

OUT OF STEAM



The Urgent Need to Modernize VIA Rail Canada

for

Transport Action Ontario

by

Greg Gormick

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Table of Contents

Acknowledgements ii

Executive Summary..... iii

1 Introduction..... 1

2 A Railway in Crisis 2

3 2013: Another Year of Decline..... 3

4 The Tyranny of VIA’s Service Cuts 5

5 The Triumph of Expansion and Investment 8

6 VIA’s Flawed Capital Renewal Program 10

7 A Railway Exhausted 14

8 Fiscal Danger Signals 16

9 VIA’s Short Line Dilemma 18

10 A National Treasure Threatened 21

11 The Bottom of VIA’s Long Slide? 25

12 Glimmers of Hope..... 28

Appendix A: VIA’s LRC Refurbishment Project 33

Appendix B: VIA’s CN Kingston Subdivision Project 58

Appendix C: Transport Action Application to the Auditor General of Canada 67

About the Author..... 74

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EXECUTIVE SUMMARY

In the opinion of several rail passenger professionals – especially former Amtrak president and Cape Breton resident David Gunn – VIA Rail Canada is dying.

A review of VIA's 2013 Annual Report, the Summary of the 2013-2017 Corporate Plan and its first two quarterly reports for 2014 confirms this opinion. VIA's performance trends are either largely stagnant or declining. Costs and financial liabilities are increasing, while ridership and revenues are flat or falling. As measured by on-time performance, VIA's service quality and its ability to attract additional passengers is also declining. VIA has become old, slow and late.

The infusion of \$923 million in capital between 2007 and 2012 under the current federal government had a negligible effect; many of the projects are still incomplete and unfunded, while others cannot yield any appreciable benefit unless additional capital funding is secured.

Over the period covered by the 2013-2017 Corporate Plan, VIA will exceed its budget by \$582.1 million. Unless additional federal funds are forthcoming, service reductions will occur, exacerbating the damage done to ridership, revenues and public utility by VIA's 2012 cuts.

Facing this funding shortfall, VIA management indicates it will have difficulty maintaining the current frequencies of its Halifax-Montreal *Ocean* and Toronto-Vancouver *Canadian*, which many feel are already inadequate. This contrasts with the corporate stance taken by VIA's U.S. counterpart, Amtrak, which has devoted capital and marketing efforts to improving the utility and cost-effectiveness of its 15 long-haul routes, with positive results.

VIA must confront several serious problems just to maintain its current network, now at the lowest level in its 37-year history. The Gaspé-Montreal *Chaleur* and the Vancouver Island service are both suspended due to the deterioration of the short lines on which they operate. VIA expects this to worsen as short lines struggle with their deterioration and low profitability.

Unless corrected, VIA's investment-challenged corporate strategy and this government's funding policies will deliver a smaller and less useful rail passenger service, at best. In the extreme, VIA could be scuttled by the negative forces confronting it. Only the appointment of a more positive VIA president in May 2014 and the recent interest of Ontario Premier Kathleen Wynne in rail-based solutions for southwestern Ontario provide glimmers of hope.

As dire as VIA's current position, it can be fixed. Other passenger railways – particularly Amtrak – have grappled with similar situations. They've been revived through interlocking measures that ensure a state of good repair and provide the financial, physical, human and legislative tools necessary to ensure they don't relapse. Full modernization is the key.

Such a renaissance must be led by the government-of-the-day. Until that commitment is made, then former Amtrak president David Gunn is correct: VIA is dying.

1. INTRODUCTION

Is VIA Rail Canada dying?

That fear has been expressed by many rail passenger industry professionals at various times over the course of VIA's troubled 37-year life. But it has never been expressed quite so bluntly and authoritatively as by former Amtrak president and Cape Breton resident David Gunn. In a lengthy September 2013 interview with the Moncton *Times & Transcript*, Gunn listed the telltale warning signs of VIA's imminent collapse, including:

- Stagnant ridership and revenue;
- Lack of corporate focus and strategy;
- Service reductions instead of increases;
- Deteriorating equipment and infrastructure; and
- Incomplete data and performance reporting;

In his typically unvarnished style, Gunn observed, "VIA has basically been going out of business. All of the actions from VIA have been basically reducing service since it was set up...."

VIA's *2013 Annual Report* is proof Gunn's opinion is chillingly accurate. It is self-congratulatory, glowing with enthusiasm over "soft" service accomplishments such as expanded Wi-Fi service and the installation of an on-train entertainment system on some rolling stock.

Worse – and not for the first time – this annual report lacks hard data about the true state of the railway. But even the skimpy statistics provided paint an entirely different picture from the "all is well" message that VIA management – rigidly controlled by Ottawa – is attempting to project. All is not well.

Even more disconcerting is the *Summary of the 2013-2017 Corporate Plan*, which VIA released earlier this year. VIA's first two quarterly reports for 2014 only add to the gloomy prognosis. Taken in combination, these documents reveal a rail passenger service heavily freighted with physical, financial, legislative and institutional problems.

The following analysis has been undertaken not to simply catalogue the current and future dangers that may finally derail Canada's national rail passenger service. The objective is to highlight these problems so they can be aggressively tackled by those responsible for VIA, namely the current government and VIA itself. In the end, the railway's future is in their hands.

Those who have the power to heal VIA would do well to recall a statement made by Charles F. Kettering, the brilliant research director who had so much to do with the rise of General Motors from 1920 through the late 1940s. He said, "A problem well stated is a problem half-solved."

That is the philosophy underlying this report.

2. A RAILWAY IN CRISIS

Even the most optimistic appraisal of VIA's *2013 Annual Report* would have to conclude this railway is facing serious problems. This is reinforced by placing this year's report alongside those dating back to 2003. Such an examination suggests VIA's recent infusion of \$923 million in capital funding, which was supposed to cure many of its historical problems, has had little effect on the corporation's performance, for reasons explained elsewhere in this report.

The negative trends revealed by the analysis of VIA's key performance indicators for the period 2003-2013 are even more worrisome when viewed in the context of VIA's *Summary of the 2013-2017 Corporate Plan*. Although this document is an incomplete picture of VIA's current state and its plans for moving forward, it presents more evidence of the railway's numerous problems. It reveals much physical deterioration and the high risks in its strategy for dealing with vital issues such as a government funding shortfall, service changes and capital projects, some of which are still incomplete after five or more years.

It should be stated at the outset it is difficult for any outsider to unequivocally validate the conclusions they reach from the documents cited above. This is because of the virtual impossibility of drawing out further issue-specific data from under the veil of secrecy draped over VIA today. The current federal government is complicit, being equally unwilling to release hard data on a Crown corporation that is, after all, owned by the people of Canada and entrusted by them to various government ministries, not to mention the Cabinet.

Data requests made under the *Access to Information Act* are largely pointless, as all but the most complimentary material is held back. This is based on the government's assertion that its release would somehow compromise the competitive position of VIA and/or the third parties with which the corporation contracts, such as Canadian National (CN). Delays in processing these requests are lengthy, often resulting in VIA and Transport Canada applying for extensions of the time limits.

This should be contrasted with VIA's U.S. counterpart, Amtrak. As required by Congress, Amtrak provides a wealth of information on its finances, operations and long-term strategy annually. Additionally, Amtrak releases highly detailed monthly performance reports covering a multitude of issues. This information allows any concerned party to get a clear picture of Amtrak's recent activities and its progress in reaching the long-term objectives set by the various committees and agencies of the U.S. government, to which it reports.

Such openness has been productive for Amtrak, which has gone through many tough periods during its 43 years of operation as the quasi-public agency charged with delivering an efficient and effective rail passenger service on behalf of the American public. By presenting an honest and complete picture, Amtrak has been able to engage more fully with the public, politicians and civil servants in its efforts to improve U.S. rail passenger service nationwide.

It is difficult to understand why a similar approach wouldn't be beneficial to VIA and those concerned about its future. Only by revealing the true state of the railway can there be an informed debate leading to public policies to tackle VIA's numerous challenges.

Even with this restricted ability to drill into VIA, the limited data available reveals a number of problems that have arisen in recent years, despite attempts to paint a rosy picture. Worse, these problems have been stacked on top of the fundamental flaws in Canada's rail passenger program dating back to the period before VIA's slap-dash creation by the federal government in 1977. This list of problems, current and historical, is growing to a critical stage.

3. 2013: ANOTHER YEAR OF DECLINE

VIA describes 2013 as "a year of adjustments." It was actually a year of continued decline. Taken on its own, the data contained in VIA's *2013 Annual Report* is discouraging. By comparison with 2012, ridership, passenger-miles operated, revenues, passenger yield and capital funding were all down.

Adding to this downturn were increases in operating expenses, contributions for employee benefits, the operating deficit and the operating loss per passenger-mile. Marginal improvements occurred in the average load factor and the average number of passenger-miles per train-mile.

The trends in the most important key performance indicators all range from stagnant to poor. With performance such as this, it's little wonder VIA's *2013 Annual Report* leans heavily on "soft" service issues and awards of questionable value received from minor travel industry organizations. It seems the reader is being led to believe VIA had a banner year. It didn't.

Placed beside key performance indicators back through 2003, it is apparent VIA has long been and remains a high-cost railway. Without major improvements in corporate strategy and funding, particularly capital investment, it has little prospect of increasing ridership and revenues, while reducing costs.

It should be noted that the public reporting of VIA's performance has been altered on several occasions in recent years. One telling figure that disappeared from the annual reports after the 2010 edition was the cost recovery ratio. This indicates what percentage of every dollar spent on a service is recovered through revenue generation. In the transit industry, this efficiency measurement is known as "fare box recovery."

Using VIA's own data, it is easy to determine the operating ratio dipped to 46.8% in 2013, after declining to 49.8% in 2012.

Over that same period, the number of train-miles operated fell by 9%, most notably through the service cuts in the fall of 2012. Another factor in train-mile reduction was the piecemeal suspension of the *Chaleur* between Matapedia and Gaspé, and the complete suspension of service on Vancouver Island. Both disruptions are due to the deterioration of the infrastructure owned by the freight railways that host VIA on these routes. The few additional trains added on VIA’s Quebec-Windsor Corridor east of Toronto only slightly offset these reductions.

VIA RAIL CANADA SYSTEM PERFORMANCE – 2013 VS. 2012

KEY PERFORMANCE INDICATOR	2013	2012	VARIANCE (%)
PASSENGER REVENUES	\$249,600,000	\$257,400,000	-3.0
TOTAL REVENUES	\$270,400,000	\$276,900,000	-2.3
OPERATING EXPENSES	\$482,400,000	\$478,200,000	+1.0
CONTRIBUTIONS FOR EMPLOYEE BENEFITS	\$95,600,000	\$77,800,000	+22.9
TOTAL OPERATING EXPENSES	\$578,000,000	\$556,000,000	+4.0
OPERATING DEFICIT	\$307,600,000	\$279,100,000	+10.2
CAPITAL EXPENDITURES	\$96,200,000	\$170,300,000	-43.5
GOVERNMENT OPERATING FUNDING	\$307,600,000	\$279,100,000	+10.2
GOVERNMENT CAPITAL FUNDING	\$90,800,000	\$167,200,000	-45.7
TOTAL GOVERNMENT FUNDING	\$403,800,000	\$446,300,000	-9.5
OPERATING DEFICIT PER PASSENGER-MILE	37.0¢	33.5¢	+10.4
COST RECOVERY	46.8%	49.8%	-0.6
RIDERSHIP	3,900,000	3,900,000	0.0
PASSENGER-MILES	832,000,000	834,000,000	-0.2
TRAIN-MILES OPERATED	6,244,000	6,441,000	-3.1
CAR-MILES OPERATED	39,699,000	44,379,000	-10.5
LOAD FACTOR	56%	54%	+2.0
ON-TIME PERFORMANCE	82%	83%	-1.0

The conclusion is that VIA is operating fewer and shorter trains that are generating higher costs without compensating ridership and revenue increases. Cost increases are outpacing any revenue gains made through improved yield management, which are relentlessly touted as an indication of VIA’s successful “transformation,” which has included severe service reductions outside the Quebec-Toronto portion of the Corridor.

Another set of data that has been dropped from the annual reports concerns VIA’s success in meeting its budgetary plans. Again, it would be difficult to not believe this information is being withheld because it would demonstrate VIA is missing its planning targets. This contrasts with the rhetoric found elsewhere in the 2013 report, which attempts to convince the reader everything is under control and VIA is, in fact, hitting those targets.

VIA RAIL CANADA – COST RECOVERY

YEAR	COST RECOVERY (%)
2000	59.5
2001	61.5
2002	64.5
2003	58.5
2004	58.8
2005	62.4
2006	62.8
2007	58.9
2008	58.4
2009	50.7
2010	51.6
2011	52.0
2012	49.8
2013	46.8

4. THE TYRANNY OF VIA'S SERVICE CUTS

One useful and revealing addition to VIA's annual reports since 2010 is a breakdown of revenues, expenses and other financial and performance data on a route-by-route basis. However, one can't help but feel this is being done to highlight the high costs involved in operating certain trains that the VIA management team under former president Marc Laliberté implied should be abandoned.

Laliberté, who left VIA at the end of 2013 after four controversial and tumultuous years, made several public statements early in his time at VIA in which he plumped for a multi-billion-dollar investment in high-speed rail (HSR) on the Quebec-Toronto portion of the Quebec-Windsor Corridor. He also spoke against the provision of rail passenger service in markets of less than 160 km miles or more than 800 km. For the former, the suggestion was travellers should use private automobiles, buses or commuter trains, if available. As for the latter, there were statements about these being simply non-competitive and, therefore, they should be surrendered to air.

This corporate position against long-haul trains flies in the face of VIA's loosely-stated mandate to provide a nationwide service, which out of necessity includes several routes of more than 800 km, such as the *Chaleur* (Gaspé-Montreal), the *Ocean* (Halifax-Montreal), the *Hudson Bay* (Winnipeg-Churchill), the *Skeena* (Jasper-Prince Rupert) and the *Canadian* (Toronto-Vancouver).

In the U.S., Amtrak has built a political and public constituency in favour of its 15 long-haul routes, recognizing them as “a core federal responsibility” and making them key elements of its growth strategy. As in Canada, these trains often provide the only public transportation service to many communities, as well as generating considerable off-train benefits for the tourism industry. Instead of fighting to kill its own long-haul trains, Amtrak champions them and is taking action to improve their efficiency, cost-effectiveness and public utility.

The most obvious sign of Amtrak’s commitment was the two-phased acquisition of 479 bi-level Superliner cars for western long-haul trains beginning in the late 1970s, with the second order going to Bombardier, which now owns the design. More will be ordered as part of the renewal and expansion program mandated by Congress under the *Passenger Rail Investment and Improvement Act of 2008*. As well, Amtrak is now receiving the first of 130 single-level cars for eastern long-haul service and will soon take delivery of the first of 130 bi-level corridor-type cars for Midwest and Pacific Coast routes, with options for more.

These capital commitments have been matched in recent years by improved and expanded marketing of the unique travel experience provided by long-haul trains. Between 2006 and 2012, total ridership on Amtrak’s nationwide long-haul network increased 27%.

There is no question VIA’s long-haul routes have high costs by their very nature. Unlike Amtrak, VIA has apparently developed neither the desire nor the strategy to deal with this, instead complaining of its difficulty coming to grips with the continued operation of these trains.

In highlighting the performance of its long-haul trains in its annual reports, VIA actually raises questions about the logic it said it applied in reducing the frequency of the *Canadian*, the *Ocean* and other trains in 2012. In particular, an analysis of the performance figures for the *Ocean* demonstrate the flaws in VIA’s strategy over the last few years.

Previously operated six days per week, the *Ocean* was reduced to tri-weekly; the implication was that this would dramatically reduce VIA’s operating costs. That hasn’t been the case. In 2011, the last full year in which the *Ocean* operated six days per week, its operating loss was \$34,700,000. Despite the fact that half the service has been cut, the operating loss in 2013 was \$33,367,000 – a reduction of only 0.4%.

Among other things, this demonstrates that cutting service by a certain percentage does not necessarily result in proportionate cost reductions. In fact, frequency reductions are often counter-productive, making the trains less attractive and useful to the public, resulting in ridership and/or revenue declines substantially higher than the percentage of the cut.

By comparison, Amtrak’s daily Chicago-Seattle/Portland *Empire Builder* carried 536,391 passengers in 2013. It operates with Superliner rolling stock over a route with demographic, geographic, climatic and operating conditions similar to those of VIA’s Toronto-Vancouver *Canadian*. But with tri-weekly service between late April and late October, and two departures weekly the rest of the year, the *Canadian* carried only 99,171 passengers in 2013.



LONG-HAUL RENEWAL: Unlike VIA, Amtrak has taken numerous steps to improve the performance of its high-cost long-haul trains. The most visible example was its decision to make new rolling stock a priority. Beginning in the late 1970s, Amtrak purchased 479 bi-level Superliners for its western long-haul trains, including 195 from Canada's Bombardier Transportation. Photos by James Griffin



5. THE TRIUMPH OF EXPANSION AND INVESTMENT

Conversely, frequency improvements generally come with cost increases substantially less than the percentage of the service boost and producing revenue gains that exceed it. In its congressionally-mandated improvement plan for its New York-Cincinnati-Chicago *Cardinal*, one of only two Amtrak tri-weekly trains, the railway found:

“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.... 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 Amtrak’s planned increase to daily service on the *Cardinal*:

- Ridership increases 96%;
- Revenue increases 123% from \$7.3 million to \$16.3 million annually;
- Cost recovery increases from 27% to 35%;
- Loss per passenger-mile decreases 31% from \$0.42 to \$0.29;
- Passenger-miles increases 122%, but train-miles rise only 93%; and
- Passenger-miles per train-mile improve 15% 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 9% increase in costs, the public will receive more than twice the service.

There is no reason to believe such an approach wouldn’t produce similar improvements on certain less-than-daily VIA trains, such as the *Chaleur*, the *Ocean* and the *Canadian*. Yet, VIA has never indicated it has even conducted in-depth examinations of the issue, as the U.S. Congress has required of Amtrak.

The Amtrak stance on improving long-haul service is not the only issue where VIA and its U.S. equivalent differ considerably. This is not the place to undertake a thorough examination of Amtrak’s legislation, funding and corporate strategy with the objective of finding a working model Canada could emulate. However, a comparison of the key performance indicators of the two railways is most appropriate in the context of this analysis.

SYSTEM PERFORMANCE – VIA RAIL CANADA VS. AMTRAK

KEY PERFORMANCE INDICATOR	VIA (FY2013)	AMTRAK (FY2012)
RIDERSHIP	3,900,000	31,200,000
ROUTE-MILES	7,800	21,200
TRAINS OPERATED WEEKLY	450	2,200
REVENUE	\$270,400,000	\$2,877,000,000
EXPENSES	\$578,000,000	\$4,036,000,000
OPERATING LOSS	\$307,600,000	\$1,159,000,000
COST RECOVERY	46.8%	71.3%
PASSENGER-MILES PER TRAIN-MILE	133	180
ON-TIME PERFORMANCE	82%	83%

This comparison reveals that, for only slightly more than what Canadian taxpayers spend on VIA, Amtrak operates a system roughly three to four times larger with almost 10 times as many passengers. While there are some fundamental differences between the two railways and the environments in which they operate, they are not sufficient to dispel the conclusion that Amtrak delivers better value for public money than VIA.

It should be noted that one of the major differences between the two railways is that Amtrak invests much more heavily in capital projects than VIA. After a rocky start, modernization began early at Amtrak and it has been ramped up in recent years. This partially accounts for Amtrak’s superior performance financially and operationally. By investing in new trains, Amtrak has reduced its costs on a per-train and per-passenger basis, allowing it to offer more service.

Amtrak is proof that one of the keys to breaking downward performance trends is capital renewal. The federal and state governments came to that realization long ago and the result is a steady flow of capital for everything from fleet renewal to track upgrading and capacity expansion. In Canada, such a government-led program would involve a complete modernization of VIA physically to enable it to reduce costs, improve service and make its end product more desirable in the competitive world of intercity public transportation.

As early as 1985, the Mulroney Conservative government’s Rail Passenger Action Force spelled this out clearly:

“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.”

In fact, the Rail Passenger Action Force made a strong case for the application of Amtrak policies and practices to the VIA problem. Unfortunately, the group’s advice was not heeded and it was swept out of power for political reasons. But its sealed research papers and reports provide ample proof that one of the answers rests in strategic investment in a modern fleet and infrastructure, just as is now being done under the progressive policies of Amtrak and the presidential administration that has made its renewal and expansion a priority.

6. VIA’S FLAWED CAPITAL RENEWAL PROGRAM

To be fair, the physical modernization of VIA was the stated objective of the capital investment program the current government authorized in two stages beginning in 2007. The \$516-million first phase was augmented by an additional \$407 million through the 2009 Economic Action Plan. As the largest capital investment in VIA’s history, it was ballyhooed by VIA management and the various cabinet ministers of the current government who approved it.

But VIA’s capital renewal program derailed; neither the railway’s managers nor this government wishes to discuss this. Typical of the obfuscation of the facts in VIA’s *2013 Annual Report* is a brief review of one of the most delayed sub-projects within the 2007 capital renewal program.

“As part of the Government of Canada’s \$1 Billion investment in VIA Rail, the refurbishment of part of the LRC (Light, Rapid, Comfortable) Business Class fleet was completed and put into service by the end of 2013.... Work on the balance of the LRC Business Class cars is underway and the entire fleet refurbishment is expected to be completed in 2014.”

Statements such as these, peppered throughout the annual report, are either poorly worded or deliberately misleading. In this instance, the implication is that the full LRC program is completed, while really saying only part of it is complete. This project is far from complete. It is seriously behind schedule and over budget. The failure to fully refurbish the 97 aluminum-bodied LRC cars – which are the backbone of the Quebec-Windsor Corridor fleet and are more than 30 years old – is having a major impact on VIA’s operations and revenues. VIA stated in early September it has refurbished 18 Business Class cars and 19 Economy Class coaches. That’s only slightly more than one-third of the fleet.

VIA’s LRC rebuild project is a disappointment by any measure, especially financially. Its background and muffed execution are covered in detail in the report, *Revitalizing New Brunswick’s Rail Sector*, which was commissioned by five municipalities and Enterprise Greater Moncton. The section dealing with the LRC project is included as Appendix A of this report.

The incomplete LRC rebuild project is not the only example of the general failure of the \$923 million capital renewal program. Even worse has been the fate of a larger element of the plan, known as the CN Kingston Subdivision Project. Some of the details of this infrastructure project, budgeted at \$341 million, are contained in the media release and backgrounder issued at the time of its unveiling (see Appendix B).

VIA's CN Kingston Subdivision Project remains incomplete because of a \$125 million capacity expansion sub-project required at Coteau, Quebec, where the lines from Toronto and Ottawa meet on the approach to Montreal. This is the site of a busy CN freight yard, which cannot be constrained by VIA's operations. CN has demanded infrastructure investments before allowing more VIA trains through this chokepoint. Without this work, VIA's substantial investment in the Kingston Subdivision can't be fully realized, as it was largely predicated on the addition of more trains. The Coteau issue combined with the incomplete LRC rebuilding makes it impossible to add the Montreal-Ottawa and Montreal-Toronto trains to boost ridership and revenues.

The Coteau project comprised a portion of an application for an investigation by the Auditor General of Canada by the advocacy group, Transport Action, which is included as Appendix C.

There is another reason VIA can't stimulate the ridership and revenue growth it used to justify the \$923 million capital program. Absent from this year's report is any mention of a missing portion of its skimpy fleet. These are the Renaissance cars, which VIA's 2010 report described as "the most technologically advanced passenger cars in use in North America." They are not.

Built in the U.K. by Alstom for publicly-owned BritRail, 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 BritRail's privatization and a lack of interest by the franchise operators that picked up the railway piecemeal led to the project being mothballed.

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.

The deal seemed too good to be true. It was. The cars were simply not well suited to operation in Canada for fundamental and insolvable reasons.

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 North America's Class I railways, virtually every other technical detail differs.



SHORT, CRAMPED AND INAPPROPRIATE: VIA's British-built Renaissance cars are expensive to operate, mechanically unreliable and ill-suited to Canadian conditions. The photo below, showing a Renaissance car (left) coupled to one of the popular and larger Budd Park cars on the Halifax-Montreal *Ocean* (right), demonstrates the pint-sized dimensions of this rolling stock. Photos by Steve Boyko (above) and Henry Kisor (below)



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 British-built Renaissance cars are smaller than typical North American passenger rolling stock, with lower per-car passenger capacity.

Adding to this fundamental drawback, the Renaissance 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 and track conditions rougher than those they were built to withstand in the U.K. and Europe.

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.

The cost of the Renaissance fleet rose to \$1.6 million per car, which is only slightly less than 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 many negative reviews from passengers and 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 dislike the cars compared with the wide-bodied LRCs used on the Quebec-Windsor Corridor and the classic, fully-modernized Budd stainless steel cars of the 1950s used there and previously on the *Ocean*.

Just before Christmas 2013, a leaked VIA internal notice revealed the bulk of its 106-car Renaissance fleet was to be withdrawn from service and mothballed. Two sets continue to be assigned to the *Ocean*, but the corridor versions were initially all stored. In August 2014, two more Renaissance sets were reactivated for Montreal-Quebec service, to ease the equipment crunch resulting from the delayed LRC rebuilding project. Still, inside sources reveal the Renaissance cars are deteriorating rapidly after only 13 years of service. The loss of this equipment leaves a serious gap in VIA’s small total fleet.

7. A RAILWAY EXHAUSTED

A railway without sufficient equipment to operate its slim system – let alone expand it – is doomed. Without the Renaissance cars, and with almost two-thirds of the LRC fleet still to be refurbished, VIA doesn't have enough rolling stock to implement the growth strategy used to justify the capital funding received from this government. Service increases wouldn't be possible even if VIA could undertake the critical CN Coteau capacity expansion project.

In truth, the whole capital renewal program was misguided. When it was unveiled to much fanfare by VIA and this government in 2007, the implication was that it would decisively fix VIA's longstanding problems by bringing about the railway's full modernization. Many within the rail industry said at the time that, while the program was a good first step, it would fall far short of the top-to-bottom physical overhaul VIA has required from the start. Such a program would have easily cost twice what this government was investing.

Furthermore, many elements of the plan were high risk, based on the assumption that all the schedule and budget targets would be met. They weren't met, with the CN Kingston Subdivision Project and the rebuilding of the LRCs being key examples.

While VIA's *2013 Annual Report* fails to deal with this and other elements of the capital renewal program, the *Summary of the 2013-2017 Corporate Plan* does, although lightly. In the latter document, VIA admits it requires additional capital funding to complete its promised rail passenger renaissance. Without this funding, VIA cannot be turned around and can't even take full advantage of the \$923 million invested since 2007.

At the very least, VIA needs to complete the CN Coteau capacity expansion project, estimated to cost up to \$125 million. Without this project, CN will continue to refuse VIA's requests to add the new Montreal-Toronto and Montreal-Ottawa frequencies on which much of its projected increases in ridership and revenue hinge.

As for its fleet problems, the time is long past for the purchase of new equipment incorporating all the advances in car design that have been made since VIA received its first LRCs more than 30 years ago. It is unfortunate that VIA is now so short of equipment there's no short-term option but to continue the troublesome LRC rebuilding project.

If VIA is to be turned around financially and operationally on a long-term basis, new rolling stock must be a priority, especially for the Quebec-Windsor Corridor services, which carry the majority of VIA's riders and generate the bulk of its revenues.

There are several designs available for a VIA re-equipment project. As previously mentioned, Amtrak and its state partners will soon receive the first of 130 bi-level cars for 200-km/hour corridor service from Japan's Sumitomo, which has established a manufacturing facility at Rochelle, Illinois.



HOMEGROWN CORRIDOR OPTIONS: VIA requires modern rolling stock to replace its aged fleet, especially in the Quebec-Windsor Corridor. Options include intercity versions of Bombardier’s service-proven, Canadian-built commuter cars, such as the MultiLevel cars used by Montreal’s AMT and New Jersey Transit (above), and the next generation of BiLevels for Toronto’s GO Transit (below). Photo above by Mitch Goldman



Preferable in terms of Canadian economic spin-off and job creation would be intercity versions of service-proven Bombardier commuter cars or Superliners. All are capable of 160-km/hour operation, which is the maximum permissible speed allowed anywhere on the VIA system. The stainless steel Superliners and MultiLevels are built at Bombardier's La Pocatiere, Quebec, plant, while the aluminum BiLevel rolling stock is produced in Thunder Bay, Ontario.

New Canadian-built rolling stock would cost approximately \$4 million per car. To completely replace VIA's corridor fleet on a seat-for-seat basis and allow for service expansion would require 100-150 Superliner, MultiLevel or BiLevel cars, for a total cost of approximately \$400-600 million. This cost would be paid back in less than 10 years through cost reductions, increased efficiency and higher revenues, compared with VIA's outmoded and inefficient fleet.

By U.S. Department of Commerce calculations, such an investment would generate three to four times its cost in off-train economic stimulation. If this government invested a total of \$725 million in both the CN Coteau project and a new VIA corridor fleet, the domestic economic spinoff could be as much as \$2.9 billion, the bulk of it occurring in eastern Quebec and/or northern Ontario, as a result of the rolling stock components of the expenditure.

Unfortunately, there is no indication this government will support the CN Coteau project or a new corridor fleet, let alone fund the completion of the LRC rebuilding project, especially in light of the undelivered financial improvements VIA promised with the previous capital plan.

8. FISCAL DANGER SIGNALS

There are several serious issues not covered in VIA's *2013 Annual Report*, but partially exposed in its *Summary of the 2013-2017 Corporate Plan*. The largest of these is the question of ongoing funding from this government. VIA is not only unlikely to receive the additional funds required to complete many critical capital projects, it is slated to have its operating budget reduced yet again, with a cut of \$19.6 million in FY2014-2015.

If this is not bad enough, more financial trouble looms for VIA:

"Over the course of the Plan period, VIA's operating deficit is projected to exceed its reference levels by \$582.1 million. Productivity initiatives are being implemented to reduce operating funding requirements by \$181 million over the Plan period....

"VIA expects to incur an operating funding shortfall over the period of the Plan. To reduce the operating shortfall, VIA is in the process of implementing a number of initiatives that were developed as part of this Corporate Plan and the 2011-2015 Corporate Plan. However, even with successful implementation of ongoing initiatives to reduce its operating requirements, VIA will be unable to operate within its revised operating reference levels."

Coupled with this funding cut and the projected budgetary shortfall, there is an ominous discussion in the *Summary of the 2013-2017 Corporate Plan* about the performance and continued operation of VIA's long-haul and remote/regional trains:

"The markets for VIA's two long distance train services – the *Canadian* and the *Ocean* – are highly seasonal. The *Canadian* attracts both domestic and international tourists during the peak season, namely from May to October. In more favourable economic climates, the *Canadian* has been financially viable on a partly allocated basis. During the off-peak season, demand is not sufficient to justify current train frequencies from a commercial perspective.

"This is also true of the *Ocean*, where cost recovery is low even during the peak season, and is steadily declining due to competition from road and air travel....

"VIA's regional and remote train services are not commercially viable. The financial performance of these train services is expected to decline over the period of the Plan, as passenger revenues remain relatively constant and operating costs increase with inflation...."

The implication is clear: To live within its expected operating funding level, VIA is likely to be forced to reduce the frequency of the *Canadian*, the *Ocean* and other trains outside the Quebec-Toronto segment of the Corridor. As previously discussed, the frequency reductions implemented in 2012 produced only meagre savings, but severely damaged the ridership and utility of the affected routes.

There is more bad financial news contained in the *Summary of the 2013-2017 Corporate Plan*. One of the most controversial elements of VIA's operation is its 2009 train service agreement with CN, a document that is rigidly held back from public scrutiny. Those insiders familiar with it say it was negotiated poorly with no assistance from this government, the result being VIA is paying excessively for what some characterize as poor service and track access from CN.

While VIA won't discuss the full impact of the CN Train Service Agreement, there is a disquieting hint of its future financial implications in the *Summary of the 2013-2017 Corporate Plan*:

"Train Service Agreement charges form a significant portion of VIA's operating costs. VIA and CN concluded a ten-year Train Service Agreement in 2009 that provides for annual rate escalation over the 2009-2018 period."

More negative implications are contained in the discussion of VIA's pension liabilities:

"VIA cannot fund its pension plan costs within its operating funding reference level. The accumulated funding shortfall in VIA's pension plans over the Plan period is \$295 million."

9. VIA'S SHORT LINE DILEMMA

Finally, VIA is also facing difficulty in operating over some struggling short line freight railways, whose infrastructure is required for portions of the current network. The corporate plan notes:

“Infrastructure on some short lines is not maintained to the same standards as Class 1 railroads. To maintain safety, speeds are often reduced through slow orders, which results in poorer on-time performance and reliability....

“Mitigation measures are dependent upon specific circumstances and conditions, but are largely restricted to schedule adjustments. However, mitigation measures can, if necessary, include service truncation, temporary alternate transportation or service cancellation.

“The majority of VIA’s regional and remote train services depend on short lines for track access, and train performance has steadily deteriorated due to deferred maintenance and lack of investment in the infrastructure. For this reason, train service has been suspended on Vancouver Island and along the Gaspé coast, pending repairs to deteriorating track and bridge structures by the short line railways who own the infrastructure.”

The deterioration of short line infrastructure has had its greatest impact on the Montreal-Gaspé *Chaleur* and the Victoria-Courtenay RDC service. The latter is mired in bickering between VIA and the non-profit Island Corridor Foundation (ICF) that owns the line. The service was suspended due to safety concerns on March 19, 2011. A \$20 million rehabilitation agreement has been reached between the governments of Canada and British Columbia, but nothing has happened. This is because VIA supposedly hasn’t yet agreed to the ICF plan to augment the daily Victoria-Courtenay roundtrip with a Nanaimo-Victoria short-turn run.

The last statement from VIA on the situation was at least hopeful. At the May 28 annual public meeting, VIA president Yves Desjardins-Siciliano said:

“As soon as that track is fit for service, we will resume service. A train service agreement that has been in negotiation for the longest of times between the owner of the track, the Island Corridor Foundation, its contractor, Southern Railway of Vancouver Island (SVI), and VIA is, for all intents and purposes, concluded and hopefully by the end of this month will be officially signed, which will allow SVI and ICF to get on with getting their funding and doing the work required to return this track to safe operation.”

At the time of this report’s completion, there was still no word on the signing of the VIA train service agreement and a reinstatement of the Vancouver Island service.



WITHER THE RAILWAY: Rusting bridges, rotting ties and other infrastructure deterioration are disrupting VIA services nationwide, especially those operated over struggling short line railways in the Gaspé (above), northern Manitoba and on Vancouver Island (below). Without public investment, it is likely VIA will be forced to eliminate passenger service over these routes. Photos by Dennis Jarvis (above) and Alasdair McLellan (below)



The plight of the tri-weekly *Chaleur* is even more complex. From Montreal to Matapedia, it operates coupled into the “consist” of the Montreal-Halifax *Ocean*, operating as a single train over CN lines. East of Matapedia, it operates separately over a badly deteriorated line CN sold in two stages in the 1990s. Eventually, the entire 325-km line wound up in the hands of the not-for-profit, regionally-owned Société de chemin de fer de la Gaspésie Inc. (SFG).

In 2005, Quebec struck a cost-sharing agreement with the Government of Canada to fund a \$75 million project to restore 1,600 km of short line infrastructure throughout the province, with Quebec contributing \$45 million. Among the recipients was the SFG, which at that point owned only the easternmost 96 km of the Gaspé line. Two years later, Quebec reached a 50-50 cost-sharing agreement with the feds to award SFG \$16 million to purchase the remaining portion of the former CN line, which then belonged to a declining short line freight railway. The two governments also agreed to provide \$19 million over five years for rehabilitation.

Quebec has provided additional funding to SFG since then, attempting to help the four regional governments overcome the serious deterioration of their line. While this investment in the Gaspé line has been helpful, it has still been inadequate. The impact of the line’s backlog of deferred maintenance has been reflected by the following VIA service disruptions:

- December 14, 2011 *Chaleur* suspended and replaced with bus service between New Carlisle and Gaspé due to a deteriorated bridge at Chandler

- December 22, 2011 *Chaleur* suspended and replaced with bus service between Matapedia and Gaspé due to a deteriorated bridge at Cascapedia

- May 10, 2012 *Chaleur* resumes service from Matapedia to New Carlisle with connecting bus service to Gaspé

- August 22, 2013 *Chaleur* suspended east of Matapedia due to additional infrastructure deterioration; replacement bus service discontinued after September 17

In the spring of 2014, with the line rehabilitated sufficiently to enable safe passenger operation again, VIA said it couldn’t restore the *Chaleur* because it lacks the required crews to do so. This will leave the Gaspé without rail passenger service for another summer, disadvantaging residents and tourist industry operators, who formerly drew considerable business from it.

Even if VIA does recall enough furloughed employees or hires new ones to restart the *Chaleur* in the near future, more trouble lies ahead. Bringing the SFG up to the full state of good repair to make safe, profitable freight operation possible long term may require in excess of \$100 million, which the railway’s regional owners can’t afford. The only answer is investment by the upper levels of government. This is a matter of national and provincial transportation policy that is well beyond the question of VIA’s continued operation. But until it is resolved, VIA will continue to face situations such as those now affecting its service to the Gaspé and elsewhere.

10. A NATIONAL TREASURE IN DECLINE

In its *2013 Annual Report*, VIA highlighted the fact that the Bank of Canada's new polymer \$10 banknote features an image of the Toronto-Vancouver *Canadian*. VIA says this provides the taxpayers who fund this "true national treasure" with "an opportunity to carry a reminder of VIA Rail's role in Canadian history in the palm of their hand."

The way the *Canadian* is being treated out on the road by CN, the emphasis on its historic role is apt; its present is messy and its future tenuous. For the first quarter of 2014, VIA reports:

"On-time performance deteriorated significantly during the quarter, especially on the *Canadian* where it plummeted to less than 25%, having negative impact on customer satisfaction....

"Revenues on the *Canadian* have decreased by 16.2% over the corresponding quarter last year. The performance is mainly attributable to lower passenger volumes (24.7% less passenger-miles), partly offset by improved yields (10.8%). The decline in volumes is due in part to the poor on-time performance of the service and was more significant in Economy class, where passengers travel on shorter segments and are more sensitive to on-time performance."

Even with its managerial focus on the Quebec-Windsor Corridor east of Toronto, the *Canadian* remains VIA's flagship train. This stylish train's image has been seared into the minds of international travellers since it was launched on April 24, 1955, by the Canadian Pacific Railway (CP), as the world's last new-from-scratch "name train" of the Streamlined Era. Today, it is the world's last classic streamliner in regularly-scheduled service.

The *Canadian* is not only a national symbol – the last of a long line of CP, CN and VIA western transcontinental trains dating back to 1886 – it has traditionally been a potent product on the world travel market. The train draws a large percentage of its ridership from the high end of the international leisure travel sector, increasingly so since its robust Budd stainless steel rolling stock was completely rebuilt and modernized between 1990 and 1993. Even the Mulroney government's slashing of the *Canadian* from daily to tri-weekly, a rerouting from the CP line to the less populous and less scenic CN transcontinental route and a large fare increase couldn't diminish its popularity. After years of success, it is readily apparent the *Canadian* is wilting.

In 2013, the *Canadian* carried 99,171 passengers and generated \$45,252,000 in revenue, or nearly one-sixth of VIA's total. Its cost recovery has dropped to 45% after having peaked at roughly 75% a decade ago. Cutting the off-peak service from tri-weekly to bi-weekly has had a serious negative effect on ridership. In the first quarter of 2012, when the *Canadian* was still operating tri-weekly, it carried 15,000 passengers. By this year's first quarter, it was down by 4,000 – a loss of nearly one-third of the *Canadian's* ridership.

As for the *Canadian's* poor on-time performance, this is not a new situation. In 2008, CN pushed VIA to add 13 hours to its schedule, bringing the Toronto-Vancouver running time to an all-time high of 86 hours, 42 minutes. This was to allegedly improve performance. As the first quarter of 2014 demonstrates, this obviously hasn't improved performance; quite the opposite.

Not only is the *Canadian* still receiving improper over-the-road treatment from CN, but the extended schedule and poor on-time performance have driven costs up and passengers away. Lengthening the train's running time requires more crews and more equipment, upping its expense without increasing revenues. This should be contrasted with Amtrak's Chicago-Seattle/Portland *Empire Builder*, which operates over a route with geographic, climatic and demographic conditions generally similar to VIA's *Canadian*. However, the *Empire Builder* has been fully re-equipped with bi-level Superliners and maintained as a daily train.

Amtrak's *Empire Builder* also receives far better over-the-road treatment from Burlington Northern Santa Fe (BNSF), on which it operates from St. Paul to Seattle and Portland. Even under unusually harsh weather conditions and surging freight traffic last winter, BNSF worked cooperatively with Amtrak to try to lessen the impact on the *Empire Builder* and recover following passenger service disruptions. The same can't be said for CN's handling of VIA's *Canadian* under similar conditions.

AMTRAK'S EMPIRE BUILDER VS. VIA'S CANADIAN – 2013

KEY INDICATOR	EMPIRE BUILDER (DAILY)	THE CANADIAN (BI-WEEKLY/TRI-WEEKLY)
ROUTE MILES	Chicago-Seattle: 2,205 Chicago-Portland: 2,255	2,680
RUNNING TIME	Chicago-Seattle: 46'10" Chicago-Portland: 45'55"	86'42"
AVERAGE SPEED	Chicago-Seattle: 48 mph Chicago-Portland: 49 mph	32 mph
ROLLING STOCK TYPE	Bi-Level Superliner	Single-Level Budd HEP-1
ROLLING STOCK BUILT	1978-1981/ 1993-1994	1946-1955 Rebuilt 1990-1993
TRAINSETS REQUIRED	5	4
ONE-WAY TRIPS OPERATED	730	264
RIDERSHIP	536,391	99,171
REVENUES	\$72,900,000	\$45,252,000
EXPENSES	\$129,500,000	\$99,807,000
OPERATING LOSS	\$56,600,000	\$54,555,000
LOSS PER PASSENGER	\$105.52	\$550.11
LOSS PER PASSENGER-MILE	15.5¢	46.2¢
COST RECOVERY	56%	45%



A STUNNING CONTRAST: While Amtrak's *Empire Builder* doesn't have the classic streamliner charm of VIA's *Canadian*, it delivers nearly three times as much service and attracts five times more passengers annually. Its loss per passenger is one-fifth of the *Canadian* and it requires roughly the same total operating subsidy. As well, the *Empire Builder* has a higher average speed, thanks to better treatment from its principal host railway.

The end result is that Amtrak's daily *Empire Builder* provides a more useful and cost-effective public service than the *Canadian*. Using modern, higher-capacity Superliner rolling stock, the *Empire Builder* delivers nearly three times as much service and attracts five times more passengers annually. Its loss per passenger is one-fifth the *Canadian's* and, as a result, it requires a total operating subsidy only slightly higher.

Without major changes in the *Canadian's* operation and VIA's relationship with CN, this train's future is in doubt. That is especially the case in light of the assertion in the *Summary of the 2013-2017 Corporate Plan* that "during the off-peak season, demand is not sufficient to justify current train frequencies from a commercial perspective."

It would appear the *Canadian's* future is far from secure. With operational and financial problems such as those experienced by its western transcontinental service, VIA is going to have a tough time implementing its strategy to "build on the projects and improvements made over the past few years and turn the national pride for VIA Rail into increased ridership." Those admirable goals are going to require time and money, both of which must come from the current government, which previously cut VIA's budget.



A FADING NATIONAL TREASURE: After being fully modernized and successfully marketed by VIA in the 1990s, the flagship Toronto-Jasper-Vancouver *Canadian* has wilted in recent years. The government-mandated cuts of 2012 reduced it from tri-weekly to bi-weekly in the off season. Ridership and revenues are down, costs are up and on-time performance hit an abysmal 25% during the first quarter of 2014. Photo above by Mike Danneman

THE CANADIAN

Canada

10

A HISTORIC TRAIN

A journey on board the *Canadian*, a true national treasure, is said to be one of the most beautiful in the world. See it travel through the Rockies on the new Canadian \$10 bill.*

*Bank note image used with the permission of the Bank of Canada.

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11. THE BOTTOM OF VIA’S LONG SLIDE?

While this state-of-the-railway analysis was being prepared, VIA released its first two quarterly reports for 2014. These reports only confirm the negative and alarming findings already outlined here. In fact, VIA’s decline was dramatic in the first quarter.

VIA’s new president, Yves Desjardins-Siciliano, has openly and refreshingly stated there are problems: “The results for our first quarter are disappointing. Many key performance indicators are deteriorating after several consecutive years of improvement, none more so than on-time performance (OTP).”

True, OTP improved marginally in recent years. But virtually every other key performance indicator has been stagnant or nosing downward, not trending upward. VIA’s 2014 Q1 report emphasizes OTP and the fact that the corporation is largely at the mercy of its host freight railways. CN is the principal provider, accounting for 70% of VIA’s route-miles and 72% of its train-miles. Questions have swirled for years about the cost and quality of the service delivered by CN, but VIA has been reluctant to discuss this publicly, fearing retaliation that will result in VIA’s trains receiving even less priority than they now do vis-à-vis CN’s own freight trains.

VIA RAIL CANADA – Q1 2014 VS. Q1 2013

KEY PERFORMANCE INDICATOR	Q1 2014	Q1 2013	VARIANCE (%)
PASSENGER REVENUES	\$53,600,000	\$54,200,000	-1.1
TOTAL REVENUES	\$58,400,000	\$59,000,000	-1.0
OPERATING EXPENSES	\$127,200,000	\$122,900,000	+3.5
CONTRIBUTIONS FOR EMPLOYEE BENEFITS	\$18,300,000	\$19,400,000	-5.7
TOTAL OPERATING EXPENSES	\$145,500,000	\$142,300,000	+2.2
OPERATING DEFICIT	\$87,100,000	\$83,300,000	+4.6
CAPITAL EXPENDITURES	\$19,600,000	\$23,600,000	-16.9
GOVERNMENT OPERATING FUNDING	\$87,100,000	\$83,300,000	+4.6
GOVERNMENT CAPITAL FUNDING	\$19,100,000	\$23,500,000	-18.7
TOTAL GOVERNMENT FUNDING	\$106,200,000	\$106,800,000	-0.6
COST RECOVERY	40.1%	41.5%	-0.3
RIDERSHIP	928,000	936,000	-0.9
PASSENGER-MILES	178,000,000	184,000,000	-3.3
TRAIN-MILES OPERATED	1,482,000	1,511,000	-1.9
CAR-MILES OPERATED	7,306,000	8,594,000	-15.0
LOAD FACTOR	58%	52%	+6.0
ON-TIME PERFORMANCE	71%	82%	-11.0

VIA's 2014 Q1 report recognizes the importance of OTP and the serious problems it faces, particularly on the CN lines that constitute the bulk of its national route network.

“OTP is key to our commercial success. Our passengers expect to arrive at their destinations on schedule; it is one of the most important variables of travel choice, and the one over which VIA Rail has the least amount of control. Approximately 98% of its traffic operates on rails owned by infrastructure providers other than VIA Rail, mostly by CN and CP. Working with these partners, we must continue to attempt to improve this operational measure.”

The winter of 2013-2014 was undeniably harsh, disrupting freight and passenger operations to a higher-than-normal degree across western Canada and the U.S. But one item of long-term concern is contained in VIA's references to the OTP problem in its Q1 2014 report: “A very harsh winter meant that more maintenance work needed to be performed on rolling stock, which caused some travel delays.”

This is yet more proof that VIA is physically failing and its aging motive power and rolling stock is not up to the rigours of a severe Canadian winter, causing problems that translate into performance failures leading to customer dissatisfaction. As well, the impact of the weather-related delays cannot explain away the absolutely abominable performance of VIA's *Canadian*, as discussed previously in this report. Its dispatching by CN through the winter of 2013-2014 has contributed to a new low in transcontinental passenger reliability. This performance is even worse than when the *Canadian* and other western long-haul trains were still being operated with unreliable steam-heated equipment, prior to the 1990-1993 head end power (HEP) conversion project.

However, VIA's Q2 2014 report does suggest the corporation may have hit its lowest point in the previous quarter and the decline has at least been arrested, although not reversed.

While understandably putting a positive spin on the latest figures, VIA acknowledged that further work is required to decisively cure the railway's long-term problems:

“This quarter's financial results are encouraging. In particular, working with our railway partners, we improved our on-time performance (OTP) by 8.7 percentage points from 70.6% in the previous quarter to 79.3% in this quarter. We can be cautiously optimistic that we are on the right track, although a lot of work needs to be done in order to meet last year's OTP quarterly results,” stated Yves Desjardins-Siciliano, VIA Rail's President and CEO.

“We have a team of dedicated and customer-focused employees; our passengers believe in our services and appreciate their value; and the Government of Canada has provided financial support to initiate some of the changes that will benefit everyone.”

VIA RAIL CANADA – Q2 2014 VS. Q2 2013

KEY PERFORMANCE INDICATOR	Q2 2014	Q2 2013	VARIANCE (%)
PASSENGER REVENUES	\$63,900,000	\$61,200,000	+4.4
TOTAL REVENUES	\$68,700,000	\$66,100,000	+3.9
OPERATING EXPENSES	\$119,500,000	\$117,400,000	+1.8
CONTRIBUTIONS FOR EMPLOYEE BENEFITS	\$23,600,000	\$28,600,000	-17.5
TOTAL OPERATING EXPENSES	\$143,100,000	\$146,000,000	-2.0
OPERATING DEFICIT	\$74,400,000	\$79,900,000	-6.9
CAPITAL EXPENDITURES	\$16,700,000	\$24,500,000	-31.8
GOVERNMENT OPERATING FUNDING	\$74,400,000	\$79,900,000	-6.9
GOVERNMENT CAPITAL FUNDING	\$16,600,000	\$24,200,000	-31.4
TOTAL GOVERNMENT FUNDING	\$91,000,000	\$104,100,000	-12.6
COST RECOVERY	48.0%	45.3%	+2.7
RIDERSHIP	912,000	937,000	-2.7
PASSENGER-MILES	200,000,000	208,000,000	-3.8
TRAIN-MILES OPERATED	1,554,000	1,582,000	-1.8
CAR-MILES OPERATED	9,760,000	10,739,000	-9.1
LOAD FACTOR	60%	54%	+6.0
ON-TIME PERFORMANCE	79%	86%	-0.9

The end of the weather-related service disruptions, the arrival of more rebuilt LRC rolling stock and VIA's ability to offer more capacity on certain Quebec-Windsor Corridor runs have obviously produced a marginal improvement in performance. Still, the sub-standard OTP and the drop in ridership are reasons for concern. So, too, is the steep decline (-31.8%) in capital funding provided by the federal government.

At best, VIA's performance in the second quarter of 2014 represents a tentative end to the downward spiral that began in 2009, when its cost recovery ratio began to nosedive. It appears to merely be in a holding pattern. With no major service or funding improvements on the horizon, it is difficult to see how VIA will be able to boost its operational and financial performance to any appreciable degree.

At worst, VIA is likely to become a much smaller and less useful passenger railway. Its course of action will be largely dependent on government funding policies, which show no signs of being revised to conquer VIA's need for more capital investment and consequently improve service, ridership and cost recovery. With only occasional respites, this is how VIA has ebbed along since the Mulroney government hacked off half of the system in January 1990.

In the extreme, VIA could easily be scuttled by all these negative forces.

12. GLIMMERS OF HOPE

There is no easy solution to VIA's dilemma. It has accumulated so many problems since it was inadequately constituted by the government in 1977 that any solution is going to be expensive and time consuming. VIA can't be fixed overnight or without properly-targeted capital investment that flows consistently over a period of at least 10 years.

The sad truth is a large portion of the \$923 million capital renewal program has been wasted. The fleet refurbishment program is incomplete. The over-budget CN Kingston Subdivision project is largely valueless without the \$125-million Coteau sub-project. In the end, the capital renewal program was a large and risky Band-Aid, when VIA needed a big fix.

As desperate as VIA's situation may be now, it can be fixed. One only has to look to elsewhere, particularly to the U.S., to find examples of other railways that have been in situations as dire as VIA's. These passenger railways have been revived through an interlocking set of measures aimed at getting them up to a state of good repair and then equipping them with the financial, physical, human and legislative tools necessary to ensure they don't relapse.

In the midst of this admittedly gloomy situation, there are some faint glimmers of hope.

The appointment of Yves Desjardins-Siciliano as president and CEO in May has had a positive effect in terms of VIA's presence in Ottawa. Having served as chief of staff to Transport Minister Jean Corbeil in the early 1990s and with four years of executive experience at VIA prior to his appointment, Desjardins-Siciliano certainly knows the realities facing VIA in its dealings with government. To his credit, he has made the effort to travel across the full national system to inspect the services and meet the employees. He has also spoken in more realistic terms than his predecessor when addressing various business organizations about improving VIA.

However, VIA's fate is and always has been in the hands of the federal government, not its management team. It is policy and funding that make it roll. Only a federal cabinet with a positive approach to VIA's physical and financial needs can create the environment in which an inspired and empowered management team can function successfully.

There is no indication such empowerment will be provided by the current government, especially as it continues to emphasize debt reduction as one of its selling points in the run-up to the 2015 election campaign. At the same time, it is unlikely this government would cut VIA further prior to the election, having witnessed the public's displeasure with the service reductions of 2012. This leaves VIA stuck in neutral, at least until the fall of 2015.

Despite the lack of federal action, there has been an interesting development at the provincial level. This could have positive implications for a portion of the VIA system.

Just before Ontario's provincial election of June 12, 2014, the government of Premier Kathleen Wynne made a series of announcements on transportation improvements it would undertake, if re-elected. The first and most definitive was the GO Transit Regional Express Rail (RER) plan. This was previously outlined in the long-range plans of Metrolinx, the provincial agency responsible for regional transportation planning in the Greater Toronto and Hamilton Area (GTHA), as well as operation of GO.

Under Premier Wynne's RER plan, the lines fully owned by GO will be upgraded and electrified to provide a high-frequency service daily in both directions. The lines involved are Lakeshore East, Stouffville, Barrie and the forthcoming Union Pearson Express. On the routes where track segments are still owned by CN and CP, their agreement is required for the GO RER capacity expansion and electrification projects. This has not been forthcoming. Until this matter is resolved, only the GO-owned portions of the Lakeshore West, Kitchener and Richmond Hill lines can be converted to RER, although this is still substantial, especially with the recent Metrolinx acquisition of the Georgetown-Kitchener segment of the Kitchener Line from CN.

Additionally, Premier Wynne's government announced it would build an electrified, high-speed rail (HSR) passenger service from Toronto to London via Pearson International Airport, Brampton and Kitchener. The details were sketchy and there was some public criticism, based on its lowball cost estimate of \$2-3 billion, its lengthy construction schedule (up to 10 years) and its omission of Stratford, St. Marys and downtown Guelph; the latter would be bypassed in favour of a station south of the city's core. However, the HSR plan was only preliminary and it needs substantial refinement, which the government said would come after the election.

Following the government's re-election, Premier Wynne restated the commitment to the RER project and an expanded HSR plan in her mandate letter of September 25, 2014, to Minister of Transportation Steven Del Duca. His directions include:

"Working to transform existing GO commuter rail into a Regional Express Rail rapid transit system over the next 10 years, with the support of Metrolinx and Infrastructure Ontario. The system will provide 15-minute, two-way electrified service and is the cornerstone of our government's transit plan. Your goal is to manage congestion and move people throughout the GTHA....

"Advancing environmental assessments for high-speed rail — building on the GTHA's forthcoming Regional Express Rail network — which will link Toronto, Lester B. Pearson International Airport, and Waterloo Region and London, as well as London and Windsor."

GO RER will yield some benefits for VIA. On those lines where GO will implement RER service and VIA operates as a tenant, it will provide better infrastructure allowing for speed and schedule improvements. RER will also act as an enhanced, all-day feeder service for passengers to and from local destinations in the GTHA, connecting directly at several stations in the GTHA.



JOINT FUNDING PRODUCES HIGH PERFORMANCE: U.S. federal partnerships with several state governments are producing a sustainable network of improved corridor services nationwide. Typical of these is the popular Pontiac-Detroit-Chicago Wolverine Corridor (above), which now has sections of track upgraded for 180-km/hour operation and will soon be re-equipped with bi-level trains (below) for faster and more frequent service.



But it is Premier Wynne's commitment to HSR that can have the greatest impact on VIA, particularly in southwestern Ontario. Whether it will come to fruition is a question fraught with physical and financial challenges still to be resolved. Should the province pursue HSR, its lengthy construction period will prevent it from having any short- to medium-term impact on VIA's well-patronized southwestern Ontario services, which were reduced to their lowest level ever in 2012.

However, Ontario's interest in advancing the Toronto-London HSR concept – now expanded to include Windsor – can have a more immediate impact on VIA if the provincial and federal governments chose to see the need for near-term improvements to the existing service to provide a springboard to eventual HSR. Right at the start, Premier Wynne suggested HSR would be ideal for joint federal/provincial funding, especially given that VIA is already serving the region, although inadequately.

This is the first time a provincial government has suggested a jointly-funded intercity rail solution, venturing into a mode of transportation that has traditionally been solely a federal responsibility. Such an approach would mirror that taken in the U.S. There, 19 states have partnered with federally-funded Amtrak to provide service on 28 corridors of 1,400 km or less. This joint funding has allowed Amtrak to expand service on corridors originally operated with federal funding only when it was inaugurated in 1971. It has also added new routes of regional importance that weren't part of Amtrak's basic national network at its inception.

Many of Amtrak's federal/state corridors are now being transformed with jointly-funded infrastructure upgrades for 180-km/hour service, new equipment and increased frequencies. The program is correctly defined as "high-performance rail" and it is designed to serve as the foundation for eventual HSR service on some of these corridors.

The need for comparable federal/provincial partnerships for VIA has often been suggested by Canadian rail passenger advocates. One can only hope Ontario presses this issue with the feds, making the case that pooling the resources of the two levels of government represents a logical and cost-effective rail solution to the growing inadequacies of southwestern Ontario's public transportation system. Such a bold and visionary step could set a precedent to be followed by other provinces for additional segments of the VIA system. This offers at least a glimmer of hope – no matter how faint – for sustainable rail funding and more effective service delivery.

But in the end, even with the enlightened encouragement of a provincial government that sees public utility and fiscal value in improved rail passenger service, any renaissance must be led by VIA's current master, which remains the federal government.

It is, therefore, disconcerting to observe the current government's stance. When questioned by opposition MPs, the ministers responsible for VIA invariably distance themselves from its numerous problems. They also consistently fail to offer any suggestions for improving VIA's performance. The government wants all to believe VIA is in good shape, when it obviously isn't.

Typical of this is the reply Minister of Transport Lisa Raitt gave in the House of Commons on March 23, 2014, to a question from former NDP Transport Critic Olivia Chow:

“Mr. Speaker, as we know, VIA Rail is responsible for its own operational decisions. Regardless, there is one truism here. Our government does support a passenger rail network, but that passenger rail network has to meet the needs of today's travellers as well as be fair and not burden the taxpayer. We expect VIA Rail to operate in that manner. Indeed, that is exactly what it is doing. We are concerned that it does continue to post significant losses regardless of how much money we are putting into the system.”

VIA is anything but the independent Crown corporation the minister constantly implies. Its existence has always hinged on actions taken by Transport Canada, Finance, Treasury Board, Cabinet and the Prime Minister's Office. It is there that the decisions that could lead to VIA's renaissance must originate.

Furthermore, VIA is not meeting “the needs of today's travellers.” There has been a constant call from the Gaspé, the Maritimes and both southwestern and northern Ontario for more frequent service, not the reductions undertaken in 2012 as a result of the government's cuts to VIA's funding.

The only indications of VIA's attitude towards frequency improvements have come from VIA's new president, Yves Desjardins-Siciliano. Those indications are not hopeful because they are predicated on government funding shortfalls and a continuing lack of capital to acquire the new equipment to combat rising operating costs and attract additional passengers and revenue.

At the May 12, 2014, ceremony announcing VIA's payment of \$10.2 million to CN to rehabilitate a portion of the route of the Halifax-Montreal *Ocean*, Desjardins-Siciliano said, “Anything's possible. It's possible that frequencies will increase, or that frequencies will decrease. Frequency has to be based on the needs of the market, and they must be financially viable.”

That's far from a ringing endorsement of service increases as a means of meeting the needs of travellers today, not to mention generating more ridership and revenue. To be fair to VIA's new president, who has only been at the helm since May, it is all too indicative of a rail passenger policy that is made up on the fly by Ottawa and forced on its rail passenger service delivery agent, namely VIA. What is lacking is a real-world strategy and the sustained capital funding VIA has required from the start.

A funded plan to completely replace VIA's fleet is long overdue. This is the logical starting point if Canada is to have a modern, sustainable and nationwide rail passenger service.

Until all this changes, then former Amtrak president David Gunn is correct: VIA is dying.

APPENDIX A

VIA'S LRC FLEET REFURBISHMENT PROJECT

EXCERPTED FROM

REVITALIZING NEW BRUNSWICK'S RAIL SECTOR

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 illustrates all that is wrong with Canadian rail passenger policy, funding, management and delivery. It involves actions 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 it was 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 honour its contractual obligations, but had invested 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. Industrial Rail Services hoped to re-manufacture and market its 27 RDCs for similar new-start commuter projects around North America, as well as the proposed Toronto and Montreal downtown-to-airport services. 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 saddling 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. 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.

<http://nationaldreamrenewed.com/wp-content/uploads/2014/01/NB-Rail-Report-Final-Rev-140120-LowRes-Version.pdf>

Government of Canada and VIA Rail award rolling stock overhaul and accessibility upgrading contracts

MONCTON, May 4, 2009 - The overhaul of nearly one-quarter of VIA Rail Canada's passenger car fleet and important accessibility improvements to 12 of its newest trainsets were announced today by Canada's Minister of State for Transport, Rob Merrifield, VIA President and CEO Paul Côté and Richard Carpenter, President of Industrial Rail Services, Inc. (IRSI) of Moncton.

"This government's support of VIA Rail, through the Economic Action Plan, will create skilled jobs and stimulate the economy across Canada," said Minister of State Merrifield. "We are pleased to be taking action that will provide faster, more frequent, more reliable passenger rail service across Canada."

The Light, Rapid and Comfortable (LRC) fleet overhaul, a \$98.9 million contract, will fully renew all 98 of VIA's Canadian-built cars. The overhaul will not only renew them for up to 20 additional years of fast, comfortable and reliable service, but also reduce their energy requirements by up to 20 per cent, making them more cost-effective and reducing their already-low environmental footprint.

The \$5.8 million Renaissance rolling stock contract will upgrade 21 cars in the 106-car fleet to offer new levels of accessibility for travelers with special requirements on many trains in the Quebec-Toronto segment of VIA's main corridor and on its overnight Montreal-Halifax Ocean.

"I want to thank the Government of Canada for its recognition of the potential of passenger rail through these substantial and cost-effective investments in VIA's fleet," said Mr. Côté. "It is an investment that not only stimulates the economy, but responds to the clear indications that Canadians want and will support more and better passenger rail service. As the custodians of that transportation service, the people of VIA are proud to make these improvements on their behalf."

The two contracts awarded to IRSI will create 135 new jobs and 613,000 person hours of employment at IRSI, as well as 50 additional jobs at associated companies and suppliers. The projects are part of an unprecedented investment in passenger rail modernization and expansion by the Government of Canada.

Richard Carpenter, President of IRSI, said, "I can think of no better way for us to be celebrating the 10th anniversary of our company and our long association with VIA. The people of Moncton and all of our highly-skilled employees will take great pride in contributing to the physical renewal of a form of travel that is obviously the smart, safe and sustainable alternative today."

-30-

Backgrounders:

[VIA's LRC Fleet](#)

[VIA's Renaissance Fleet](#)

BACKGROUND: VIA'S LRC FLEET

An All-Canadian Rail Innovation from Roof to Wheels

ABOUT THE TRAINS:

VIA's Light, Rapid and Comfortable (LRC) trains represent one of the most innovative chapters in the history of North American rail travel – completely Canadian in concept, design and construction.

The LRC was conceived in 1968 by a consortium of Dofasco, Alcan and Montreal Locomotive Works (later Bombardier). One inspiration was a Canadian Transport Commission study on the future of passenger transportation that found “the most profitable strategy to adopt involves maximizing the potential of existing railway facilities through the introduction of new vehicle technology.”

The LRC would be an aerodynamically streamlined and lightweight train using service-proven sub-systems and operating techniques. It would not require all-new facilities, rail lines or other expensive infrastructure upgrades, but would be capable of 200 km/hour operation on existing lines shared with freight trains.

This contrasted with the Turbo Train, which used aircraft turbines and many other unconventional systems. As well, the Turbo consisted of semi-permanently coupled cars in formations that couldn't be easily altered. The flexible LRC would be composed of individual cars that would be added or removed quickly to match passenger demand. And the LRC could be hauled by proven diesel-electric locomotives, avoiding costly rail line electrification.

The LRC development project – supported by the Government of Canada – produced a prototype diesel locomotive and coach in 1972 that were tested extensively under a wide range of operational and climatic conditions. They met all expectations, setting a Canadian speed record of 208 km/hour on a test run on March 12, 1976. The sturdy monocoque, aluminum alloy coaches were particularly noteworthy, weighing one-third less than conventional rolling stock then in use.

VIA and the Government of Canada placed two LRC orders in 1978 and 1981 for a total of 31 locomotives and 100 cars for fast, frequent and improved service throughout the Quebec-Windsor Corridor. The LRC was the first new equipment ordered by VIA following its creation as a Crown corporation on January 12, 1977.

With extensive refinement by VIA's engineering staff, the LRC coaches and business class cars have become the mainstays of VIA's corridor services since their introduction in 1981. The locomotives were not as successful and have been retired. LRC trains are now hauled at up to 160 km/hour by VIA's 21 high-performance General Electric Genesis locomotives or 54 General Motors F40 diesels. The latter are now undergoing a \$100 million overhaul to increase their environmental and economic efficiency, and extend their operating lives at significantly less cost than buying new equipment.

A major achievement of the LRC design was the interior styling, undertaken through an international competition sponsored by Transport Canada. The LRC broke with railway tradition by providing passengers with at-seat food and beverage service provided from all-electric galleys and carts. The LRC also featured panoramic tinted windows, a public address system, electrical heating and air conditioning systems, overhead reading lights, specially-designed reclining seats and a soothing beige-and-brown scheme for carpeting, upholstery and wall panels.

Today, VIA operates 72 LRC coaches, which seat 68 economy class passengers, and 26 business class cars, with seating for 56, on trains throughout its Quebec-Windsor Corridor.

ABOUT THE PROJECT:

The \$98.9 million contract awarded to Industrial Rail Services, Inc. (IRSI) of Moncton, New Brunswick, will completely overhaul VIA's 98 LRC cars to provide even more comfortable and efficient service levels than when first delivered. The project builds on the knowledge gained and the improvements implemented through the LRC's millions of kilometers of service and will upgrade them with technological advances made since their construction more than two decades ago.

The LRC overhaul began as a prototype project in 2005-2007 in which VIA staff disassembled business class car 3451, assessed the integrity of the carshell and each sub-system, and then installed all-new or fully refurbished components for service testing. This intense investigation proved that overhauling the LRC cars for greater efficiency and comfort was preferable to buying new equipment.

Overhauling the LRCs will cost about \$1 million per car and the first will be delivered within one year. There is currently no suitable North American intercity passenger car design that VIA could purchase "off the shelf" from any manufacturer. Developing such a car would take up to four years, require extensive testing and debugging, and cost about \$4-5 million per car.

Designed for a 20-year operating life, the LRCs have proved more durable than even their creators suspected. The earliest cars are now approaching 30 and have reliably provided millions of kilometres of service. The sturdy carshells and many other sub-systems are structurally sound and this overhaul will prepare them for up to 20 additional years of safe and productive service.

The overhauled LRCs will be moved to the IRSI Moncton facility for complete disassembly and stripping of all reusable and recyclable components. Rather than being wastefully scrapped, the trucks, wheelsets, couplers, drawbars and intercar diaphragms will be completely reconditioned. Any corrosion will be repaired on the aluminum alloy carshells and a protective anti-corrosion treatment applied.

A key objective of the LRC overhaul project will be an increase of at least 20 per cent in energy efficiency through reduced electrical requirements. This will be done with smaller and more energy-efficient wiring, LED lighting, nickel cadmium batteries, advanced microprocessor controls, the elimination of obsolete and inefficient relays and switches, high-efficiency linear motors for automatic door operation and the installation of a state-of-the-art "smart" heating and air conditioning (HVAC) system. An environmentally-friendly, water-based cleaning system will flush the air conditioning condensers in the yards during servicing to keep them operating at peak efficiency.

The new HVAC system divides the cars into four separately-controlled zones. Sensors and microprocessors will automatically reduce the overall interior temperature to 10° C in the winter or increase it to 30° C in the summer if the cars have not moved or there has been no interior movement for a certain number of minutes or when they are receiving external wayside power in stations or yards.

Removal of the banking system will reduce maintenance costs, as well as cut the LRC's weight by two tonnes per car and reduce fuel consumption. As well, the concurrent overhaul of VIA's fleet of 54 F40 diesel-electric locomotives will see many obsolete components replaced with advanced, more efficient equivalents. The overhauled F40s and LRCs in combination will improve energy efficiency, reduce fuel consumption and emissions, and decrease VIA's already low environmental footprint.

Improved comfort and accessibility are at the forefront of VIA's LRC overhaul project. The seats will be completely reconditioned and new upholstery applied. Business class seats will now be leather. Brighter interior colours, new windows and individual curtains will give the LRCs a totally new look. Washroom facilities will be fully modernized. The food service galleys will be refurbished with better lighting and high-efficiency appliances capable of remote monitoring of the refrigerators to assure that food temperatures are properly maintained.

Twenty-six of the LRC coaches will be provided with larger, fully-accessible washrooms. Six seats in each of these accessible cars – one for each LRC train consist – will have flip-up armrests to provide easier access and a generous amount of space for passengers with special needs travelling with a service animal or care provider.

The final touch in the overhaul of VIA's LRC fleet will be the application of a new green, silver and gold exterior paint scheme. Service testing will follow. The first better-than-new LRC cars will arrive in May 2010. Cars will be delivered at the rate of two per month until all 98 cars are in service by December 2013 at the latest.

ABOUT THE PROJECT'S BENEFITS:

The LRC overhaul project will create 100 jobs at IRSI in Moncton and 552,000 person hours of employment. As well, this and the concurrent work to increase the accessibility of VIA's Renaissance fleet will create another 50 jobs at IRSI's associated companies and suppliers throughout Canada.

ABOUT INDUSTRIAL RAIL SERVICES, INC:

Industrial Rail Services, Inc. (IRSI) of Moncton, New Brunswick, is a full-service locomotive and passenger rail car facility specializing in equipment repairs, remanufacturing, modifications and refurbishment. Since its founding in 1999, IRSI has become North America's premier rebuilder of rail passenger equipment, strengthening Moncton's reputation as a global rail centre of excellence for more than a century.

IRSI's modern and well-equipped facility is located in the CN Gordon Yard on the eastern transcontinental main line. Its 125,000-square-foot facility is equipped with 18 exhausted service bays, overhead cranes, drop tables, tool cribs, designated stores and document control areas, a metal fabrication shop, training facilities, a wash bay and a new 100-foot, state-of-the-art paint shop.

The strength of IRSI is its highly skilled and dedicated workforce, whose craftsmanship is recognized throughout the rail industry and has earned the company certification by the Association of American Railroads.

ABOUT VIA RAIL CANADA:

As Canada's national rail passenger service, VIA Rail Canada's mandate is to provide efficient, environmentally sustainable and cost-effective passenger transportation services, both in Canada's business corridor and in remote and rural regions of the country. Every week, VIA operates 503 intercity, transcontinental and regional trains that link 450 communities across its 12,500-kilometre route network.

The demand for VIA services is growing as travellers increasingly turn to train travel as a safe, hassle-free and environmentally responsible alternative to congested roads and airports. In 2008, VIA safely transported 4.6 million passengers – the most since 1989 – and set an all-time record of \$299 million in revenue.

-30-

APPENDIX B:

**VIA'S
CN KINGSTON SUBDIVISION PROJECT**

Government of Canada and VIA Rail Canada launch major Montreal-Ottawa-Toronto passenger rail improvement project

Thursday, 16 July 2009

TORONTO, July 16, 2009 - At a ceremony at Toronto's Union Station, the Government of Canada and VIA announced \$300 million dollars in support for the largest-ever improvement and investment program in the 153-year history of passenger rail service between Montreal and Toronto: VIA's Canadian National Kingston Subdivision Project.

"It gives me great pleasure to unveil this strategic investment in the upgrading of the Montreal-Toronto main line, which is the heart of the Canadian passenger rail system," said Minister of State for Science and Technology Gary Goodyear, on behalf of Minister of State for Transport Rob Merrifield. "This project, announced through Canada's Economic Action Plan, will create new jobs and expand passenger rail service in this important transportation corridor."

Totalling more than \$300 million, VIA's CN Kingston Subdivision Project is a series of infrastructure improvements at eight locations along the 539-kilometre, double-track rail line. It will boost capacity by eliminating bottlenecks and greatly reducing delay-causing conflicts between VIA passenger and CN freight trains.

Phase I of the project will allow for the addition of two daily roundtrip frequencies on VIA's busy Toronto-Montreal and Toronto-Ottawa routes. The latter operates over the Kingston Subdivision between Toronto and Brockville.

"Today is the dawn of a new era in safe, swift and sustainable passenger rail travel in Canada," said VIA Chairman Donald A. Wright. "Just as the opening of this rail line 153 years ago changed the whole concept of travel between the burgeoning cities of southern Ontario and Quebec, this project has the same transformational potential. It will decisively position the passenger train as the modern answer to highway gridlock and airport winglock."

CN's (TSX: CNR) (NYSE: CNI) executive vice-president, Claude Mongeau said: "CN is pleased to support VIA and the federal government on this important infrastructure project. CN has traditionally maintained the Kingston Subdivision to its highest track standards in recognition of its importance to intercity passenger traffic and key flows of rail freight. CN will undertake the engineering work for the rail-line improvements on behalf of VIA. When completed, the additional trackage will benefit VIA passenger service across its Canadian network."

VIA's CN Kingston Subdivision Project is part of an unprecedented \$923 million investment by the Government of Canada in passenger rail renewal and expansion. Of this amount, \$407 million is under the government's Economic Action Plan.

Other elements of VIA's program include expanded, fully-accessible station facilities at strategic locations on the Montreal-Toronto route, major infrastructure and station upgrading on other routes, accessibility projects for travellers with special needs and the complete rebuilding of service-proven locomotives and rolling stock. The program will benefit rail travellers across the entire VIA transcontinental system, from Halifax to Vancouver Island.

Highlights of VIA's CN Kingston Subdivision Project include:

- construction of additional ("third") main line track to enable VIA and CN trains to pass or overtake each other safely and quickly;
- extensions to sidings and yard tracks to allow CN freight trains to exit and clear the main line when required; and
- other track and signal improvements to smooth the flow of VIA passenger and CN freight traffic, assuring consistent on-time performance for both.

Work on VIA's CN Kingston Subdivision Project will begin this summer and wrap up in 2011. To date, CN has hired 100 track and signal workers for its portion of the work, which will be performed under contract with VIA. Additional jobs will be created throughout the two-year span of the project within both CN and other private sector companies participating in this project.

VIA's F-40 Locomotive Rebuild Project

In Montreal today, the Government of Canada and VIA announced the arrival of the first of 54 rebuilt F-40 locomotives from CAD Railway Industries (CAD) from Lachine, Québec. The enhanced F-40 fleet will incorporate new technologies that will reduce green-house gas GHG emissions by up to 12%, produce fuel savings of 5 million litres per year, and reduce maintenance costs by 8% annually.

About VIA Rail Canada

As Canada's national rail passenger service, VIA Rail Canada's mandate is to provide efficient, environmentally sustainable and cost-effective passenger transportation, both in Canada's business corridor and in remote and rural regions of the country. Every week, VIA operates 503 intercity, transcontinental and regional trains linking 450 communities across its 12,500-kilometre route network.

The demand for VIA services is growing as travellers increasingly turn to train travel as a safe, hassle-free and environmentally responsible alternative to congested roads and airports. In 2008, VIA safely transported 4.6 million passengers - the most since 1989 - and set an all-time record of \$299 million in revenue.

About CN

The Canadian National Railway Company and its operating railway subsidiaries span Canada and mid-America, from the Atlantic and Pacific oceans to the Gulf of Mexico. CN serves the ports of Vancouver, Prince Rupert, B.C., Montreal, Halifax, New Orleans, and Mobile, Ala., and the key metropolitan areas of Toronto, Buffalo, Chicago, Detroit, Duluth, Minn./Superior, Wis., Green Bay, Wis., Minneapolis/St. Paul, Memphis, and Jackson, Miss., with connections to all points in North America. CN shares are listed on the Toronto Stock Exchange under the symbol "CNR" and on the New York Stock Exchange under "CNI."

-30-

Canada's Steel Speedway

ABOUT THE PROJECT:

VIA's \$230 million, two-year CN Kingston Subdivision Project will greatly expand the capacity of what is one of North America's most heavily used and fastest rail lines. It will relieve congestion at key locations on this double-track line and smooth the flow of time-sensitive VIA passenger and CN freight traffic. This will allow for the addition of new passenger services and assure on-time performance by both railways.

The Kingston Subdivision Project will build on the improvements underway or soon to begin on other segments of VIA's Quebec-Windsor Corridor, which generates about 90% of VIA's ridership and revenue. The project is also strategically linked with the current rebuilding of the locomotive and rolling stock fleets.

This work is all part of an unprecedented \$923 million capital investment by this government – including \$407 million under the Economic Action Plan – to improve and expand VIA's safe, cost-effective and environmentally-friendly passenger rail service.

Phase I of VIA's CN Kingston Subdivision Project includes:

- **Additional main line track**

Sections of third main line track will be added to the existing double-track line west of the Brockville station, between Mallorytown and east of Gananoque, from Napanee West to the Belleville station, between Grafton and the Cobourg station, and at Oshawa. With this 80 kilometres of additional track, three or more trains – VIA passenger and CN freight – will be able to safely and quickly overtake or pass each other without stopping. A fourth track will be built at Belleville to further expand capacity at this busy station.

As well, additional remotely-controlled crossovers and signalling that allow trains to move quickly from one main track to another will be installed at various locations. Warning systems will be modified and upgraded at all public road level crossings within these areas.

- **Expanded freight siding and yard track**

In the Greater Montreal Area, sidings and yard tracks at Turcot, Les Cedres and Coteau will be extended and rearranged so CN freight trains may stop to perform work without blocking the main line.

- **Expanded and improved station facilities**

Expanded or all-new station facilities will be built at Coteau, Brockville, Belleville, Cobourg and Oshawa. The new Coteau station – served exclusively by VIA’s Montreal-Ottawa trains – will be relocated to the northwest of the junction between CN’s Kingston Subdivision and VIA’s Alexandria Subdivision. This will prevent Montreal-Ottawa trains that stop at Coteau from blocking trains on the Montreal-Toronto route.

At Brockville and Belleville, new stations that are larger and better suited to today’s travel needs will be built. The original heritage-designated station buildings will be retained for other uses within these communities.

A decision on the Oshawa station project awaits the finalization of GO Transit’s plan to extend its commuter service east to Bowmanville. This involves the construction of a new line to enable GO’s trains to connect with the Canadian Pacific main line to the north and this “cut-off” may require a new VIA/GO station slightly west of the current one.

With the addition of the third main line at Belleville, Cobourg and Oshawa, new island platforms will be built between the tracks. These will eliminate the need for all trains to cross over to one side of the main line to board or disembark passengers at the current station platforms. The new platforms will be connected with the stations by fully-accessible bridges or tunnels, so passengers will not have to cross the tracks.

ABOUT THE PROJECT’S BENEFITS:

The main transportation benefit of the first phase of VIA’s CN Kingston Subdivision Project will be the creation of enough capacity to safely and efficiently handle two additional daily roundtrips on the Montreal-Toronto and Ottawa-Toronto routes, as well as further additions to the Montreal-Ottawa service.

Additional departure and arrival times – as well as assured on-time performance – are key factors in encouraging more travellers to choose environmentally-beneficial passenger rail for journeys within and beyond VIA’s Quebec-Windsor Corridor. Trains emit only one-third the greenhouse gases per passenger of intercity automobiles and planes.

The VIA Kingston Subdivision Project will also stimulate much new economic activity and job creation. To date, CN has hired 100 workers to undertake this project on behalf of VIA. Additional jobs will be created throughout the two-year span of the project. The project will also generate additional economic activity and employment for those private firms supplying track, signal and construction materials and services to VIA and CN.

ABOUT THE LINE:

The CN Kingston Subdivision – over which VIA operates its most frequent and fastest trains – was built by the pioneering Grand Trunk Railway (GTR) as part of a scheme with two major objectives. First, it would link the largest cities and towns of British North America with a flat and direct route along the shores of the St. Lawrence River and Lake Ontario. The GTR’s promoters accurately described it as “the Canadian Main Line.”

Equally important, it would be an international line providing the shortest and fastest route from the U.S. railway hub of Chicago to the ice-free Atlantic seaport of Portland, Maine. The Toronto-Montreal section was at the heart of this system.

Incorporated on November 10, 1852, the GTR’s Canadian and British investors aimed to create a railway that would exert the same nation-building influence as the Roman Empire’s trunk roads – hence its name. Its construction was a combination of Canadian and British railway “know-how.” When the Toronto-Montreal section was opened on October 27, 1856, the inaugural train of one wood-burning steam locomotive and seven cars took 14 hours to traverse the route at an average speed of 50 km/hour – a far cry from the 160 km/hour service of today’s VIA passenger trains.

Today, the CN Kingston Subdivision is a 539-kilometre double-track line linking Montreal Central Station with Toronto Union Station and numerous important intermediate stations. The Scarborough-Union Station section was triple-tracked in 2008 with federal and provincial funds for expanded GO Transit commuter rail service.

The CN Kingston Subdivision consists of track built with high-strength steel rails rolled in specialized mills in Canada, the U.S. and Germany, which weigh 132 to 136 pounds per yard (Canada’s railways continue to use Imperial units of measure in order to match the standards employed continent-wide). The 78-foot rail sections are welded into continuous lengths – often referred to as “ribbon rail” – a quarter-mile or more in length. This continuous welded rail largely eliminates the romantic “clickety-clack” sound of old, but it is smoother and less maintenance intensive than jointed or bolted rail.

The rail is positioned and held in place under the tremendous dynamic and lateral forces of the trains with steel tie plates and rail anchors, and then spiked to treated hardwood crossties. The ties are spaced 22” apart, requiring 3,110 ties per mile of single track. The track is laid to the standard gauge of 4’ 8½” between the railheads. This track structure is built on top of a three-part roadbed that consists of a layer of clean earth sub-grade, gravel sub-ballast and crushed rock ballast on top.

One mile of main line track on the CN Kingston Subdivision requires 240 tons of rails, six tons of spikes, 63 tons of tie plates and 2,730 tons of ballast. Building a single-track section without bridges or diverging track switches costs about \$3 million per mile.

The mix and density of rail traffic that operates over this robust track structure is among the most complex in North America. Over various segments of the route, it accommodates everything from VIA's 160-km/hour passenger trains to 100-km/hour CN trains carrying various types of freight to the 120-km/hour commuter trains of Toronto's GO Transit.

In total, the various segments of the CN Kingston Subdivision are traversed on a typical weekday by as many as 130 trains, including:

- 36 VIA intercity passenger trains;
- 22 CN freight trains; and
- 72 GO Transit commuter trains.

Due to the speed, length and weight differences between intercity passenger and freight trains, the most complex section of the line is between Kingston and Pickering Junction, where the majority of CN trains diverge on to the freight bypass line that takes them north of Toronto to the city's main hump classification yard in Maple. GO's Oshawa-Toronto commuter trains enter the Kingston Subdivision here, using a parallel GO-exclusive line from Oshawa to this busy junction point. GO's Stouffville commuter trains enter the Kingston Subdivision farther west at Scarborough Junction.

Operations on the Kingston Subdivision are directed by computer-assisted Centralized Traffic Control under the direction of rail traffic controllers (RTCs) at CN's Rail Traffic Control Centres in Toronto and Montreal. Train movements are governed by signal indications and radio instructions from the RTCs.

ABOUT VIA'S QUEBEC-WINDSOR CORRIDOR:

VIA's 1,150-kilometre Quebec-Windsor Corridor serves the most densely populated and industrialized area of the country, which is home to more than half of Canada's population. The corridor is at the heart of VIA's 12,500-kilometre transcontinental route network, generating more than 3.5 million trips annually and accounting for nearly 90% of the corporation's ridership and revenue.

VIA's Quebec-Windsor Corridor services include five primary routes:

- Quebec-Montreal;
- Montreal-Ottawa;
- Montreal-Toronto;
- Ottawa-Toronto; and
- Toronto-Windsor.

Two additional connecting routes within this region extend VIA's reach to cities such as Kitchener-Waterloo, Stratford, Sarnia and Niagara Falls.

More than 400 of VIA's 503 weekly passenger trains operate on the five main corridor routes every week. The Montreal-Toronto route is the most frequent in the VIA network, offering travellers six weekday departures from its end terminals. Residents of the City of Kingston – who are also served by VIA's Ottawa-Toronto trains – have a choice of 11 convenient departure times for points west to Toronto.

Three railways own the lines over which VIA's Quebec-Windsor Corridor trains operate. VIA owns, maintains and operates three key segments of the Quebec-Windsor Corridor: Coteau-Ottawa, Ottawa-Smiths Falls and Chatham-Windsor. The Smiths Falls-Brockville line is owned by Canadian Pacific and all the other lines belong to CN. VIA reimburses CN and CP for the use of their line segments, which are shared with those railways' freight trains.

ABOUT VIA RAIL CANADA:

As Canada's national rail passenger service, VIA Rail Canada's mandate is to provide efficient, environmentally sustainable and cost-effective passenger transportation, both in Canada's business corridor and in remote and rural regions of the country. Every week, VIA operates 503 intercity, transcontinental and regional trains linking 450 communities across its 12,500-kilometre route network.

The demand for VIA services is growing as travellers increasingly turn to train travel as a safe, hassle-free and environmentally responsible alternative to congested roads and airports. In 2008, VIA safely transported 4.6 million passengers – the most since 1989 – and set an all-time record of \$299 million in revenue.

ABOUT CN:

The Canadian National Railway Company and its operating railway subsidiaries span Canada and mid-America, from the Atlantic and Pacific oceans to the Gulf of Mexico. CN serves the ports of Vancouver, Prince Rupert, B.C., Montreal, Halifax, New Orleans, and Mobile, Ala., and the key metropolitan areas of Toronto, Buffalo, Chicago, Detroit, Duluth, Minn./Superior, Wis., Green Bay, Wis., Minneapolis/St. Paul, Memphis, and Jackson, Miss., with connections to all points in North America. CN shares are listed for trading on the Toronto Stock Exchange under the symbol "CNR" and on the New York Stock Exchange under "CNI."

APPENDIX C

**APPLICATION TO
THE AUDITOR GENERAL OF CANADA
FOR
AN INVESTIGATION OF
VIA'S CAPITAL INVESTMENT PROGRAM**



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)

ABOUT THE AUTHOR

The CTV television 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’s worked as a writer, researcher, strategic analyst and policy advisor 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 and Siemens Mobility.

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 has served in several notable positions as a transportation policy advisor. His 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 transportation policy advisor to MPs Dean Del Mastro (Peterborough), Philip Toone (Gaspésie-Îles-de-la-Madelaine) and Bruce Hyer (Thunder Bay-Superior North). For Del Mastro, he created the concept plan to restore the Toronto-Peterborough passenger service.

For the citizens’ advocacy group, Transport Action, Gormick designed and directed the 2012-2013 National Dream Renewed campaign to renew and expand VIA.

As well, Gormick is the author of *Wheels of Progress: Toronto Moves by Rail*.