David Gunn (right) to VIA's board. He is shown here in 2005 with North Dakota Governor John Hoeven celebrating the 75th anniversary of Amtrak's popular Chicago-Seattle/ Portland *Empire Builder*, one of the long-haul trains he championed during his three-year stewardship of Amtrak. Photo by Richard Elgenson

6.0 Enterprise Denied: Industrial Rail Services' Bankruptcy

It might be asked why the receivership and bankruptcy of privately-owned Industrial Rail Services, Inc. (IRSI) should be a component of a report covering what seem to be public sector decisions concerning the future of New Brunswick's rail sector. In fact, this issue is very much the result of public policy decisions by the federal government and the consequent actions taken by publicly-owned VIA Rail Canada.

The collapse of IRSI is, in fact, a graphic illustration of all that is wrong with Canadian rail passenger policy, funding, management and service delivery. It involves actions taken by a seemingly unaccountable management team that not only have had severe repercussions for IRSI, but for VIA itself. Behind this lurks the question of federal government rail passenger policy and funding, which are largely responsible for the decisions made by VIA management.

The whole matter came to a dramatic climax on March 16, 2012, when VIA Rail Canada terminated its contract with Moncton's IRSI for the remanufacturing of 98 Light, Rapid, Comfortable (LRC) coaches. This was one of three contracts signed with IRSI in 2009 and 2010 for the modernization and upgrading of up to 163 pieces of rolling stock of three types at an estimated total cost of $117.3 million.

At the time, no one asked VIA why the corporation had even been rebuilding rolling stock that was largely obsolete and should have been scrapped, not remanufactured. It has been suggested by rail industry insiders that this decision was a direct result of inadequate funding to allow for the complete renewal, not re-manufacturing, of a large portion of VIA's fleet.

No questions have yet been asked publicly about VIA's desperate need for reliable rolling stock on a daily base to cover its operations. What effect has the termination of the IRSI projects – particularly the LRC contract – had on VIA's ability to cover its daily operating needs and respond to pressure from Ottawa to reduce its annual funding?

One must also wonder about the managerial decision making that led to the cancellation of these projects when the contractor was not only willing to make good on its obligations under its contracts with VIA, but had investment in additional facilities and equipment to ensure the work was done to a very high standard.

Furthermore, from a public policy point of view, there is the question of the effect of the cancellation of all three of these contracts on 240 skilled IRSI workers, the regional economy and the local industries on which IRSI had depended for many of its supplies.

While virtually nothing has been said publicly by VIA or the federal government about the IRSI bankruptcy and its impact on VIA, that wasn't the case when the contracts were signed on May 4, 2009, and March 29, 2010. Back then, VIA staged two media ceremonies at the IRSI Hump Yard Road plant, which were well promoted and attended. These events gave VIA executives and members of the federal government the opportunity to enthuse about IRSI's capabilities and its impact on the local economy.

A CENTRE OF EXCELLENCE: Modernized and well-equipped, IRSI's facility at Moncton's Gordon Yard earned a reputation for excellence prior to the recent VIA debacle. Owner Richard "Dick" Carpenter hopes to revive this unique business, which employed 240 skilled workers prior to the bankruptcy resulting from the cancellation of the VIA contracts. IRSI photo

At the first, when the contracts for the rebuilding of 98 LRCs and modification of up to 59 Renaissance cars were announced, VIA president Paul Côté said:

> "I know the people of Industrial Rail Services will deliver equipment that will be world class. We've benefitted from their unique craftsmanship, which they applied to the rebuilding of our rail diesel cars in 2001. I congratulate Dick Carpenter and his highly-skilled team. You are not only maintaining Moncton's role in the evolving saga of the iron horse, you are taking it to new heights. Your specialized work on the LRC and Renaissance cars will bolster that reputation."

At the second ceremony, announcing the $12.6 million contract for the modernization of six Budd rail diesel cars (RDCs), Mr. Côté's successor, Marc Laliberté, said:

> "The awarding of this contract for the rebuilding of our RDC fleet is yet another tribute to the unique skills and expertise the people of IRSI bring to every project. You are helping all of us at VIA prove that the road to the future is paved with steel wheels."

When this all imploded in early 2012, VIA managers gave the media a few negative comments about IRSI but little detail; the politicians said nothing. No statements were made by Richard "Dick" Carpenter, the Moncton heritage property developer who founded IRSI.

So, what happened? And what impact does it have not only on New Brunswick's economy, but on the functioning of an undeniably troubled national passenger railway? What follows is an attempt to answer those questions and assess the solutions in light of IRSI's owner's stated intention to restart the business in the near future.

6.1 Consultant's Disclosure

In the interests of full disclosure, it should be known that this consultant has had a working relationship with IRSI since 2009. This began with work on behalf of VIA's Public Affairs Department, preparing the media materials for the two contract signing ceremonies in Moncton.

Increased contact with IRSI staff occurred between 2010 and 2012, when this consultant served as transportation policy adviser to Peterborough MP Dean Del Mastro on his plan to re-launch rail passenger service between his riding and Toronto. It was this consultant's recommendation that remanufactured RDCs be purchased from IRSI for that service and operated on the line under VIA auspices.

Contact was maintained throughout the period of the IRSI receivership and bankruptcy, during which time this consultant served as the director of Transport Action's National Dream Renewed campaign. IRSI shared a limited amount of information at that time.

Most importantly, it should be noted that Industrial Rail Realty, Inc. (IRRI) – part of Mr. Carpenter's Heritage Group of companies and a creditor under the bankruptcy plan – later asked this consultant to review additional documentation and recommend a possible program to get the company's side of the story told. That report was delivered to IRRI on December 6, 2012, although the company has taken no action short of a CBC Radio *Information Morning Moncton* interview with Mr. Carpenter on September 20, 2013, and an article in the Moncton *Times & Transcript* on October 3, 2013.

Despite this long and productive relationship with IRSI, this consultant has attempted to let the documentation provided by IRSI (including much correspondence from VIA) and the views of others intimately involved guide this recounting of the story of the three failed VIA contracts. VIA has said little about this situation, so not all the facts and opinions of the two parties are yet on the table.

Nonetheless, the end result of all of this still remains the collapse of what appeared to be a viable New Brunswick railway supply firm and an extreme delay in the seriously overdue renewal of VIA's fleet.

6.2 IRSI's Track Record

IRSI was established in the former CN Moncton Diesel Shop at Gordon Yard in 1999. The facility became available as a result of the ongoing CN retrenchment in the Maritimes, which included the closure of the hump classification facilities at Gordon Yard and the reassignment of repair work to other CN shops. Although it was built as a running repair shop, it was readily convertible to a heavy overhaul facility.

IRSI also purchased a number of surplus pieces of equipment from VIA in 2000 and 2002. This equipment was made redundant largely by the sweeping 52 per cent VIA service reduction ordered by the Mulroney government in 1990. At a very low cost, IRSI bought 18 problem-plagued Bombardier LRC diesel-electric locomotives and 27 Budd RDCs of various configurations. It was thought the LRCs could be rebuilt for use on one of the high-speed rail passenger projects then being discussed in various parts of North America. Nothing came of that and the units were subsequently sold for scrap.

The RDCs were another matter. As has been established earlier in this report, all Budd stainless steel rolling stock was so well designed and built in the period from the early 1930s through to the closure of the company's rail division in the 1980s that it earned a reputation for being virtually indestructible. It is still applicable to contemporary operating conditions, if modernized.

IRSI management saw an opportunity in the RDCs. Remanufactured at the IRSI Moncton plant and equipped with 21st century sub-systems, these versatile cars are potentially desirable for everything from new-start commuter rail systems to lighter-density intercity runs by VIA, Amtrak or others. That logic is sound.

In 1998, the Dallas and Fort Worth transit systems launched the Trinity Rail Express (TRE), the area's first commuter rail service. The successful start-up operation made use of 13 ex-VIA RDCs remanufactured by Alstom at the former CN Pointe St. Charles Shops in Montreal. This was a low-cost means of launching a new commuter service with assured mechanical and operational reliability, a fact not lost on IRSI.

IRSI was so convinced of the marketability of this concept that, at its own expense, one of its 27 ex-VIA RDCs was completely remanufactured as demonstrator unit #6202.

When the rail service to link Toronto's Union Station with Pearson International Airport was still a private sector project initiated by federal Minister of Transport David Collenette, the builders selected IRSI's remanufactured RDCs as their equipment choice.

That project ran into funding problems and had to be taken over by the Government of Ontario's regional transit agency, Metrolinx, through its operating division, GO Transit. To be launched in 2015 as the Union Pearson Express, it will use foreign-built diesel multiple unit cars rather than RDCs. That equipment is costing Ontario taxpayers $12.6 million per three-car trainset versus $9 million per three-car trainset for the IRSI RDCs.

SOUND STRATEGY: Inspired by the successful use of refurbished ex-VIA Budd RDCs for the launch of the Dallas-Fort Worth region's first rail commuter service in 1996, IRSI purchased 27 surplus units from VIA. The well-founded was re-manufacturing and marketing them for similar low-cost start-up projects around North America, as well as the downtown-to-airport services proposed for Toronto and Montreal. Photo by Bill Hakkarinen

IRSI put forward a similar proposal to Aéroports de Montréal for that agency's proposed rail service linking downtown Montreal with Trudeau International Airport at Dorval. That plan is mired in controversy and nothing concrete has developed.

VIA, too, looked at expanding service with remanufactured RDCs from IRSI. In November 2009, just prior to the end of VIA president Paul Côté's term of office, this consultant was assigned by VIA to prepare all the public affairs materials for the announcement in Kitchener, Ontario, of VIA's plan for a large service improvement on the Toronto-Kitchener-London North Main Line.

In addition to major track, signal and station improvements, the plan would have used three-car RDC trainsets from IRSI to bump service up to six departures daily in both directions. The announcement was cancelled at the last minute and the plan vanished with Mr. Côté's departure from VIA.

In its first decade, IRSI secured small to medium-sized contracts for passenger and freight equipment rebuilding, modification and wreck damage repair work for clients ranging from CN to Rocky Mountain Vacations. In this, IRSI earned a reputation for fine craftsmanship. This was especially so of its partial overhaul of VIA's RDCs in 2001. The VIA management team of the time was impressed and this led to IRSI being considered as a preferred bidder when larger contracts became available.

6.3 The VIA Contracts

In 2008, with what eventually totalled $923 million in publicly-funded capital, VIA began its infrastructure and equipment upgrading projects, which have been partially discussed previously in this report. A key component of this plan was fleet renewal.

VIA's fleet renewal plan was based not so much on its full needs as on the amount this federal government was willing to provide. In other words, the project was going to be fit to the budget, not the other way around. This is a seriously flawed and inadequate approach to capital renewal; the outcome is partially due to this. Sadly, this is the way successive federal governments have dealt with VIA's large and ongoing need for stable, adequate funding to correct the deficiencies in the rail passenger system that have existed from the time of VIA's creation as a Crown corporation in 1977.

Once again, the words of the Mulroney Conservative government's Rail Passenger Action Force need to be considered when exploring this situation:

> "Treasury Board must somehow be convinced that modernization is the only way by which the deficits of a continuing, national VIA system can be brought under control."

VIA was unable to convince the federal government to fund the complete renewal of its frontline Quebec-Windsor Corridor fleet. Instead, it settled for a plan to rebuild the 30-year-old, aluminum-bodied LRCs, as well as make changes to its problematic Renaissance cars in order to conform with the accessibility orders brought against it by the Canadian Transportation Agency.

While refurbishing the LRCs would be less expensive than acquiring new equipment and could be done faster, the wisdom of this decision has been questioned by many in the rail passenger industry. Even renewed for another 15 to 20 years of grueling daily service, the LRCs are already beyond their commercially effective age, although they can be mechanically and structurally upgraded for continued operation.

The IRSI contracts under VIA's $923 million renewal plan covered three equipment types and various degrees of retrofitting and remanufacturing. The contracts were for:

- Repair and modernization of 98 LRC cars, which form the backbone of VIA's Quebec City-Windsor Corridor fleet;
- Reconfiguration of up to 59 Renaissance cars for use on the *Ocean* and the central Canadian corridor, including accessibility upgrades for 12 cars; and
- Modernization of six RDCs, which are used on VIA's Sudbury-White River and Victoria-Courtenay routes.

The VIA executives involved seemed quite sincere in their belief that IRSI would do a world-class job and establish itself throughout North America as the continent's premier rebuilder of passenger rolling stock. Those VIA managers were also committed to assisting IRSI with what would be an admittedly steep learning curve.

The VIA rebuild program got into trouble early and worsened as the two contracts grew to three. The LRC project was the most difficult for a variety of reasons, the most basic being the quality of the equipment itself. As could be said of the later Renaissance equipment, the LRC wound up being a noble Canadian intention gone wrong.

6.4 The LRC Factor

The LRC concept for a fast, lightweight passenger train was conceived in 1966 by an engineer at Alcan, which took it to CN and received a positive response. With CN's encouragement, a consortium of Alcan, Montreal Locomotive Works (MLW) and Dofasco was formed in 1967 to develop a design for a new train capable of operating on existing rights-of-way with diesel or electric traction at speeds of up to 125 mph.

At the time, CN was experiencing tremendous difficulties with its five non-conventional TurboTrains, which had been intended for service on the Toronto-Montreal route in time for the capacity crowds that would be generated by Montreal's Expo 67. The U.S. Department of Transportation also ordered two smaller, American-built versions under the *High-Speed Ground Transportation Act of 1965*.

The builders, MLW and United Aircraft, were nearly two years late in delivering CN's five low-slung, turbine-powered trains. The Turbos were pulled from service three times before they were sufficiently de-bugged to offer reliable service in 1973.

The LRC was designed to avoid the Turbo's non-conventional pitfalls. With a monocoque aluminum body design and a modified, conventional diesel-electric power plant, it would be built as a traditional set of separable locomotives and cars that could be easily expanded and reduced in length according to passenger demand fluctuations; the Turbo was an articulated, fixed-formation design that couldn't be easily varied.

Where the Turbo used a passive system to tilt the cars in and out of curves, providing for a faster and more comfortable ride at higher speeds, the LRC would use a new active tilt system, where sensors would read the degree of the curves and then employ hydraulic rams to actively tilt the cars. Like the Turbo, the objective was a 125 mph maximum operating speed on existing rail lines, albeit significantly upgraded.

With government assistance, a prototype LRC coach was built by the consortium in 1971 and a sleek, low slung locomotive was completed in 1973. When Bombardier purchased MLW in 1975, it assumed the entire LRC project from the other two partners. The first production order didn't come until 1977, when the Government of Canada agreed to buy two LRC-1 locomotives and 10 coaches for a two-year lease to Amtrak.

Following the government's order for the Amtrak lease, the government ordered 22 LRC-2 locomotives (later reduced to 21) and 50 coaches as part of its intended creation of a new Crown corporation to take over the existing CN and CP passenger services. When VIA was subsequently formed, it became the de facto owner and operator of the LRCs favoured by Transport Canada and Industry, Trade and Commerce.

GOOD INTENTIONS GONE WRONG: The Light, Rapid, Comfortable (LRC) passenger train concept was visionary, but early production and deployment problems plagued the trains, causing Amtrak to return its two leased sets and plaguing VIA and builder Bombardier with several years of expensive and embarrassing debugging. Photo by Robert Truett

The Amtrak LRC-1s were delivered in 1980 for their two-year tour of duty. The trains malfunctioned on so many occasions that Amtrak removed them from service before the lease expired, returning them to the Government of Canada in 1982.

Even before the first LRC went into assigned service, and at the same time as he announced the discontinuance of 20 per cent of the VIA route network effective November 15, 1981, Transport Minister Jean-Luc Pepin announced a second order for another 10 LRC locomotives and 50 coaches. These LRC-3 trains incorporated mechanical changes resulting from the experience with the LRC-1 and -2 trainsets. While the LRC-2s and -3s were compatible and inter-operable, there were differences in their method and quality of construction.

While any new technology typically requires in-service debugging, the LRC's teething problems were extensive. As Bombardier's first intercity trains, the company was facing a steep learning curve. Numerous retrofits were required, yet still the LRCs couldn't be counted on for reliable service. The banking system was particularly troublesome, often failing en route and leaving the coaches in the tilted position. The LRCs also required different maintenance facilities than conventional passenger rolling stock because some of the equipment could only be serviced from below.

The Rail Passenger Action Force of 1984-1985 tried to help resolve the LRC problem and noted in March 1985 that modifications were required in three major areas. Also noted was that LRC availability was then worse than that of VIA's 30-year-old equipment.

Because the LRCs were the backbone of VIA's corridor fleet, replacing old equipment that was long past its economic service life expectancy, they had to be made to perform. After more than a decade and three complete fleet withdrawals, they were brought to a reasonable level of reliability. All the locomotives were withdrawn by the end of 2001 and the banking system on the coaches was eventually disconnected.

It is impossible to determine the current reliability and efficiency of the LRCs. Once again, this is due to the veil of secrecy cloaking many aspects of VIA, which is unwilling to provide data on reliability, miles per defect and per car-mile costs for its fleet.

When VIA required additional rolling stock for the Quebec-Windsor Corridor in the mid-1990s, it did not buy additional LRCs. Instead, VIA obtained 33 secondhand Budd coaches built between 1946 and 1953 for various U.S. railways. These were completely stripped down and rebuilt with electric head end power (HEP) systems and LRC-style interiors, emulating VIA's highly successful HEP 1 program for its Budd long-haul fleet. Today, these 33 Budd HEP 2 cars, plus some of the HEP 1 long-haul coaches, are doing yeoman duty on the Quebec-Windsor Corridor.

Quite simply, the LRCs were highly problematic. As former VIA officials involved in the decision to rebuild them say, the project was only endorsed because the corporation couldn't obtain the necessary funds for all-new equipment from the government.

VIA's 2002 Quebec-Windsor Corridor study estimated it would cost $720 million to fully re-equip the route with new, higher-speed trains, such as diesel-powered versions of the 150-mph Acela electrics that Bombardier built for Amtrak. Rebuilding the LRCs appeared to be a bargain by comparison. That decision is now open to serious doubt.

Even the LRC rebuilding project was subject to cost constraints that forced a reduction in the scope of the work. Given the budget available, VIA began cutting items from the remanufacturing plan, most notably the banking system, which was to be removed. VIA also required IRSI to recycle certain components originally slated for replacement. These included 75 per cent of the windows and much of the plastic interior fittings, such as the overhead luggage bins, seat frames and fixtures, and the washroom modules.

Just as importantly, the specs agreed upon in the contract were not final and allowances were to be made for ongoing input from VIA's Marketing and Customer Experience departments. This would likely entail some additional costs, which VIA assured IRSI it would cover out of its federal funding package based on the changes requested.

6.5 Execution of the VIA Contracts

As soon as LRC prototype car #3451 arrived at IRSI, there were unforeseen problems. VIA engineered and rebuilt this coach at its Montreal Maintenance Centre to serve as a model to be copied by IRSI in re-manufacturing the cars on a production line basis. But both VIA and IRSI soon agreed the car was no prototype; it required multiple changes, some of them due to VIA changing its mind about what it wanted in the renewed fleet.

This required IRSI to engineer and rebuild another LRC coach, VIA #3315, as the true prototype, adding time and cost to the project with VIA management's approval. This was the first of many project change requests. The contention of IRSI is:

1. 3451 was not the prototype LRC coach car for Contract C20090146.

2. IRSI spent unbudgeted time and money developing prototype car 3315.

3. Prototyping 3315 delayed production and ate up IRSI working capital.

Adding to the challenge of getting the LRC production line rolling to meet the December 2013 completion date was the Renaissance project. The shortcomings of this rolling stock have already been discussed in detail in Chapter 4 of this report. Hanging over this project was a Canadian Transportation Agency (CTA) order for accessibility upgrades that had to be met by June 2012, although IRSI maintains this deadline was not communicated to the company at the time it was awarded the contract.

When IRSI received the contract to rebuild the six RDCs, this brought another complication. The funding for that project came from the government's Economic Action Plan, which required completion of the project by March 31, 2012.

To assist in making this work, IRSI called on a number of highly-qualified advisers. The first was retired Amtrak president David Gunn, now living in Cape Breton. As the head of the U.S. passenger carrier, and previously as the chief of the Boston, Philadelphia, New York City, Washington and Toronto transit systems, Mr. Gunn had been responsible for billions of dollars in equipment upgrading and acquisition programs.

The second key adviser was chartered account Ken Evans, who gained transportation industry experience in his 10 years as Marine Atlantic's special auditor. Evans often served as a negotiator for IRSI in its dealing with VIA.

Rounding out this team of IRSI advisers after his retirement from VIA at the end of 2009 was Roger Hoather, who had been the railway's director of capital programs. Among his successful projects were rebuilding the Budd HEP 1 long-haul and HEP 2 corridor fleets. Mr. Hoather was instrumental in having the LRC, Renaissance and RDC contracts awarded to IRSI. With VIA's permission, he became a key IRSI adviser.

At the outset, Mr. Hoather points to a fundamental flaw with the LRCs that should be borne in mind in any assessment of the program: "The cars are old. No other passenger rail system runs cars that old unless they're stainless steel."

This view is shared by Mr. Gunn: "Those cars were not a great car. They're aluminum; they were not a strong car. They're not like the RDCs, for example, where you strip them and they look like they were just built. That's because they're stainless steel."

THE FULL MONTY: Rebuilding the aluminum-bodied LRC coaches required IRSI to strip them down to the skin and remove every component. It was only during this process that it was discovered just how deteriorated these 30-year-old cars actually were. IRSI photo

Mr. Hoather also points out that the lack of an acceptable prototype car and the varied input from the different departments within VIA added time and changes every step of the way, right from the beginning of the project.

As early as November 4, 2009, IRSI asked that the specs for the LRCs be frozen and the production schedule be extended by 92 days as a result of those changes accepted up to that date. This proposal was rejected by VIA's senior project leader on November 9, 2009, who said it was excessive and it was the corporation's contractual right to request any and all changes it required.

Although the correspondence from both sides up to the end of 2009 appears to be firm and polite, one detects a rising air of tension. This situation was inflamed shortly afterward by a "changing of the guard" at VIA. Following the retirements of Mr. Côté as president and Mr. Hoather as director of capital programs, the emails and letters became much more acrimonious.

VIA submitted a total of 18 project change requests to IRSI, some of which were fanciful and non-critical in terms of the overall project objectives. For example, the selection of the LRC seat fabrics became a major sticking point. The file on this aspect of the project is thick and it is difficult to follow all the twists and turns in what was clearly a deteriorating client/supplier relationship. That a matter of this nature could become such a major bone of contention and a source of cost overruns is shocking.

Other issues that progressively derailed the LRC project and delayed the Renaissance and RDC contracts include:

(1) A facility built as a running maintenance shop, not a rebuild shop, which required substantial modifications to make it suitable for the LRC production line plan and which IRSI was willing to undertake at its own expense;

(2) The deteriorated, brittle condition of the interior plastic fittings and the window frames, which made it difficult (if not impossible) to recycle them;

(3) VIA-initiated changes in the selection of the electrical gear on the rebuilt cars;

(4) Changes in the configuration of the club or business class cars, replacing the original 2+2 seating with a new 2+1 arrangement;

(5) The additional requirement to create 26 combination cars containing business class 2+1 seating in the forward end and standard 2+2 coach seating in the rear, instead of just business class cars and coaches, as originally proposed;

(6) An ongoing inability of VIA to provide enough cars to IRSI to launch a true production line, which was the only way the company could realize any economies of scale and make a profit on the project;

(7) VIA's higher-than-budgeted costs for the CN Kingston Subdivision Project between Toronto and Montreal, eating up funds from the limited amount contained in the $923 million capital renewal envelope provided by the government (see Attachment B); and

(8) Unexpected structural issues with the cars, particularly the ply-metal floors in the LRC-2 cars.

In June 2011, with the concurrence of IRSI, VIA appointed two rail car manufacturing consultants to visit the IRSI facility and meet with its management. They also met with VIA management. In their July 2011 report, the consultants concluded:

(1) In its bids, IRSI had underestimated the work to be performed;

(2) IRSI did not have a capable and experienced management team; and

(3) The work would be late and IRSI would run out of funds before completion.

This third-party assessment was accepted by both IRSI and VIA, and it is included in full as Attachment C. The report was quite fair and impartial, looking for solutions, not more finger pointing. While it determined there were obvious problems in IRSI's execution of the VIA contracts, it concluded:

> "[T]here is no insurmountable element with IRSI being able to complete the contractual obligations that they have with VIA, as long as both parties recognize the existing situation and are willing to work together."

The consultants' key finding bears highlighting, namely the issue of the acrimonious relationship that had developed between IRSI and VIA. Said the consultants:

> "The one key, if not pivotal, area that could have a determining factor on the outcome and longevity of this contract is the relationship between the VIA on-site team and the key members of the IRSI executive and work team. Whether the over two years of frustration, missed dates and promises, slow growth and progress is a key contributor, or whether there is a firm (perhaps not factual) belief by both supplier and customer that they have conceded, given, accepted and bent over backwards in support of the other over this period, the end result is that the communication is poor and the relationship is seriously strained.
>
> "Perhaps this has been recognized and thus the creation of the Steering Committee, although we see no evidence the Steering Committee's existence has improved the working relationship. As we all know, it takes two to tango and we offer no opinion as to cause, rather that this must be addressed for the project to have any hope of an on-time delivery going forward."

This was never resolved and the relationship deteriorated further, with targets missed. By this point, it was also apparent IRSI would not bring the number of worker-hours per LRC to the point where it could generate a profit. Nonetheless, Mr. Carpenter told VIA he would honour IRSI's commitments, take the loss and demonstrate to the industry it was a reliable remanufacturer of first class rail passenger equipment.

A key flaw in the whole project was apparent from the beginning. Chronically tight on equipment to meet its daily operating needs, VIA would only agree to provide 10 LRC cars at a time for the IRSI production line, which eventually rose to 12. This was insufficient. And when rebuilt cars were "red tagged" by VIA inspectors for minor flaws, such as paint finishes, they had to go back into the shop, disrupting the production line.

This contrasts with the Bombardier bid, a builder which long ago overcame the problems it had with the original LRC contract and is now a world-respected manufacturer of rail passenger and transit equipment, and the largest. Bombardier stated at the outset it required 20 cars at a time to maintain a production line that would enable it to profit and deliver the cars within the allowable time frame set by VIA.

IRON HORSES REFRESHED: By the time the first LRC coaches and club cars arrived at IRSI (above), they'd delivered millions of miles of service and were nearing the point of total exhaustion. Despite all the brickbats VIA used on IRSI over the execution of the contract, the one thing the Crown corporation never claimed was that the work was anything less than first class, as the final product (below) demonstrated. IRSI photos

IRSI adviser and former VIA director of capital programs Mr. Hoather says this was one of the reasons Bombardier was not awarded the contract to rebuild the LRCs. As it turned out, even providing 12 cars at a time strained VIA's ability to provide enough equipment to meet its daily operating needs, particularly during peak travel periods.

One must ask why VIA took such a high-risk approach to the project. While IRSI had proved itself more than competent in dealing with small contracts, the company had never had to contend with such a large, production-style project. Compounding this was the simultaneous work on the Renaissance cars and RDCs, which obviously overloaded a company trying to come to grips with the intricacies of its first large contract.

Where was VIA's high-level oversight through all this? As far as can be determined, senior VIA executives were only in Moncton twice during the whole tumultuous period when work on the three contracts was underway and encountering problems. The direct involvement of senior VIA managers – not just production line inspectors – might have had a positive effect on the relationship and the output.

VIA had problems with virtually all of its capital projects previously, stretching back to the construction of its maintenance centres in the 1980s and its Budd HEP 1 in the 1990s. In these cases, VIA worked co-operatively with its contractors to complete the projects, even going back to the government for additional funding.

One might also ask about the apparent lack of federal government oversight. VIA reports to the minister of transport, Transport Canada, Finance and Treasury Board, so it would be assumed they were monitoring the situation. They weren't. Transport Canada was relying solely on information from VIA. When the government's senior rail policy analyst asked to be allowed to meet with IRSI staff and see the work under way in Moncton, his request was denied on the basis of tight restrictions on government travel.

Apparently with Transport Canada's approval, VIA cancelled part of the 59-car Renaissance contract on September 11, 2011. The 12 cars requiring time-sensitive accessibility modifications were taken to VIA's Montreal Maintenance Centre for completion. This left 47 of the cars still scheduled for lesser upgrading by IRSI. After IRSI completed six of the remaining 47 cars, VIA cancelled the entire contract.

The final snapping point came when IRSI reported to VIA that it had encountered severe deterioration and rot in the LRCs' ply-metal car floors, particularly the LRC-2s. Among other implications, this systematic rot and the variable nature of some of the original construction techniques employed by Bombardier made it difficult for IRSI to secure the seat tracks, which hold and lock the individual seat modules in place.

Mr. Gunn, in particular, was concerned about this situation, feeling it raised safety and liability issues that could come back to haunt IRSI in the event of an accident wherein the seats on the rebuild cars came loose from the floor. IRSI decided to submit one car to static load tests conducted by an independent structural engineer. When the results of those tests were conveyed to VIA, the timing couldn't have been worse.

On February 26, 2012, VIA train #92, en route from Niagara Falls to Toronto, derailed at high speed near Aldershot, Ontario. The two locomotive engineers and a trainee were killed, and there were multiple passenger injuries. The lead LRC coach was damaged beyond repair.

The day following the accident, IRSI notified VIA's chief operating officer, John Marginson, of the results of its structural testing. In response, the heated relationship between the two companies blew up, with VIA sending a letter via email on February 29, 2012, in which IRSI's actions were described as "strictly a negotiating tactic of poor taste and dubious merit." IRSI's raising of the safety issue was called "highly contemptible, morally reprehensible and a total lack of respect for those who lost their lives on Sunday and for those who mourn their passing, including the undersigned. I trust that the record will show that this despicable act is nothing more than IRSI's desperate attempt to shift blame for its own failures."

The end result of this complete fracture of the relationship was that the contract for the LRCs and the RDCs was cancelled. The Government of New Brunswick was notified and the provincially-guaranteed lines of credit to IRSI on behalf of VIA were called in. These funds – totalling $20.5 million – were paid to VIA by the province. IRSI's own investment of $10.2 million was lost and Ernst & Young was appointed as receiver.

When the IRSI rebuild program collapsed, the company had completed 10 LRCs, two RDCs and six Renaissance cars. VIA then applied to the receiver for permission to retrieve its equipment and complete a portion of the outstanding work at IRSI's plant. With the approval of the receiver and the creditors (which included IRSI president Mr. Carpenter), VIA arranged for CAD Railway Industries (CAD) – one of the unsuccessful bidders on these contracts – to complete six more LRCs and the four remaining RDCs.

CAD has done this work on a cost-plus agreement with VIA and was scheduled to vacate the IRSI plant on October 31, 2013. It is believed the last of the CAD-rebuilt cars from Moncton were shipped to Montreal on the tail end of VIA's *Ocean* on October 29, 2013, although the number of cars completed is still unknown.

To date, VIA has not publicly stated how much this additional and un-budgeted work by CAD has cost. In fact, VIA has said nothing of substance about the whole affair. The views of the railway should be considered before assigning degrees of responsibility for this unfortunate, painful and costly outcome. But questions do need to be asked by parties with the power to compel answers.

6.6 The Experience of Other VIA Suppliers

Prior to VIA, CN and CP handled most of their passenger equipment repair and refurbishment work in their own main back shops, including the CN Moncton Shops. Under the original agreements with the freight railways and the relevant unions, VIA continued this practice for several years after it took over of the passenger service.

FROM DOWDY TO DAZZLING: It took months of extra work and costs that IRSI ultimately absorbed itself to accommodate VIA's constantly-changing specifications for fabrics and fittings to replace the dowdy interiors on the LRCs (above). But when it was done, the cars looked like they had just rolled off the builder's assembly line (below). IRSI photos

This became a bone of contention because of the high costs . The railways were paid for their work on a cost-plus-profit basis that had no incentive for shop and labour productivity improvements. This problem was highlighted by the Rail Passenger Action Force of 1984-1985, which found the freight railways were often charging 200-225 per cent of the real cost of performing this work in old and inefficient facilities.

A partial solution was the construction of five VIA maintenance centres in Halifax, Montreal, Toronto, Winnipeg and Vancouver, beginning with the Toronto Maintenance Centre, which opened in 1986. Though not main back shops, they resulted in the transfer to VIA of all maintenance up to a certain level of complexity.

However, VIA was still not equipped for major refurbishment, so outside contractors were required. This contrasts with Amtrak, which took on this work by purchasing the former New York Central Railroad Beech Grove Shops in Indianapolis, Indiana, in 1975. In 1983, an Amtrak executive told a CBC Television documentary crew that Beech Grove was "a house of miracles and the corporation couldn't exist today without it."

Lacking this type of facility, VIA contracted with CN for the HEP 1 rebuilding of its Budd long-haul fleet in 1989-1993. The work was well done, but CN soon complained it was more extensive than it anticipated and demanded an additional $60 million. VIA denied this claim, but later negotiated a smaller settlement with CN.

When the HEP 1 project was expanded to include additional secondhand Budd coaches, this contract went to an inexperienced Quebec company, SEPTA Rail, which underestimated the work and declared bankruptcy. VIA retrieved its coaches and contracted with CN's AMF subsidiary to complete the coaches on a cost-plus basis.

In December 2007, VIA contracted with CAD Railway Industries (CAD) of Lachine, Quebec, for the rebuilding of its fleet of 54 General Motors F40 locomotives, at a cost of $100 million. Not unusual for a project of this nature, it ran into unforeseen difficulties and the first 30 units were delivered late. However, VIA and CAD worked together to resolve the problems and the project was completed on schedule in December 2012.

As well, in October 2009, VIA contracted with Avalon Rail of Milwaukee, Wisconsin, for the deluxe upgrading of 12 Budd HEP 1 cars assigned to the Toronto-Vancouver *Canadian* at a cost of $19.5 million. Very little has been said about this project, which VIA aborted, bringing the cars back to Canada for a cost-plus rebuilding by a small remanufacturing firm in Charny, Quebec. Originally scheduled for completion in 2011, none of the reconfigured Budd deluxe service cars has yet been put into service, although a 2014 launch date for the deluxe western transcontinental service has been mentioned.

In short, none of VIA's individual fleet renewal projects has ever gone exactly according to plan and many ran over-budget and/or over-schedule. Yet, VIA is publicly stating its current fleet renewal program is on target and virtually complete. But a close look at the sketchy information provided reveals this claim is based on a reduced number of cars, not the full number originally proposed.

VIA's rolling stock renewal program is far from complete, leaving VIA with a fleet that is not delivering its maximum utility and is getting older and more worn every day. Inside sources reveal that this lack of serviceable equipment is playing havoc with train assignments, leaving the corporation short of cars and, therefore, restricting the length of many Quebec-Windsor Corridor trains. The result is that passengers are being turned away and potential revenue is being lost at a time when VIA's costs are rising and its income declining.

Many questions still need to be answered for the public, which is ultimately the owner of VIA and the source of the funding that has gone into these incomplete and questionable capital renewal projects.

6.7 Reviving IRSI

The collapse of IRSI is a sad chapter in the equally sad saga of rail passenger service under VIA. Yet, there is some hope for a correction of this situation. Despite IRSI's collapse as a result of the cancellation of the VIA contracts, Mr. Carpenter says he will restart the business, chastened by his experience with the VIA contracts.

Mr. Carpenter, as advised by Mr. Gunn, believes there is still a large volume of work for a firm such as IRSI in locomotive and freight car repair and rebuilding. There is also the untapped market for IRSI's 27 ex-VIA Budd RDCs.

Speculating on what work may be available to IRSI is difficult without a full and proper assessment of the market, which is beyond the scope of this report. But there are several positive factors to be considered.

First, the Class I railways of North America are continuing their process of shedding assets they feel are not as productive and cost-effective as necessary in their quest for increased shareholder dividends. CP has closed all of its heavy overhaul shops and now contracts out this work, and there is no major CN heavy maintenance facility east of its Transcona Shops in Winnipeg.

As well, the numerous short line railways in eastern North America are unable to maintain facilities such as these for their own purposes; they contract out this work.

Tragically, one potential market for a company such as IRSI is a result of the July 6, 2013, derailment and explosion of the crude oil train at Lac-Mégantic, Quebec. A suspected factor in this tragedy was the use of tank cars built to the standard known as DOT-111. These cars, which constitute nearly 70 per cent of the U.S. tank car fleet and nearly 80 per cent of the Canadian fleet, are the subject of much study and debate right now by the regulatory authorities.

The general feeling within the railway industry is these tank cars are not well suited to the handling of commodities such as North Dakota Bakken crude oil, which is more volatile than certain other types of crude.

RETROFITTING ON THE RISE: The Lac-Mégantic tragedy and several other high-profile rail accidents have focused attention on the need for improvements to the inadequate DOT-111 tank cars that make up the bulk of the North American fleet. With car builders backlogged with orders for new tank cars, plus the continuing increase in demand for the movement of crude oil by rail, these sub-standard cars will require modification if they are to remain in service. This bodes well for a revived IRSI. Photo by Andy Cassidy

While the ideal fix would be the replacement of these DOT-111 cars with those built to higher safety standards, such a solution is going to be an expensive long-term one. The demand for the movement of crude by rail is growing and so is the need for rolling stock to handle it. At the same time, rolling stock manufacturers are straining to keep up with the demand for additional tank cars and other pieces of freight equipment.

The result is that it will be necessary to retrofit a large portion of the North American DOT-111 tank car fleet. This will create an opportunity for a revived IRSI and other equipment remanufacturers.

These and other opportunities are being investigated by Mr. Carpenter's Heritage Group, which is working to re-establish the IRSI Moncton facility as a rebuild centre catering to a broad range of customers. It should be noted that the company was unable to pursue opportunities such as these while executing the three VIA contracts because they completely consumed its time, physical and staff resources, and working capital.

A revival of IRSI would also benefit the Canadian railway industry, in general. While there are a handful of small companies capable of doing a limited amount of locomotive and rolling stock maintenance and overhaul, the only company with the broad capabilities that IRSI had developed is CAD, leaving the market sole sourced for now. Having a second reliable, full-service remanufacturer can only aid the rail industry by maintaining a competitive supply industry.

If revived, IRSI will face some stiff, government-assisted competition from CAD. On December 12, 2013, Quebec Premier Pauline Marois announced that her government is investing $6.5 million in public funds from Investissement Quebec to provide the company "with the necessary support to create 273 new jobs." As well, the premier announced that CAD will receive an additional $950,000 from Emploi-Quebec for a workplace training program.

While the bankruptcy and eventual revival of IRSI is a private sector matter, it does have public sector implications. Not only did the company have a direct impact on the economy of Greater Moncton, its efforts affected other municipalities through its use of many New Brunswick suppliers. As the U.S. Department of Commerce and other credible economic agencies have established, investment in rail projects produces a multiplier effect that ripples out through local and regional economies, generally at a rate of $3.00-$4.00 of economic spinoff for every $1.00 invested.

The effect of the $117.3 million VIA equipment renewal program at IRSI, therefore, can be assumed to have stimulated the economies of Greater Moncton and New Brunswick by $350-470 million had it run to completion. At the contract award ceremonies, it was said the LRC and Renaissance projects would create 135 new jobs and 613,000 person-hours of employment. The RDC project would support 31-40 jobs and create 22.5 person-years of employment. In total, IRSI would be employing 240 skilled workers on all three contracts. The impact of the projects on the economy of Atlantic Canada was significant, but it was all lost in the cancellation of the projects.

If the new IRSI wants to establish itself as a high-quality supplier to the North American rail industry and spur the regional economy, the company needs to clear its name. It has not done so to date and this allows questions to linger in the minds of many within the rail industry. IRSI's reputation for excellent craftsmanship has been badly damaged.

However, the failure of these projects has been no credit to VIA, which has never been called upon to publicly explain its actions. The bankruptcy of IRSI has been detrimental to the ongoing operation of Canada's national rail passenger service, which has been in a precarious position for most of its 36-year life. To use a popular phrase, VIA seems to have shot itself in the foot.

The IRSI contract cancellation has extended the delay created by the problems encountered in executing the three projects and resulted in VIA still not getting all the equipment rebuilt for further and, hopefully, more cost-effective service. Completing the job is going to require yet more time and funding, but VIA has not explained how it will do this or if the additional funds will even be made available by the government.

What is required is an open and unbiased analysis of this situation by an authority with access to all the documentation and the people involved. That should be the Auditor General of Canada, Michael Ferguson.

As previously mentioned Chapter 5.3 of this report, there is a way to clear the air on this and other matters concerning VIA's future in Atlantic Canada and throughout the country: a thorough investigation by the Office of the Auditor General (OAG). Every Crown corporation and major government program goes through a five-year cycle of in-depth investigation by the OAG. VIA will be under the microscope this year.

The OAG should be encouraged to investigate the collapse of VIA's fleet renewal program and the bankruptcy of IRSI. As also discussed in Chapter 4.3 of this report, Transport Action has already alerted the OAG to the serious flaws it perceives in VIA's delivery of the CN Kingston Subdivision Project in the Quebec-Windsor Corridor. Encouraging the OAG to conduct similar in-depth investigations of both the reduction in service on the *Ocean* and the bankruptcy of IRSI would be worthwhile for the affected municipalities in New Brunswick.

It will be recalled that it was just such an audit of Marine Atlantic by the OAG that transformed that Crown corporation into a public service that is today considered both highly efficient and effective. There is no reason to believe such an outcome wouldn't result from a similar investigation of VIA by the independent OAG.

This consultant can see no other way these issues will ever be fully and publicly explored on behalf of those who ultimately own VIA, namely the taxpayers of Canada.

REPAIRING THE DAMAGE: At a time when VIA's fleet is crumbling and the railway is finding it difficult to field enough equipment to meet its daily needs, it makes little sense for Industrial Rail's well-equipped Moncton shop and the 240 skilled workers it employed to be sitting idle. This is not in the best interests of VIA, its passengers, the economy of New Brunswick or the taxpayers of Canada.

7.0 Conclusions and Recommendations

While no time is ever a good time to deal with a crisis – and New Brunswick is now facing three within its rail sector – the timing here is fortuitous. For too long, the issue of rail transportation has been ignored by most of our elected officials nationally, provincially and regionally. That seems to be changing rapidly, as the result of some recent high-profile events in railroading that has heightened public, media and political awareness of the growing fragility of our rail system and the policies that underpin it.

The continuing downward spiral of VIA has also received media attention, particularly in Atlantic Canada. Questions are being asked regularly in the House of Commons by several concerned members who have taken the time to investigate the rail passenger situation in Canada and abroad. These, as well as other MPs and senators, are expected to be notching up the rail agenda on Parliament Hill in the coming months.

The timing is also good in that there are winds of change swirling about our federal government, VIA and CN. The biggest and potentially most beneficial change is within the federal cabinet, with the appointment of MP Lisa Raitt as the new minister of transport on July 15, 2013. While she has not, as of this writing, made any bold or broad policy statements on rail, she is known to be actively addressing the tragic consequences of last summer's Lac-Mégantic derailment and explosion. This and several subsequent rail incidents involving dangerous commodities raised serious questions about the state of our rail system and the regulatory and legislative environments in which it operates.

Minister Raitt has the advantage of possessing some useful transportation experience and knowledge. As well, she was born and raised in Cape Breton, where her father served as secretary-treasurer and lead negotiator for the Cape Breton Railway, Transportation and General Workers.

Then, there is the upcoming change-out of VIA senior management, with president Marc Laliberté departing at the beginning of 2014. A recruitment firm is now searching for a replacement, although Ottawa sources report it is proving difficult to find anyone with the required skills who is interested in what one retired Ottawa transportation civil servant describes as "the worst job in North American railroading; the winner always winds up getting hamstrung and then fired."

Nonetheless, the appointment of a new VIA president does bring hope for the erasure of the business style and policies that have typified the current administration of the railway and led to the reduction in the *Ocean's* service levels. The attitudes and approach of the current VIA administration also no doubt contributed to the bankruptcy of IRSI.

In fact, it's difficult to find anything that has been done at VIA in the last four years that has been beneficial to rail passengers, taxpayers or even VIA itself. But there is reason to hope for better under a new management team. The recruitment advertisement for the position appears to suggest that the successful candidate will be an agent of change.

Perhaps the only positive action taken by the outgoing VIA administration has gone largely unnoticed. This was the challenge the corporation launched through the federal regulatory process regarding CP's attempt to deny it proper track access after taxpayers footed the bill for a major upgrading project on a strategic segment of CP's Ontario route network. VIA won that battle and it augers well for the future. It is proof the freight railways do not reign supreme when it comes to their cavalier treatment of passenger trains, rail passengers and the taxpayers who fund the VIA system.

At CN, too, there is some reason for cautious optimism. While current CN president Claude Mongeau hasn't taken any steps to fix the company's reputation as the least co-operative of North America's seven Class I railways in terms of their treatment of the passenger trains that must use their tracks, he is much more sensitive to public, media and political criticism than his predecessor, E. Hunter Harrison.

Faced by a series of recent high-profile derailments involving dangerous commodities, Mr. Mongeau has even more reason to be concerned about CN's public image, especially since there has been much talk in Ottawa – even among pro-business western Conservative MPs – about introducing new regulations dealing with rail safety and shippers' rights.

RENEW IT OR LOSE IT: The Newcastle Subdivision cannot survive for long in its present condition. The line must be renewed soon, especially the 60-mile section between Rogersville and Bathurst, which desperately needs new continuous welded rail (shown above), new ties, deeper ballast and bridge repairs. Whether under CN or public ownership, the public's interest and investment must be fully protected to prevent a repeat of the current CN abandonment threat.

Being portrayed as an uncaring corporation playing hardball with VIA or attempting to wring the maximum financial benefits out of a taxpayer-funded initiative to save the Newcastle Subdivision would not be good for CN's image at this time.

There is also the in-depth investigation to which VIA is going to be subjected by the Office of the Auditor General (OAG) this year. That opens the door for the discovery of many of the problems outlined in this report that are affecting rail passenger service in Atlantic Canada and across the nation.

Finally, there is the increasing media coverage of the positive steps being taken by the federal and several state governments to improve the U.S. rail passenger and freight systems. While this revival will be a long and complicated process fraught with partisan political battles, it still stands in stark contrast with Canada. The realization in the U.S. is that the nation cannot compete globally against others that are investing heavily in rail improvements and expansion. Thanks to media reports, this is now becoming known to the Canadian public and questions are being asked.

To borrow from Bombardier's pro-rail website, "The climate is right for trains." However, that climate needs to improve drastically in Canada – and soon.

7.1 Key Recommendations

There are major issues that must be dealt with by multiple parties – the federal and provincial governments, VIA, CN and others – if the three serious situations confronting railroading in New Brunswick are to be resolved before they become irreversible. In the order in which they have been dealt with in this report, they are:

7.1.1 CN Newcastle Subdivision

- Rehabilitation cost estimates should be verified by a third party.
- Examine ownership and operational alternatives, including ownership by the federal and/or provincial governments, with operation contracted out to an experienced short line company.
- Examine the possible redirection of federal funds earmarked for the delayed Shining Waters Railway project in Peterborough – before they expire.
- Ensure a public ownership stake in recognition of government expenditures to protect the taxpayers' investment.
- Consider the establishment of a freight car pool for forest products shippers.

A RAILWAY NO MORE: Difficult as it may be to believe a strategic transportation corridor such as CN's Newcastle Subdivision could be scrapped, other equally-important main lines have vanished because of changing corporate priorities and a lack of political and public opposition. A prime example is CP's route up the Ottawa Valley, which is shown here being dismantled in 2012. The CP line's abandonment should serve as a grim reminder that the same fate awaits the Newcastle Subdivision if action isn't taken now. Photo by Ray Farand

7.1.2 VIA Rail Canada Passenger Service

- Re-routing passenger trains to the CN line through Edmundston is not an option. Such a move would abandon the communities that need and use the service the most, and run the train through an area with no significant revenue potential, resulting in a major economic loss to VIA.

- A daily passenger train better meets the public need, offers greater potential to build ridership, results in better equipment and crew utilization, and promises reduced subsidy requirement per passenger-mile – in other words better value for the taxpayers' dollar. The *Ocean* should be returned to daily frequency as quickly as possible.

- VIA should make maximum use of its most durable, reliable and flexible equipment – the rebuilt Budd stainless steel passenger cars – and reduce or eliminate the use of the high-maintenance and unreliable Renaissance equipment presently employed on the *Ocean*.

- VIA should consider using its recently rebuilt Budd rail diesel cars (RDCs) between Moncton and Campbellton to augment service until such time as the *Ocean* can be returned to daily operation.

- Transfer rail stations outside VIA's major terminal points to municipal ownership, as is the case in many smaller towns and cities throughout the U.S.

- Promote better integrated and co-ordinated operation between VIA and Maritime Bus services.

- Introduce the long-delayed act of Parliament to properly establish VIA as a full Crown corporation with a clearly defined mandate, rights and obligations, supported by stable year-to-year funding, and reconstitute its board of directors to include expertise in rail operations and passenger transportation.

- Develop a long-term plan to re-equip VIA with modern, functional, comfortable and cost-efficient rolling stock.

7.1.3 Reviving Industrial Rail Services

- Given that VIA is lacking in new equipment and has an urgent need for the refurbishment of its aging and unreliable rolling stock, and that the facilities and expertise to accomplish this exist in Moncton, the minister of transport should initiate a process to restore a productive business relationship between VIA and the owners of Industrial Rail Services.

- Recognizing that the bankruptcy of Industrial Rail Services absorbed a large amount of public money, but failed to achieve the desired objective for VIA, as a result of missteps by both parties, a thorough investigation should be undertaken to identify what went wrong, and implement safeguards to prevent a recurrence of this type of unfortunate situation.

7.2 A Critical Role for Municipalities

While municipalities have little official power to bring about changes in Canada's rail freight and rail passenger industries, they are far from being unconcerned or without influence, as the commissioning of this report demonstrates. They can and should exercise this influence to bring about the changes in the current New Brunswick railway sector that will be beneficial to the citizens they represent.

In lockstep with the broader recommendations offered above for other stakeholders, there are three main courses of action the municipalities can pursue in assisting to resolve the challenges now confronting Atlantic Canada and its rail sector.

RESTORING A MARITIME ICON: While the long-term objective should be the restoration of the *Ocean* to daily service and its re-equipping with modern, bi-level rolling stock, there are several interim steps that should be taken. Chief among these is the replacement of the inadequate and unreliable Renaissance equipment with the more popular and efficient Budd rolling stock that was formerly used on the train. Photo by Ray Farand

7.2.1 CN's Newcastle Subdivision

The Strategic Rail Assets Committee that is now attempting to produce a solution that will preserve the CN Newcastle Subdivision does not fully represent the interests of all the stakeholders. The municipalities from Moncton to Campbellton are just as much stakeholders as CN, VIA and the two upper levels of government, and as such should be more intimately involved in the process. There are many questions to be answered before any proposal by CN to repair the line at public cost under its continued ownership should be seriously entertained.

Therefore, it is recommended that the municipalities, their economic development agencies, Enterprise Greater Moncton and the affected shippers:

- Request a meeting with the Strategic Rail Assets Committee for an update on their work and ongoing inclusion in the development of a solution that will retain and upgrade CN's Newcastle Subdivision;

- Request that the committee hire an independent rail engineering firm to investigate and deliver an objective report on the condition of the line;

- Request that, in addition to any costing produced by CN regarding the rehabilitation of the line to the required state of good repair, alternate quotes be obtained from independent contractors; and

- Request that a study be undertaken to determine if it would be preferable to have the line purchased and/or transferred to federal and/or provincial ownership for continued operation as a short line railway, similar to the approaches that have been taken in the Gaspé, Maine and other jurisdictions.

7.2.2 VIA Rail Canada Passenger Service

While some municipalities on the route of VIA's reduced *Ocean* have voiced their views through municipal council resolutions, there are other methods by which they can make their views known on behalf of the citizens they represent. The time to do so is now.

Therefore, it is recommended that the municipalities:

- Pass resolutions calling on the federal government to prepare a plan to restore the *Ocean* to daily service and, in the interim, provide daily service over the Moncton-Campbellton route segment following a plan similar to the one outlined in this report to make use of VIA's available Budd RDCs;

- Make a direct approach to Minister of Transport Lisa Raitt to make her fully aware of the impact of the reduction in the *Ocean's* frequency and the need for quick corrective action by VIA;

- Suggest to the minister that an effective first step in the renewal of VIA would be the appointment of former Amtrak president and Cape Breton resident David Gunn to the board of directors;

- Call on the minister of transport and VIA to thoroughly investigate the advantages in transferring ownership of its stations to the municipalities;

- Request that VIA form a consultation committee to allow for municipal input into its corporate planning;

- Request an in-depth investigation of the cuts to the *Ocean* as part of the audit process to which VIA is subjected by the Office of the Auditor General; and

- Encourage the Federation of Canadian Municipalities (FCM) to step up its efforts to make VIA a major concern with the appropriate federal cabinet ministers.

On this last point, the federal government should be reminded the FCM represents more than 2,000 communities nationwide. The relentless service and funding reductions that have characterized VIA since its inception in 1977 are having a negative economic, social and environmental effect on many. The firsthand observations and representations of these cities and towns should assist in shaping any government plan to maintain, revive and expand Canada's national rail passenger service.

7.2.3 Reviving Industrial Rail Services

Hope remains that Industrial Rail Services can be successfully revived as a competitive, long-term player in the equipment remanufacturing sector of the North American rail industry. Tempered by its experience with VIA and with a clearer view of the challenges of a very unpredictable niche market with slim profit margins, the new Industrial Rail Services could play a specialized and welcome role in New Brunswick's economy.

Questions still need to be answered about how the company could have collapsed and what needs to be done to get it rolling again. Although some may regard this as purely a private sector matter, it is not. It involves the conduct of a seemingly unaccountable Crown corporation, the effect its actions are having on our passenger railway's future, and the dubious expenditure of a large amount of public funding.

As the provider of VIA's annual operating funds, Transport Canada should have a long-term stake in the operation of Industrial Rail Services. The company is one of only a few Canadian firms capable of providing heavy repair work for VIA.

The need for a cost-competitive re-manufacturing contractor will become more urgent as VIA struggles to maintain a safe, reliable fleet. It is apparent that VIA's ability to meet its daily equipment needs is deteriorating rapidly as it grapples with a massive backlog of deferred maintenance and an absence of a fleet renewal plan.

Therefore, it is recommended that the municipalities:

- Request that the minister of transport initiate a process to bring IRSI and VIA back to the table for a full and frank discussion of the situation that led to the company's collapse with a view to reconstructing the fractured business relationship and resuming the remanufacturing of rolling stock in Moncton; and

- Contact the Office of the Auditor General to request a full investigation of the IRSI situation – as well as the serious reduction in the service level of VIA's *Ocean* referenced in Chapter 5.2 of this report – as part of its periodic audit of VIA's activities and finances.

The clock is ticking on all three of these vital aspects of New Brunswick's rail sector. The time for action by all levels of government is now. By taking the actions recommended above, the municipalities that have funded this report – and others – can play an important role in making that happen.

Attachment A

About the Consultant: Greg Gormick

The CTV program, *W5*, described Greg Gormick as a Toronto consultant "with a client list that reads like a *Who's Who* of Canadian transportation."

Gormick is a member of the fourth generation of his family to serve Canada's railways. He has worked as a writer, researcher, strategic analyst and policy adviser in the railway and transit fields since his 1978 graduation from Ryerson University's School of Journalism. He has reported on, for and to these industries extensively and has contributed his knowledge to numerous public agencies and officials connected with them.

The basis of Gormick's expertise is a solid grounding in real-world operations, planning and policy, gained from those veterans of the rail and transit industries who have tutored him throughout his career. His affiliation with these professionals results from frequent and lengthy assignments with such industry leaders as CP, CN, VIA Rail Canada, the Toronto Transit Commission, GM's Diesel Division, Bombardier, Skoda and Siemens, as well as numerous short line railway operators.

As a reporter and commentator, Gormick has used his experience to inform the public and the media on transportation initiatives and opportunities, particularly through work for *The Toronto Star* and the Canadian Broadcasting Corporation. For 21 years, he was the Canadian contributing editor of the trade magazine, *Railway Age*, and wrote their *Passenger Rail Planner's Guide*, an annual review of every rail passenger and transit system in North America.

In the public sector, Gormick's clients have included Toronto Mayor Art Eggleton, Toronto City Council, various Government of Ontario ministries and the Coalition of Corridor Mayors.

At the federal level, Gormick has served as a transportation policy adviser to MPs Dean Del Mastro (Peterborough), Mike Sullivan (York South-Weston), Phil Toone (Gaspésie-Îles-de-la-Madelaine) and Bruce Hyer (Thunder Bay-Superior North). For Del Mastro, he created the concept plan for the restoration of the Toronto-Peterborough rail passenger service.

As well, Gormick is the author of *Wheels of Progress: Toronto Moves by Rail*. Among his current book projects are *No Way to Run a Railroad: The VIA Rail Canada Story* and *The Canadian: The Life and Times of the Last Streamliner*.

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Attachment B

Transport Action Ontario

P.O. Box #6418, Station "A"

Toronto ON M5W 1X3

Tel: 416-504-3934

December 19, 2012

Mr. Michael Ferguson, FCA
Auditor General of Canada
240 Sparks Street
Ottawa, Ontario
K1A 0A6

Re: VIA Rail Canada Capital Investment Program

Dear Mr. Ferguson:

On behalf of the Transport Action Ontario, I am submitting the following request for an investigation by your office. We believe this is an urgent matter that requires a full and independent examination at your earliest opportunity in the interests of the taxpayers and the rail passengers of Canada.

Transport Action Ontario has advocated on behalf of sustainable public transportation for over 30 years. In particular we have advocated on behalf of rail passenger users in Ontario to expand intercity rail service, commuter rail, and public transit with the aim to enhance mobility by less dependence on private automobile use.

The contents of the letter below, and the rest of this brief may already have been received by your office, in particular a submission from Mr. Harry Gow, and from the National Dream Renewed campaign of Transport Action Canada (TAC). We are writing as a regional affiliate of TAC in order to underscore that the issues raised below are a concern of a broad range of people across the country, specifically for our organization, residents of Ontario.

Background

In 2009, the current federal government authorized $923 million in funding for VIA through its Economic Action Plan and VIA's Capital Investment Program (CIP). This combined funding was allegedly designed to strategically and cost-effectively renew and upgrade multiple aspects of VIA's assets and services. The program's benefits were supposedly intended to be realized across the national rail passenger system, covering everything from fleet remanufacturing to station and rolling stock accessibility upgrades to service frequency increases in its largest markets.

A major aspect of VIA's much-delayed CIP is the $501.4 million investment in the CN, CP and VIA subdivisions over which the Quebec-Windsor Corridor passenger trains operate. The largest and most vital element of this corridor project is focused on CN's Kingston Subdivision, which hosts VIA's Toronto-Ottawa, Toronto-Montreal and Ottawa-Montreal trains over portions of its length.

The Kingston Subdivision Project includes 41 miles of new third main line track, signal upgrades, grade crossing improvements, station and platform reconstructions, and realignment or expansion of certain yard trackage and sidings for the benefit of CN freight operations. The overall objective is to eliminate the pinch points and conflicts with CN freight trains that restrict VIA's speeds, running times and capacity.

The VIA media release and backgrounder on the Kingston Subdivision Project from 2009 are available on the company's website at:

http://www.viarail.ca/en/about-via-rail/media-room/latest-news/62141/16-july-2009-government-canada-and-via-rail-canada-launc

http://www.viarail.ca/sites/all/files/media/pdfs/About_VIA/our-company/media-room/backgrounders/BK090716E%20-%20VIA%20Kingston%20Sub%20Backgrounder.pdf

Originally, there were eight capacity expansion sub-projects on the CN Kingston Subdivision that involved major upgrading and track additions. This was later reduced to five. From east to west, the five remaining projects are:

- Coteau Junction and Sidings
- Gananoque Passing Track
- Marysville Passing Track, Junction and Sidings (Belleville)
- Grafton Passing Track (Cobourg)
- Clarke Passing Track (Oshawa)

Four of these remaining five sub-projects are progressing, although seriously overdue and over budget. The one that is not moving forward at all is at Coteau. It is, in fact, stalled due to CN's unwillingness to continue under the agreements and understandings VIA believed it had reached with the freight railway prior to the announcement of the CIP.

CN Coteau Freight Yard Issue

Coteau is the junction of the CN Kingston and Alexandria subdivisions. The former hosts VIA's Toronto-Montreal trains, and the latter is the route of VIA's Ottawa-Montreal trains. It is also the location of what had until recently been a minor CN freight yard, which is located on the south side of the double-track Kingston Subdivision.

However, CN has made changes to its Montreal area freight operations, reducing or eliminating some of its yard capacity and shifting some of the activity from these yards to Coteau. A factor in this change has been CN's desire to free up the land occupied by these Montreal yards for profitable real estate development.

As a result, CN is now jealously guarding its Coteau Yard and the main line trackage that feeds it. CN is demanding that VIA fund the construction of an expanded yard and highway grade separation at Coteau in exchange for increased Toronto-Montreal and Ottawa-Montreal passenger service. This could cost as much as $125 million.

The plans for Coteau under the VIA-CN agreement covering the Kingston Subdivision Project were already altered once before at CN's insistence at the beginning of the project in 2009. In 2011, a revised track schematic appeared on the section of VIA's website dealing with the Kingston Subdivision Project. It has since been removed, as has the backgrounder on that aspect of the project.

VIA's Response

Failing to get CN to back down on its demands, VIA has temporarily set aside the Coteau project, even though it is one of the keystones of the entire investment plan. This is having a major impact on the planned frequency and running time improvements, not to mention delaying or even permanently preventing the attainment of the ridership and revenue targets used to justify the entire VIA CIP. CN allowed for the addition of one new Toronto-Ottawa express frequency in January, 2012, which covers the route in 4 hours and 37 minutes.

One additional roundtrip frequency on each of the Toronto-Ottawa and Montreal-Ottawa routes will be inaugurated on December 10, 2012. Trains on the Toronto-Ottawa route, of course, don't have to pass through Coteau and the Montreal-Ottawa trains skirt the east end of the yard.

However, CN is balking at allowing VIA to add more trains on the Toronto-Montreal run as originally agreed upon. To allegedly compensate for its inability to introduce additional direct Toronto-Montreal service, VIA is through-routing some of its Toronto-Ottawa and Ottawa-Montreal trains to provide a very slow and indirect Toronto-Montreal service. The fastest of these trains takes 6 hours and the slowest requires 6 hours and 48 minutes.

This is hardly competitive with the faster Toronto-Montreal direct route. VIA actually dropped one direct Toronto-Montreal frequency when the new timetable was introduced on January 24, 2012.

With the plethora of air services available on the Toronto-Montreal route – especially the frequent Porter departures and arrivals at Toronto City Centre Airport – this is far from a modally competitive service.

VIA has kept all of this quite private. Our inside sources report that VIA doesn't want to fight openly with CN over the Coteau issue because the corporation fears the freight railway will retaliate by treating the passenger trains badly out on the road. VIA's on-time performance has improved recently, and the company believes CN could and would damage this through train dispatching favouring its own freight trains over VIA's trains.

CN's Anti-Passenger Tactics

VIA has good reason to fear CN. Despite comments by its current president, Claude Mongeau, that CN wants to be a valued service provider to VIA, the truth is far from that. Both before and after its 1995 privatization, CN was making comments about how it would prefer to not have to accommodate VIA's passenger services. This hostility reached its peak under CN's previous president, Hunter Harrison, who was and remains fundamentally opposed to rail passenger service.

VIA possesses few powers to deal with such interference and lack of accommodation. Most of its operating rights vis-à-vis the freight railways were stripped away by the Liberal government of Jean Chretien, when CN was being prepared for sale and the government of the day wanted to remove as many restrictions and responsibilities from the Crown corporation to boost its attractiveness to potential investors.

There is reason to believe CN is banking on the current, business-oriented federal government to not do anything to interfere with the affairs of a private corporation.

CN also has a track record of wringing the maximum amount of funding out of the public sector, all the while saying that it is being co-operative with passenger operators and that it doesn't desire any public investment in its freight infrastructure, which might lead to government oversight of these investments. There seems to be little or no oversight when it comes to investments made through VIA that have multiple benefits for CN's freight operations.

Furthermore, CN has a long history of not co-operating with passenger operators. Some have labeled CN the least co-operative of all the seven Class I railways in North America. A prime example of this anti-passenger stance is the petition Amtrak has brought against CN before the U. S. Surface Transportation Board requesting "the initiation of an investigation of substandard performance."

In the petition, Amtrak states:

"Amtrak's passenger service has long been hindered by the choices and actions of CN. The performance of Amtrak trains operating over CN's rail lines has consistently fallen short of both the standards developed pursuant to Section 207 of the *Passenger Rail Investment and Improvement Act* and the performance of Amtrak trains on every other Class I host railroad in the country.

"These performance deficiencies have been caused, in large part, by (1) CN's pattern and practice of prioritizing freight trains over Amtrak passenger trains, in violation of Amtrak's statutory preference rights, and (2) CN's failure to implement and/or enforce operational procedures that would minimize delays to Amtrak passenger trains.

"Changes in CN's practices and operations would significantly improve Amtrak's on-time performance and reduce CN-responsible delays to Amtrak trains. But despite repeated reasonable requests from Amtrak, CN has failed to acknowledge its responsibilities to Amtrak and has refused to adopt measures necessary to satisfy the standards developed pursuant to Section 207."

This matter is now before a mediator. The materials covering this case are available from the U.S. Surface Transportation Board (http://www.stb.dot.gov/stb/index.html).

It should be noted this is not the first time Amtrak has challenged CN's performance. Amtrak has also taken such action against other railways throughout its 41-year history. This is a right contained in Amtrak's enabling legislation and the subsequent acts covering its operation, such as the current U.S. government's *Passenger Rail Investment and Improvement Act*. VIA possesses no such rights.

In contrast with this slipshod performance by CN, it is worth noting that CP is one of Amtrak's best service providers and is frequently praised for its superior performance. CP has chosen to deliver fully on its contracts with all of its passenger clients, while CN has not. It is a corporate choice.

Conclusions

Without some serious intervention, the Coteau issue shows little prospect of positive resolution. If the matter is not resolved in VIA's favour, then a large portion of its service improvement plan will be unrealized. VIA's long-range plans for service expansion originally called for an increase to 10 Toronto-Montreal roundtrips daily, nine Toronto-Ottawa roundtrips and 10 Ottawa-Montreal roundtrips.

If CN's intransigence prevents VIA from implementing these services due to the Coteau issue, this will seriously affect the ridership and revenue targets that helped justify the investment program in the first place. This could throw into question this government's investment in VIA's modernization and revitalization.

Unchecked, this situation could have a devastating effect on VIA's future and play into the hands of those who oppose the maintenance of a publicly-funded national rail passenger service.

Therefore, the members of Transport Action Ontario request that you investigate this serious matter in public financing and publicly-funded passenger transportation at your earliest opportunity. CN has been a big beneficiary, but there has been little or no benefit to the taxpayers.

Should you require more detail, we are ready to provide your staff with further factual and anecdotal information, as well as contacts within the rail passenger industry who can and will verify this shocking abuse of public funds by a Crown corporation that seems all too willing to dance to the tune of a private, for-profit corporation that appears to be trampling the public interest.

We respectfully await your response.

Yours sincerely,

Tony Turrittin,
Vice-President,
Transport Action Ontario.
(turritti@yorku.ca)

Hardt Enterprises Inc. / SEMA

Joint Report

AUGUST 4

July 20, 2011

Mr. John Marginson
VIA Rail Canada Inc.
3 Place Ville-Marie
Ste. 500
Montreal, Quebec
H3B 2C9

Subject: IRSI Briefing Paper

Allow us a moment to express our appreciation to you and your colleagues for the opportunity to research and convey our views on IRSI as it relates to VIA's multiple overhaul contracts.

Over the past month we conducted an extensive review of IRSI through multiple visits and tours and document reviews (RFP, contract, organizational, commercial, work flows, QA procedures, change orders, claims, to name a few). Further, we had the opportunity to engage in much discussion with all related parties inclusive of one-on-one department head chats.

The following are our findings as they relate to the areas that you requested specific focus and insight on (refer to section 7).

1. Assessment of physical installations with recommendations (if any) for improvement:

History

The shop was purchased by IRSI from CN and it consists of an old locomotive repair facility (see schematic) with 2 through tracks (tracks 1 and 10 – one equipped with a drop table) and 16 work bays that are stub end. The central portion of the building houses offices and material storage space. The layout of the existing facility when IRSI bid on the VIA contracts was not conducive to line work due to the presence of stub end work bays.

In our discussions with IRSI, it became evident that during the bidding process, and early in the contract period, they were struggling with the logistics of how to organize the existing facility and introduce the infrastructure upgrades required to optimize their production and minimize the through-put of cars to be repaired.

Through discussions and involvement of outside consultants (David Gunn), they were finally able to plan a layout for the new facilities required. The planning, financing and execution of the work required to complete the new additions did however take more time than initially expected which impacted the start up and optimization of production. Initial completion dates for the infrastructure upgrades were to be within the first year of the contract (November 2009) however, the final completion was not until late in 2010.

Infrastructure upgrades required were as follows:

- Exterior 480 volts wayside power
- Interior 480 volts wayside power
- Shop air supply and distribution
- Independent test area
- Track upgrades
- Car stripping booth
- Preparation and paint facility
- Blast booth
- Wash bay

Our visits of the facilities and infrastructure upgrades, particularly the paint booth, stripping booth and blast booth allowed us to determine that the

upgrades are very impressive and are clearly indicative of the investment commitment of IRSI so far in the project.

Today

As of today, the final layout of the complete facilities is outlined in the attached schematic. This schematic also shows the major work stations in the shop area.

The existing shop facility has limited material storage and warehousing capacity on site. In order to mitigate this warehousing shortfall, IRSI have lease/purchased 2 warehouses located on Edinburgh Drive, approximately 7 km from the shop facilities.

The first facility presently houses the majority of the bulk inventory components purchased by VIA. The second facility houses the VIA bulk inventory components that require a climate controlled environment. This facility will also serve as the central point for reception of material from internal and external suppliers which will then be kitted based on the production needs for the various work stages (on a per car basis) and subsequently trucked to the shop, on an as required basis.

We were also able to visit Heritage Textiles (one of Mr. Carpenter's businesses) which will be producing the textiles to be used as seat covering for the LRC cars. Since room is available at this facility, IRSI also chose to have the work associated with reassembling LRC seats as well as baggage bin repairs undertaken at Heritage Textiles. This facility is located approximately 12 km from the warehousing where staging will be undertaken.

Observations

Our observations regarding the facilities at IRSI's disposal to complete the contract work are as follows:

1) Shop layout:

   The layout of the shop forces stall work which will require a minimum of 8 shunts per car to move the cars from stripping, to wash, to blast, to structural repairs, to paint, to reassembling and finally to the test area. This shunting has to be executed on a network of approximately 25 tracks and turnouts in the yard, as opposed to simply advancing the cars on a line in line type work.

This creates a significant bottleneck which will require good planning in order to minimize potential impacts to production.

As it stands, IRSI presently have a fleet of RDC units which are stored on the shop tracks. This significantly complicates and delays the above mentioned shunting requirements. They have been advised that it would be necessary to relocate these units in order to minimize their impact on switching moves, particularly when they ramp up production.

As well, given that the ease of execution of switching moves are so important in the existing flow of cars, during the various phases of production, it will become extremely important that all efforts are made to minimize any impact from external sources which could have an impact on delaying the switching. The most obvious of potential impact from sources out of IRSI's immediate control is related to weather conditions (snowfalls). Snow clearing activities will have to be efficiently planned with sufficient resources to minimize the impact on production delays.

IRSI's managers are also well aware that switching moves should be undertaken during periods that will not affect production and that this should be executed during off shift hours.

2) Warehousing and kitting:

Since IRSI's existing shop has limited storage space for the required quantities of material to undertake a major rehabilitation program, they have planned a kitting process at one of the offsite warehouse, which in essence is the best way to control the logistics of material flow for production.

The coordination of material for kitting, particularly as it pertains to on time reception of materials from suppliers as well as the logistics involved in moving the kits from the staging warehouse to the shop is critical to ensuring there is little impact on production.

These elements will prove to be challenging for IRSI's management team which should not be taken lightly. IRSI will have to be aggressive in their relationship with their suppliers in order to ensure that they will be able to deliver as per IRSI's supply chain requirements.

Although the distance between the staging warehouse and the shop is not that great (7 km), it is quite possible that easy access could be hindered by the fact that the shop is located in a fairly active rail yard and deliveries could be blocked by CN's switching activities.

Potential improvements

Presently, with the existing shop layout and installations, car stripping activities are undertaken at two different locations. This is due to the fact that undercarriage stripping (trucks etc) are undertaken where IRSI's drop table is located and all other stripping activities are undertaken in the newly built stripping booth. The stripping booth has been built with jacking pads to enable car jacking if required. If the stripping facility was equipped with appropriate lifting jacks, this would enable all stripping activities to be undertaken at one location which would reduce the need for car moves and reduce through-put times.

As well, if warehouse space was available on site for storing material and kitting, this would greatly reduce operating costs associated with the logistics of moving material.

The above mentioned improvements would require additional capital investments which would need to be examined versus their potential benefits to see if they would be warranted.

Finally, with respect to the existing infrastructure, although there are shortfalls that make working with the facilities in place challenging, we are of the opinion that these facilities are not in itself an insurmountable obstacle that will not allow IRSI to successfully complete their contractual obligations.

2. Assessment of work flows in the shop with recommendations:

History

Before being awarded the LRC fleet rehabilitation contract, IRSI had little experience in undertaking major rehabilitation work projects. This has resulted in a very steep learning curve associated with establishing a sound production plan.

Their efforts were in the early stages concentrated on Engineering activities and establishing sound work procedures. Their lack of experience made it difficult to realize the importance of working through a sound operating plan in parallel with the engineering activities.

Today

Since April of this year, IRSI has been successful in acquiring the services of a consultant (Bud Simpson) that has brought forth many improvements in IRSI's organization of the shop work procedures which will accelerate the flow of work in the shop. Some of the major improvements brought forth are as follows (in no specific order):

1) The implementation of a daily stand up meeting coordinated by the Production Manager and targeted to last 15 minutes where Engineering, QA, shop supervisors, General Manager and Assistant General Manager attend. The objective is to review where production stands and address issues which arise.
2) Material availability: The addition of a material planner to ensure material is on hand for shop forces as opposed to shop forces having to run after material. The introduction of a two bin material system on the shop floor for common hardware to be readily available for work forces. Making consumables available to supervisors (locker) to facilitate work continuity.
3) The writing of clear work instructions that can easily be understood by shop forces (as opposed to harder to understand engineering work procedures) which are available and accessible on the shop floor.
4) The establishment of a second work shift required to ramp up production to levels that will enable completing the project in a timely manner. Hiring is in process and the second shift has been implemented by splitting up the current employees. Once the new hires become available, they will be phased in on both shifts so as to reduce the impact on training.

5) The identification and hiring of 2 additional supervisors to ensure the efficiency of the second shift.
6) The purchase of additional tools that will accelerate work procedures.
7) The hiring of floating staff to minimize the impact of having to reassign work forces as issues arise.
8) The implementation of a walk about philosophy within management to ensure work procedures are fully understood and adhered to and to hold workers accountable for the work they are undertaking.
9) The implementation of more defined work stations specific to work activities (example: in car, under car, mechanical, electrical etc).
10) The introduction of changes within the various work areas, particularly the stripping facility where emphasis was put on the importance of properly pre washing, sorting, evaluating the condition and classifying the various components coming off the cars.
11) The monitoring of one car (car 3331) "from cradle to grave" to establish timing required for the various stages of work and establish measures for future monitoring of scheduled work.
12) The implementation of better QA process where workforces signoff on work procedures and all involved in the process (Lead Hands, Supervisors, Production Manager) understand the importance and take on the responsibility of verifying the work has been done properly.
13) The implementation of hold points for joint inspections with VIA to minimize having to redo work in less than ideal conditions (i.e when work is covered up) once work is completed.

Observations:

It is evident by the multiple changes in IRSI organizational structure as well as the associated changes in responsibilities over the first few years of the contract that IRSI management were not organized or equipped to face the enormous challenge associated with successfully being awarded the contract for major rehabilitation of VIA's car fleet.

The arrival of their consultant has had an enormous positive effect in stabilizing the situation and implementing a much needed direction towards establishing an efficient plan that will enable them to deliver on their contractual obligations.

Although they have made significant progress since April, they are still on the learning curve with respect to many of the above mentioned implementations or improvements. They will need to have a continued focus to ensure that they reap the full benefits of the changes made.

Their consultant's presence is therefore required for some time yet as many of IRSI's management team have little experience. Most of them however, have an extreme desire to see this project through to a successful completion.

We do however feel that there is a risk associated with the premature departure of their consultant in that IRSI would not have the experience required to adequately foresee any major issues that might be looming that could negatively impact the outcome of the project and that they might have difficulty in adequately reacting to these potential issues.

Finally, with respect to the work flows in the shop, we feel that IRSI has made significant progress over the last few months and will continue to do so over the next few months as the full benefits of the above-mentioned improvements take place.

Their recent actions related to hiring additional employees to staff up a second shift is fully indicative of their commitment to attain the projected delivery deadlines and deliver a quality product. Their performance versus their target deliveries over the next few months will be crucial in fine tuning their plans so far, however, they have indicated that they are considering adding personnel towards the end of the project to potentially staff up a third production shift if need be.

3. Assessment of organizational structures, staffing and lines of communication (formal and informal) of both companies and recommendations:

History

Although our review did not focus on the slightly more than two years of water that have gone under the bridge since contract award, the many challenges over this period did surface several times (refer to section 7).

It is our opinion that at the time of RFP bidding, contract award, change order negotiations and start-up, IRSI were naive to the magnitude of the tasks that lie ahead and further were ill equipped to embrace them. Their learning curve was steep and as a result the organization structure, size, talent, and ability changed frequently. The good news is that, as they became aware of the width, breadth, scope and depth of what was required to deliver on the contracts (primarily the LRC contract) they adjusted to embrace the need and challenge.

Today

Purchasing/Materials

This is a key activity and thus vital to ongoing vehicle through-put to meet schedule. They currently have good control of their and your inventory both in storage and quantity with 20 car sets of material on hand. They are weak in configuration control (revision levels, retrofit status etc) and vendor management and accountability. Although new staff in logistics are being added, this department requires experienced resources and an unwavering focus on ensuring that all material is at station when needed.

Engineering

We feel that a lot of the heavy lifting for this department may well be behind them. Today there is still a focus on quotations, change requests, one-off occurrences and follow up to previously tabled issues, all well within the capabilities of the team.

The focus should be, in our opinion, on methods. This is a dual engineering role and given the extensive future vehicle through-put required, a push on how to be more labour and task efficient is critical. From what we have seen, their engineering expertise related to this type of vehicle refurbishing work is quite good.

As an aside, key members of this department are very rigid and vocal on their view as to how weak the RFP/spec may have been, how incomplete the prototype vehicle is/was and how difficult the climb has been to address the ever moving vehicle configuration requirements.

Quality Assurance

This department clearly understands its role and has the knowledge to evolve a culture of quality throughout the workforce. They are late in creating the vehicle log books (now installed at the end of each coach) and several other workmanship standards, quality procedures and sign-off requirements but they are on it now and fully committed. The performance reliability in service of the first returned vehicle and the significant reduction in snags from vehicle one to four supports the aforementioned.

Production

Much has improved in the shop in all areas since the arrival in April 2011 of Bud Simpson and the presence of Steve Sewell since March 2010.

Today, production is supported and enhanced through defined work stations, parts arrival and a two bin system, consumable locations and new and more tools. A planner/scheduler is in place with shop manager, lead hands and supervisors across two shifts. This team do shop walk-arounds, hold stand up meetings, have a visibility centre and war room. There is the feeling of accountability and slowly morale is improving and team spirit which drives productivity and quality (team BBQ's, photos, T-shirts).

They remain under staffed but this is being addressed (refer to HR section).

Human Resources

Once again, this department is working very hard to keep up with the rapid growth following the realization of what it takes to deliver on a $100 million contract.

The expertise in the department appear capable to tackle the mountain that lies ahead but size restricts speed and only the hot and top priority issues can be dealt with, but a sense of urgency certainly exists. The recent job fair (refer to attached news articles section 8) drew approximately 300 participants and resumes. The team hopes to close on 50 new hires, in place by early August for assignment across both shifts in disciplines ranging from welders, plumbers, fitters, CNC operators, testers, electricians etc. It is the view of the HR champions that within greater Moncton there exists enough mature and talented people to support their needs. There are many things still missing including computer training for shop floor members, a staff performance/management formal program, an awareness of possible Union campaign, ongoing leadership training, the presence of a KPI board, absenteeism control etc, however, of most importance is the launch and programs surrounding work safety and a safe work place culture, which is still lacking.

Lines of Communication

In addition to the meetings and discussions held with many IRSI team members, we did chat formally and informally with several VIA members.

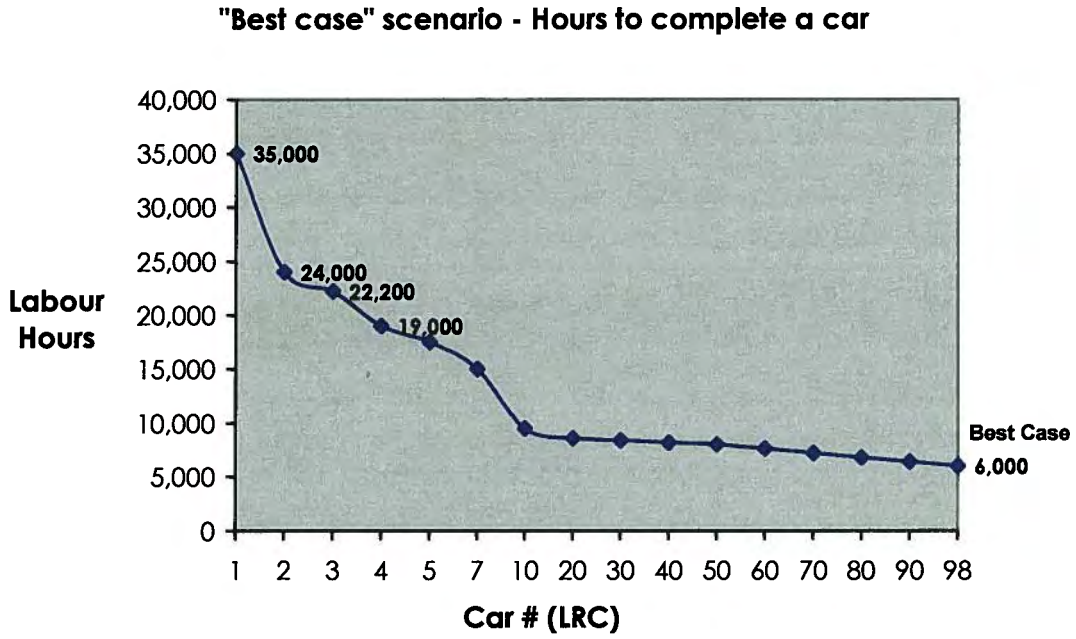
Our conclusion and possible impact on the project is conveyed in the next section under "observations".

The overriding issue here is that certain personalities, key to both parties, do not get along, cannot interface together and as such, this friction impacts progress.

4. Any personal observations felt pertinent by the consultants to improve scheduled car deliveries – with particular focus on the LRC Rebuild Project:

Throughout this report you have or will read about our research findings as they pertain to IRSI's evolution and current, relatively positive position to tackle the work ahead. We convey areas of risk and those needing improvement and those not to lose sleep over. The one key, if not pivotal, area that could have a determining factor on the outcome and longevity of this contract is the relationship between the VIA on-site team and the key members of the IRSI executive and work team. Whether the over two years of frustration, missed dates and promises, slow growth and progress is a key contributor, or whether there is a firm (perhaps not factual) belief by both supplier and customer that they have conceded, given, accepted and bent over backwards in support of the other over this period, the end result is that the communication is poor and the relationship is seriously strained. Perhaps this has been recognized and thus the creation of the "Steering Committee", although we see no evidence that the Steering Committee's existence has improved the working relationship. As we all know, it takes two to tango and we offer no opinion as to cause, rather that this must be addressed for the project to have any hope of an on time delivery going forward.

5. Assessment of the "best case" scenario for hours to complete a car (once off a learning curve) leading to projected cost and time to complete the LRC Rebuild Project:



Production Hours

LRC car # 1, 3315 was completed with approximately 35,000 direct labour hours.
LRC car # 2, 3317 was completed with approximately 24,000 direct labour hours.
LRC car # 3, 3319 consumed approximately 22,200 direct labour hours.
The fourth LRC car, 3328 will be around 19,000 direct labour hours.

As a percentage of labour hour reduction:

3315	Car 1		
3317	Car 2	28%	
3319	Car 3	9%	
3328	Car 4	14%	
3339	Car 5	8%	(3339, should come in at 17,500 hours)

This would indicate that from the very first car to only the 5th car, there is a 44% reduction/improvement in direct labour hours.

Car number 10 is being precisely monitored and tracked for direct labour hours and material consumption and shop flow. The desired outcome for car 10 should be 9500 production hours. Car number 7 should be around 15,000 hours.

The major learning curve is behind them for the standard LRC coach configuration. That said, a second learning curve will occur for the combi/business class cars.

It is our view that post negotiations, the standard production hours that would need to be reached by car 40 or 45 to meet the bid objective would be 5400 to 5600 hours per car.

Again, in our view, this will never happen. At best, 6000 hours per car could be achieved for the last 10 to 20 cars. Given the miss in learning curve, bid hours, early negotiations and change order hours, the miss in logistics and facility costs, this project must be projected to conclude in red ink.

In short, should the parties have a mutual desire to see this project to a successful conclusion, our research would support that IRSI has the physical, infrastructure and process requirements in place and are moving in the right direction to put the staff and talent needs in place.

As highlighted, improvement in the relationship, thus in the resolution of ongoing issues may be as vital to success as anything.

Conclusion

It is the opinion of the undersigned that as of this day, the risk to VIA is not in the ability or capability of IRSI to fulfill the contracts, but rather their desire. Is it commercially viable for IRSI to see this contract to conclusion and sustain the financial losses that go along with it?

Should the desire to complete their contractual obligations be present, IRSI's management will need to focus on having strong experienced leadership take charge of the project to ensure its execution in an efficient and cost effective manner.

Additionally VIA has significant exposure to further contract delays should key talent depart, such as Bud Simpson. As each week, if not day goes on, retaining the services of their consultant Bud Simpson becomes more and more difficult and his absence prior to the next three months would be a set back. Given the remaining management team members inexperience, it would be better if this minimum period could be prolonged. It is the opinion of the undersigned that Bud's presence will greatly diminish following the Labour Day weekend.

Although strong Quality Assurance principles are starting to become present, we feel that IRSI may be somewhat understaffed in QA inspectors, particularly in the important phases of completing their QA process implementation, in the second learning curve associated with change orders and ramp up to full production.

As mentioned the Procurement department and vendor performance must be enhanced (a collapse of any key vendor would create major disruption). Positive changes are occurring in the department related to resources which must continue.

Instead of dozens of procedures and lengthy write-ups, we would recommend a strong push on methods to create photos, labels, travelers, correct tooling and fixtures to reduce costs and improve production time and consistency.

From an HR perspective, IRSI must enhance its focus on their ability to monitor performance through indicators. This is particularly important with respect to Safety as it will assist in their pressing need for implementation of work safety programs and a culture conducive to minimizing the risks associated with potential accidents and incidents.

One must always be cognizant of the fact that IRSI runs a non Union shop and should a Union surface this could create further negative financial impact to the project and owner.

It goes without saying that the many stored RDC vehicles must be removed from the IRSI overhaul facility and yard in order to facilitate the eight plus moves it takes to complete one vehicle in this not so ideal facility.

In closing, we feel there is no insurmountable element with IRSI being able to complete the contractual obligations that they have with VIA, as long as both parties recognize the existing situation and are willing to work together.

We again thank you for the chance to express our views on this subject.

Mike Hardt
Hardt Enterprises Inc.

Gilles Richard
SEMA

12. Deliverables from Consultant

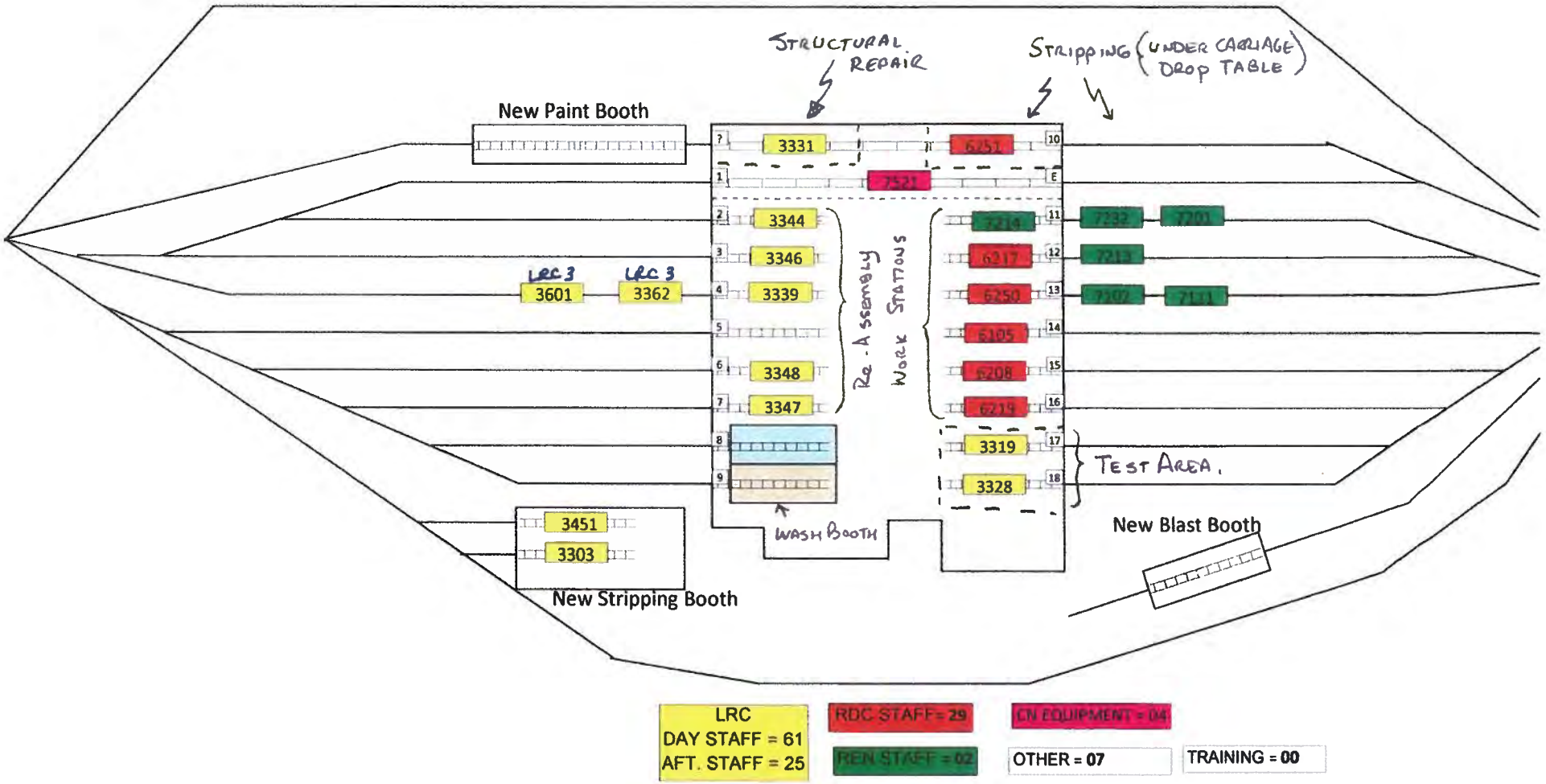
The deliverable is a written report from independent third-party observers to be submitted to VIA's CEO.

The report should contain the following;

- Assessment of physical installations with recommendations, (if any), for improvements.
- Assessment of work flows in the shop with recommendations.
- Assessment of organizational structures, staffing, and lines of communications (formal and informal) of both companies with recommendations.
- Any personal observations felt pertinent by the Consultant to improve scheduled car deliveries – with particular focus on the LRC Rebuild project.
- Assessment of the "best case" scenario for hours to complete a car (once off of learning curve) leading to projected cost and time to complete the LRC Rebuild project.

IRSI Car Position

June 22, 2011



Industrial Rail Services Inc.

LRC Contract Analysis

Original Bid Submission	
Production (Labour & Materials)	$131,021,942
Design & Engineering	$2,168,263
	$133,190,205
Adjustments to Original Submission through contract negotiation process (no award)	
Scope Reduction (Elimination of Banking System)	($7,967,000)
Administration Fee-Bulk Materials	$1,530,070
Financial Guarantee	$610,000
Reduction in Materials Costs applicable to bulk program	($7,650,350)
Reduced Labour *	($3,780,840)
Reduced Materials *	($16,966,596)
* Through the negotiation process, the original submission was adjusted to reflect reductions including the following: Window Replacement (went from 100% to 25%) Carbody Repairs (Overall reduction of $2.9 million) Reduction in amounts for Floor Replacement, HVAC rebuilds, Electrical Lockers, Baggage Bin Doors, Washroom Modules, Repurposing of Seats, etc.	
FINAL CONTRACT AMOUNT	**$98,965,489**
PCR Amounts	10,394,506
REVISED AMOUNT	**109,359,995**

(Does not include per car extras)

	Original Submission	Final Submission
Average Price Per Car	$1,336,959	$971,434
Average Hours Per Car	6,446	5,640

(Does not include PCR amounts)