

THE TRANSPORTATION REVOLUTION: TOWARDS A NEW NATIONAL POLICY?

By John Christopher

There have been many calls over the past few years for a change in transportation policy, or the creation of a new one. This was not in response to a transportation revolution, but rather a result of complaints by transportation users that the present policy has not solved transportation problems — especially in the West. In this paper the author outlines present transportation policy, some transportation concerns and problems, and the need for future policy changes.

Present national transportation policy had its beginnings in the late 1950s with the establishment by the Federal Government of the MacPherson Royal Commission to undertake, among other things, a general investigation of freight rate problems. It also examined the role of competition in transportation, the nature of future transportation regulations, transportation subsidies, and intermodal coordination.

The main recommendations of the Commission centered on the philosophy of free competition. It believed that competition was now a major factor in Canadian transportation and that as much as possible, free competition between transport modes should be the regulating factor over freight rates. If special cases arose then the Government could intervene to correct the problem.

The recommendations of the Commission were not acted upon until legislation was passed in 1967, six years after its report was made public. These included the elimination of uneconomic rail passenger services except where no reasonable alternative existed; the payment of subsidies to compensate railways for losses they incurred carrying export grain at Crowsnest Pass rates; and the rationalization of uneconomic branch rail lines in the West. But the cornerstone of the new legislation was to be free competition. This philosophy was legislated in the *National Transportation Act (NTA)* of 1967.

The main reason for the Act was to establish a national transportation policy for Canada, dealing with all modes of transportation. The objective of the policy as stated in the Act declares that "an economic, efficient and adequate system making the best use of all available modes of transportation at the lowest cost is essential to protect the interests of users of transportation and to maintain the economic growth and well-being of Canada" (1966-67, C.69, s.3). The Act goes on to state that the conditions necessary for the achievement of the objectives include regulations that do not restrict the ability of the modes to compete freely, carriers being compensated for providing imposed public services which are unprofitable; and rates being charged by carriers which do not constitute an unfair disadvantage or undue obstacle to the carriage of traffic. This was a departure from previous transportation thinking, which had been based on tight control and regulation of carriers. While less regulation was being espoused, the Act still allowed for subsidies to be paid and carriers compensated for unprofitable services they are ordered to maintain.

In addition, the Act established the Canadian Transport Commission (CTC) to help direct and shape transportation policy. By doing this, the CTC was given the power under Section 23 of the Act to look into and investigate any instances of "unfair disadvantage" or "undue obstacle" to the public interest with regard to transportation services. It can disallow freight rate

increases or compel carriers to provide services when it is deemed in the public interest to do so. So, while the Act favours less transportation regulation, the CTC does exercise a degree of control over transportation services and the setting of rates.

As a result, we now have a national transportation policy that advocates freer competition and less regulation, with the goal of providing an efficient and economic transportation system, while at the same time trying to ensure that the public interest is protected from transportation inequities. Do we need a new transportation policy to meet our future needs? Perhaps the basic question that should be asked is can the major problems and complaints be solved under the existing National Transportation Act and its policy? Certainly, the enactment of the NTA in 1967 has not stopped the complaints, especially from the West.

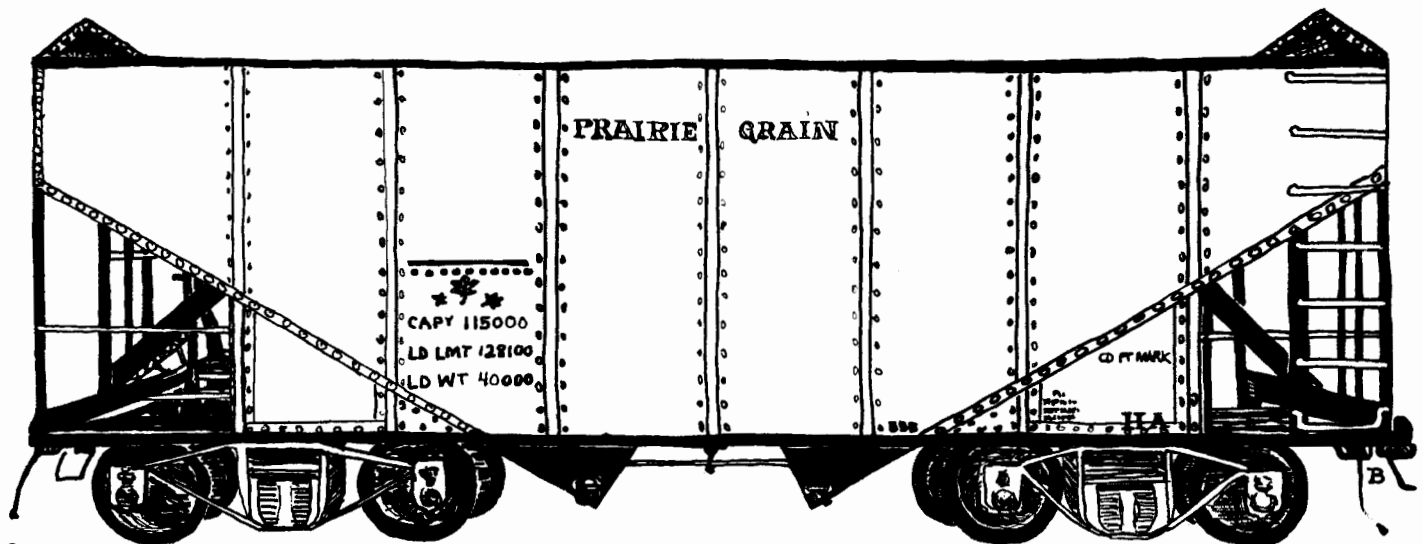
It would be impossible here to deal adequately with all the transport problems in the various regions of the country so we are limiting the discussion to a few key issues in the West that keep recurring and which will have to be resolved in order to have a viable transportation system in the future. These include railroad freight rates; the Crowsnest Pass rates; and grain shipment. The question of regional development will also be interwoven throughout this discussion as it is a part of the development process in the West. By looking at these issues we should be better able to ascertain whether or not a new transportation policy is needed.

FREIGHT RATES

One of the most hotly debated transportation issues in the Prairies is that of railroad freight rates. The specific

complaints center on three railway rate relationships. The first alleges that industries are charged higher rates on finished or processed goods than on raw materials, and that this discriminatory rate relationship impedes the development and growth of plants in the Prairies to process raw materials produced there. It is also believed that this discourages the secondary processing of raw agricultural products, wheat, feed grains, malting barley and oilseeds in the West. The second complaint alleges that because the railways charge Prairie communities higher rates on steel products, canned goods and other manufactured goods than the rates on the same commodities for the longer hauls from central Canada to Vancouver, this long-short haul discrimination favours the location of wholesaling, jobbing and manufacturing on the West Coast rather than in the Prairies. Here, it is contended that the distance advantage of the Prairies to and from Central Canada is disregarded in railway rate-making. A third complaint is that the Prairies do not enjoy the advantage of blanket or group rates to the extent that the railways have arranged such rates for central Canada. Hence, while industrial development in small cities in central Canada may be encouraged by group rates that give the smaller population centres within a group the same rates as the large centres enjoy, it is argued that the lack of similar application of group rates in the Prairies hinders development in the smaller cities and towns. Finally, the West has asserted that the directional level of freight rates accentuates the concentration of manufacturing activities in Eastern Canada. It suggests that the rates on westbound goods are lower than the rates on similar commodities moving east.

The Prairies contend that these freight rate problems restrict economic and industrial development in their region. Recently, these allegations have come in



for more study and analysis and we are therefore able to make some observation about their validity. The question of rates on raw materials versus finished products was examined in relation to the meat-packing industry in the West. It was found that unjust discrimination in rail freight rates is not a detrimental factor in the development of this industry in Alberta. What does seem to have a distorting effect on its location is the low Crowsnest Pass rates on export grain. They encourage the shipment of grain out of the West rather than keeping the grain there to feed cattle. As a result, livestock production, and particularly feedlots, shifts away from the Prairies and closer to centers of consumption such as Toronto and Vancouver. This means that there are fewer livestock on the Prairies for the processing plants. The effects of the Crowsnest Pass rates, then, is an anomaly under this heading that needs attention. The general situation, however, does not seem to indicate there are wide-spread freight rate inequities.

In the area of long- and short-haul freight pricing there appears to be some justification for the complaints. The railroads justify charging higher rates to ship steel from Hamilton to Edmonton than to Vancouver, as being necessary to enable them to retain or obtain traffic in their more competitive terminal markets such as Vancouver at reduced profit margins, without having to forego profits in their less competitive interior markets by reducing rates there. This question has been the subject of many investigations but no totally satisfactory solution has been reached. The CTC has disallowed, or limited, the rise of these rates but they still occur.

When we examine the question of blanket rates we find that these do exist in the West. They are mainly for resource industries including sulphur, woodpulp, lumber and potash. While the Western resource industries enjoy these rates, the grouping structure available for Western manufacturing is more limited than its Eastern counterpart. This is a result of industrial development and transportation competition in Eastern Canada. While the West wants more group ratings for manufacturing, studies do not clearly indicate whether or not this would favour the development and dispersion of industry in the West. So we are unable to ascertain the impact of this situation on industrial development.

While more in-depth studies are needed in this area, the evidence to date does not support the assertion that rates on westbound goods are lower than the rates on similar commodities moving East. An analysis of rail rates in 1974 showed that the average rail rate into Western Canada from east of Thunder Bay was \$52.62 per ton, compared with a rate of \$32.87 per ton in the reverse

direction. This substantiates a 1973 study in which it was found "that the lowest level of freight rates is for movements emanating from the West." This no doubt partly reflects the effect of the low Crowsnest Pass rates.

Therefore, some freight rate inequities do exist but this does not appear to be an overall situation. Rather, problems tend to occur on a case-by-case basis and more negotiations between shippers and railways should be able to resolve them — failing that, the CTC can act on the issue.

The responses to these freight rate concerns have included Royal Commissions, the freezing of railway freight rates from 1973 to January 1975, the freight rate discussions of the Western Economic Opportunities Conference in 1973 and CTC studies into freight rate anomalies. As noted earlier, the studies showed that some concerns were shown to be real while others were not as bothersome as once perceived. This does not mean that the concerns have been solved; it merely means that they have been clarified to a degree. Action still needs to be taken on specific items, such as long- and short-haul rates, before any long-term solution is reached.

CROWSNEST PASS RATES

The railways are still carrying export grain at these rates, which were first established in 1897 under an agreement between Canada and the CPR and later extended to include all railroads. Since they have obviously not kept pace with inflation, the railways are losing money by carrying export grain at these rates. The CNR and CPR estimated their losses for 1978 at approximately \$175 million and both the Hall and Snaveley Commissions on railroads and grain transportation found that the railways lose money carrying grain at these rates.

There is a strong belief among non-export grain shippers that they pay higher rates to make up for what the railways lose carrying grain at low statutory rates. This is substantiated to a degree by the earlier example of the meat-packing industry, and some 1977 studies have also shown that shippers of industrial products pay higher freight rates to make up for the low "Crow Rate".

While these rates have helped Prairie grain producers, they have also apparently had an adverse effect on producers of processed goods in the West. Alleviation of the adverse nature of these rates with compensation to the railways for their losses might help to reduce some of the rate disparities they have caused.

Both the Hall and Snaveley Commissions recommended some form of compensation be made for

these low rates either through a federal subsidy to the railways or by payment directly to the grain producers of the difference between the "Crow Rate" and the increase, if the Crow Rate were allowed to rise. To date, no changes have taken place regarding these rates although there seems to be a growing feeling in the West that some changes in these rates are required.

Related to this is a more recent complaint by Western grain producers to the railways and the Federal Government that the transportation system for grain haulage is so poor that the total grain harvest cannot be shipped to markets. There are complaints of poor rail equipment, lack of hopper cars for grain, and rail bottlenecks at the elevators and export ports.

The railways have admitted that they have been reticent to upgrade their stock and to invest in new grain handling equipment because they lose money hauling grain at Crowsnest Pass Rates. The Federal Government has commissioned a number of studies into improving the grain handling system. Their major recommendations have been calls for more grain hopper cars, increased grain storage capacity at Prince Rupert, rationalization of the collection of grain on the Prairies into fewer pickup points, and for a solution to be found to the question of low Crowsnest Pass rates.

As with freight rates, there have been some moves to alleviate the situation. The Federal Government has purchased hopper cars and helped the railways to pay for rehabilitating old boxcars in the grain car fleet. In addition, negotiations with the Federal Government are taking place over funding for the expansion of grain handling facilities at the port of Prince Rupert. A grain traffic coordinator has also been appointed to help ship the grain for export and to allocate grain cars for this purpose. This would help to alleviate the rail bottlenecks and/or lack of cars for grain haulage that now occurs.

A NEW NATIONAL TRANSPORTATION POLICY?

The previous section looked at three key transportation issues, but they are by no means the only ones. They are, however, important ones, ones that have been with

us for a number of years, and whose resolution is vital to the functioning of a sound transportation system in the future. Their resolution is also critical for the economic well-being of the West.

Does the solution to these problems lie in a new national transportation policy? It appears that in most instances this is unwarranted. The recommendations for solution, such as contained in the studies on freight rates do not suggest a new national transportation policy. For example, the problem with long- and short-haul rates can be resolved by the CTC, shippers and transportation companies coming to an agreement on rates. Failing this, the CTC can act in the public interest to curtail these rates. Similarly, the grain handling system can be improved through negotiations between the various levels of government, producers and transportation companies to attain a viable transport system.

In the case of the Crowsnest Pass Rates, solutions have been proposed that may require changes in the Crowsnest Pass Freight Rates Act. But here again, this does not require a new transportation policy. It calls for reaction by the Government on a specific problem in transportation. Moves to solve transport problems have taken place without a new policy and it does not necessarily hold true that it cannot happen in the future. It would seem that the policy established under the NTA has not failed; rather, it appears that specific problems have failed to get the attention they merit. Within any policy, there are bound to be some problems that arise and policy cannot cover every contingency. It is the problems that need attention. Changing policy will not necessarily solve these problems; it may merely change the overall direction of transportation policy. What is required is specific attention and remedies to specific problems and concerns. The revolution in transportation may well be our resolution of these key transportation issues. Without this, it is unlikely that we will be able to cope with future problems that will undoubtedly arise in this area.

SUGGESTIONS FOR FURTHER READING

- Transportation Agency of Saskatchewan, *The Crow Rate and National Transportation Policy*, Queen's Printer, Regina, 1977.
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