



THE CANADIAN CHAMBER OF COMMERCE
LA CHAMBRE DE COMMERCE DU CANADA

**Keeping Canada Moving:
Transportation Infrastructure and the
Economic Realities for Canada's Transportation Policy**

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BACKGROUND

The Canadian Chamber of Commerce is Canada's largest and most representative business organization. The Canadian Chamber of Commerce represents more than 170 000 members, including a network of chambers of commerce and boards of trade in communities throughout the country. The membership of the Canadian Chamber of Commerce reflects the diversity of Canada's transportation sector. The Canadian Chamber has members from every mode of transportation, every industry in Canada, and every region of our country. Each of our members depends on reliable and efficient transportation to move their people and goods, and all of Canada benefits from the maintenance of a world class transportation system.

This report stems from a process that began at the Annual General Meeting of the Canadian Chamber of Commerce in October 2000. During the policy session of that meeting, a number of policy resolutions related to transportation were introduced. These resolutions related to all modes of transportation, including infrastructure, airports and air transport, railways, highway and marine transportation, as well as trade facilitation issues such as border crossings. Given the integrated nature of Canada's transportation system, and the importance of transportation for trading activities, delegates elected to create a transportation policy document that would outline the Chamber's priorities and recommendations with regards to transportation policy in Canada. This report is the culmination of that process, it was developed by a working group that included chambers of commerce and boards of trade from across Canada, as well as member companies from various industry sectors.

EXECUTIVE SUMMARY

1.0 Introduction

Transportation has traditionally played an important role in Canada. Given Canada's vast geography and its sparse population, efficient and reliable transportation is necessary to move people, goods and products throughout our country. In fact, reliable transportation is one of the key factors that led to Canada's evolution as a unified, prosperous nation.

The importance of transportation is equally true for today's Canada. Today, Canadians are travelling further and more often to conduct business or partake in leisure activities. The most pressing reason for efficient transportation, however, is the one that makes economic and social prosperity possible. Namely, that Canada is a trading nation, and successful trade requires a world-class transportation system.

2.0 Transportation in Canada

Transportation is directly related to many of Canada's economic activities, as well as many of our social and environmental priorities.

2.1 *Tourism and Business Travel*

The most valuable commodity that is moved by transportation is the travelling public. Both Canadians and foreign visitors travel throughout Canada for leisure, business and other purposes. In 1998, tourism spending in Canada amounted to \$47.1 billion. 39 per cent of these expenditures (\$18 billion) were spent on transportation.

2.2 *Trade and Commerce*

Trade and commerce are vitally important to the Canadian economy. Canada is dependent on trade to generate wealth and increase our standard of living. One in three jobs is dependent on trade, and many of our important social programs are made possible by our economic prosperity.

Increased volumes of trade have enhanced the demand for dependable transportation. From 1992 to 1998, the volume carried by the various modes increased by an average of three per cent, from 362 million to 429 million tonnes. Rail accounted for the greatest share, increasing its portion from 46 to 50 per cent of total tonnage moved. For-hire trucking followed closely, increasing its share from 34 per cent to 41 per cent. Marine's share declined slightly, from 14

to 11 per cent. The air industry carried less than one percent of Canada's trade volume, but 9% of its trade value.

Trade corridors are essential to facilitating important trading links, both internationally and domestically. These corridors provide gateways and connections to major trading regions and include the necessary concentration of resources to safely and quickly move large volumes of freight and many passengers.

In some cases, Canada's trade corridors are proving insufficient for carrying the levels of traffic that our economy demands. This is especially true in urban corridors that carry high levels of NAFTA trade. Trade corridors in Southern Ontario and the lower mainland of British Columbia, for example, are prone to excessive levels of traffic congestion. This "gridlock" has a negative impact on our economy and the environment. As we move forward, it will be imperative that Canada's trading corridors be renewed, enhanced and maintained to support Canada's growth.

2.3 Advanced Technologies

Recent history has seen significant advances in information and communications technologies and their ability to enhance the productive capabilities of firms. These advances are allowing companies to better share information, better connect with their clients, and to streamline their operations. While electronic commerce will allow companies to expand their markets, it will be the reliability of distribution networks that will be critical to realizing the potential of Internet-based commerce.

Technology is also changing the way in which transportation companies manage the movement of people and products. One significant trend in this regard is the emergence of integrated logistics chains. By coordinating the management of inventory, packaging and transportation as a single function, companies are shipping and receiving products through a seamless, multi-modal system.

The travelling public is similarly taking advantage of advanced technologies to enhance their transportation needs. Many travellers use the Internet to make their travel arrangements.

2.4 Environment

The transportation sector is inherently linked with Canada's environmental priorities. Air, water and noise pollution, Greenhouse Gas Emissions (GHG), as well as the use of land and other natural resources are direct consequences of transportation activities. These environmental matters are generated through transportation activities such as the construction of infrastructure; the production, operation, maintenance and disposal of vehicles; as well as the provision of

energy and fuel. While these issues and their regulation are highly complex, transportation and economic policy initiatives have an important contributing role in meeting Canada's environmental objectives. With regard to climate change, the position of the Canadian Chamber of Commerce has been that measures to address climate change must focus on voluntary, flexible and cost-effective approaches which will provide for continued strong economic growth while reducing net emissions of greenhouse gases.

2.5 *Looking Forward*

Canada's transportation sector is currently facing a number of challenges as well as a number of opportunities for growth. Solutions to these challenges should be introduced with the aim of providing high quality transportation services to shippers and the travelling public, keeping in mind the importance of viable operating conditions for Canadian carriers.

3.0 **Transportation Policy in Canada**

The *Canada Transportation Act* (1996) provides the policy framework for Canada's transportation sector. Section 5 of the Act prescribes a "National Transportation Policy", a statement that identifies the priorities of Canadian transportation policy. The National Transportation Policy indicates that "competition and market forces are, whenever possible, the prime agents in providing viable and effective transportation services." The section also states that "economic regulation of carriers and modes of transportation occurs only in respect of those services and regions where regulation is necessary."

The *Canada Transportation Act* (1996) represents a significant development for Canada's transportation industry. This policy established that the federal government's approach to the economic side of transportation would be one of deregulation, that the federal government would devolve the maintenance and operation of many transportation services to private entities, and that competition and market forces would ensure the delivery of transportation services.

The Canadian Chamber of Commerce agrees with the principal tenets of the *Canada Transportation Act* (1996) and believes that competition and market forces have proven successful in making Canada's transportation sector more competitive and more responsive to the needs of our economy. Some of the benefits of deregulation and competition have been the following.

- Increased air passenger and air cargo traffic with the United States resulting from the liberalization of air traffic with the United States.
- Increased efficiency and speed in logistics as a result of deregulation in surface transportation such as highway and rail transportation.

- Increased growth in the short line rail sector.

The implementation of Canada's policy framework, however, has been ad hoc and inconsistent. In many cases, the implementation of this policy has not supported the NAFTA trade approach and has not recognized that Canada's transportation capacity is an integrated part of a North American economy. As a result, the full benefits of a competitive, market-based system have yet to be realized, and barriers to growth and profitability remain. In addition, some rural areas have yet to realize the benefits of a competitive system. Deregulation has brought about changes in the transportation industry as firms seek greater efficiencies, and some rural and non-hub communities have yet to see the benefits of a multi-carrier market.

Canada's response to these shortcomings has tended towards a re-regulation of the industry. The federal government needs to resist the urge to re-regulate the economic side of transportation services in going forward towards a more competitive environment. While the *Canada Transportation Act* (1996) began the move towards competition and market forces, the establishment of a National Transportation Policy Framework is the next step in the evolution of Canada's transportation system. Canada is at a crossroads. If we do not use this opportunity to move ahead and promote a competitive environment we will fail to realize our economic objectives.

4.0 Moving Forward: National Transportation Policy for Canada

The Canadian Chamber of Commerce believes that Canada's transportation system requires a comprehensive transportation policy framework to realize its potential as a competitive, market-based system.

The Government of Canada needs to show leadership in developing this policy framework, reiterating Canada's commitment to a market-based system and providing a set of principles or priorities that will guide the implementation of this policy. Without a coordinated, long-term strategic plan, Canada's competitive position will dissipate. This strategy should relate to all modes of transportation, as well as the needs of both shippers and carriers. In particular, this policy framework needs to recognize trends and set principles in the following areas:

- Canada's integration into a global and North American economy,
- The need for a national, multi-modal infrastructure strategy.
- Increased integration, cooperation and competition between modes of transportation, and the need for common treatment of the modes in areas such as taxation, safety regulation and operating standards.
- Approach to devolution of transportation services.
- Enhancing the financial, social and environmental sustainability of Canada's transportation system.

- Strengthening Canada's economic union by harmonizing standards throughout Canada and enhancing interprovincial trading links.

Conclusions

Moving forward, Canada needs a comprehensive framework for the development and implementation of a modern transportation policy. Canada can no longer afford to develop public policy without considering the broader implications for our international competitiveness, our environment and our society. As such, Canada's transportation policy should recognize the importance of international trade, infrastructure, integration among the modes, and the devolution of transportation services. Each of these factors is fundamentally related to the capacity of our transportation system and our economy, and each of these factors needs to be recognized by a modern transportation policy.

SECTION 1 - Introduction

Transportation has traditionally played an important role in Canada. Given Canada's vast geography and its sparse population, efficient and reliable transportation is necessary to move people, goods and products throughout our country. In fact, reliable transportation is one of the key factors that led to Canada's evolution as a unified, prosperous nation.

The importance of transportation is equally true for today's Canada. Today, Canadians are travelling further and more often to conduct business or partake in leisure activities. The forces of globalization are transforming the economic, social and cultural landscape of the world, and Canadians need safe and affordable transportation to connect them with the international community and to bring visitors to our great country.

The most pressing reason for efficient transportation, however, is the one that makes economic and social prosperity possible. Namely, that Canada is a trading nation, and successful trade requires a world-class transportation system. In its interim report, the *Canada Transportation Act* Review Panel recognized this reality.

It is the Panel's view that any responsible proposal to revise transportation policy must recognize that Canada is a trading nation and the effectiveness and efficiency of its transportation system has a direct impact on its ability to compete internationally. At stake is the wealth of the country and the well being of its citizens.

- *Canada Transportation Act* Review Panel, January 2001.

Canada's economy is currently facing a number of challenges as well as a number of opportunities for growth, and our transportation sector is essential to realizing economic growth in Canada.

SECTION 2 - TRANSPORTATION IN CANADA

Transportation is directly related to many of Canada's economic activities, as well as many of our social and environmental priorities.

2.1 *Tourism and Business Travel*

The most valuable commodity that is moved by transportation is the travelling public. Both Canadians and foreign visitors travel throughout Canada for leisure, business and other purposes. In 1998, tourism¹ spending in Canada amounted to \$47.1 billion. 39 per cent of these expenditures (\$18 billion) were spent on transportation. 57 per cent of travel expenditures were directed at air travel, while 35 per cent of travel expenditures were used to travel by motor vehicles.

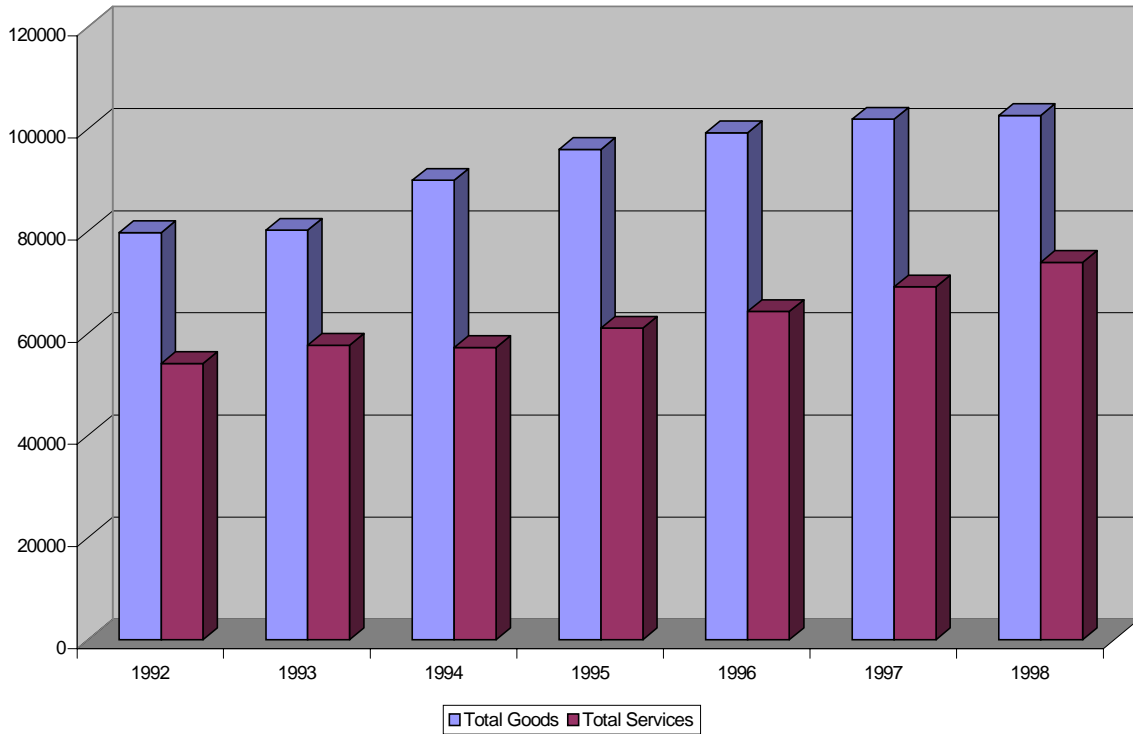
About 70 per cent of the transportation expenditures on tourism are spent by Canadians, the remaining expenditures are brought into Canada by foreign travellers. A dependable transportation system is required to move Canadians to work and play, as well as to attract foreign travellers to Canada.

¹ "Tourism" includes both leisure and business travel. "Tourist" travel includes any trip that is at least 80 km from the traveller's place of residence. This definition of tourism is used by Statistics Canada and the Canadian Tourism Commission.

2.2 Trade and Commerce

Trade and commerce are vitally important to the Canadian economy. Canada is dependent on trade to generate wealth and increase our standard of living. One in three jobs is dependent on trade², and many of our important social programs are made possible by our economic prosperity. As table 1 indicates, levels of trade within Canada increased steadily from 1992 to 1998.

**Table 1 :
Domestic Trade in Canada 1992 - 1998**



(Source: *Interprovincial and International Trade in Canada: 1992-1998*
Statistics Canada, June 2000).

² WESTAC and The Van Horne Institute, *Moving Forward: A Guide to the Importance of Transportation in Canada*. (December 1999) p. 35.

Increased volumes of trade have enhanced the demand for dependable transportation. From 1992 to 1998, the volume carried by the various modes increased by an average of three per cent, from 362 million to 429 million tonnes.³ Rail accounted for the greatest share, increasing its portion from 46 to 50 per cent of total tonnage moved. For-hire trucking followed closely, increasing its share from 34 per cent to 41 per cent. Marine's share declined slightly, from 14 to 11 per cent. The air industry carried less than one percent of Canada's trade volume, but 9% of its trade value.⁴

Commercial Activity

As is the case in all industrialized nations, commercial activity in Canada has changed over the past two decades. Today, manufacturing processes are more decentralized, materials are being shipped to different locations as they move throughout production cycles. Regions are increasingly interdependent, provinces and communities rely on transportation for their economic development and prosperity. Customers and markets are further away, goods produced in Canada are being shipped throughout the country and the world.

It is important to note that we refer to transportation as an industry, but transportation is a sector that supports all industries. Indeed, transportation is used to ship materials for nearly every sector of the economy and to deliver products to every region of Canada. Similarly, every sector of Canada's economy and society uses transportation to move people.

Globalization

Canada also moves people and goods throughout the world. For a small, open economy such as Canada's, international trade is essential for economic growth.

³ Transport Canada Annual Report 1999.

⁴ WESTAC and Van Horne 1999, p. 63.

In fact, more than 40% of Canada's GDP in 1999 was exports.⁵ Canada's dependence on exports is particularly focused on trade with the United States, more than 85% of our international trade is conducted with the U.S.

Trade Corridors

"Trade corridors" are essential to facilitating important trading links, both internationally and domestically. These corridors provide gateways and connections to major trading regions and include the necessary concentration of resources to safely and quickly move large volumes of freight and many passengers. Situating businesses along them offers significant economic development opportunities. In fact, these routes could more accurately be described as "economic corridors." Recognizing and developing long-term, strategic plans around this reality is essential.

In some cases, Canada's trade corridors are proving insufficient for carrying the levels of traffic that our economy demands. This is especially true in urban corridors that carry high levels of NAFTA trade. Trade corridors in Southern Ontario and the lower mainland of British Columbia, for example, are prone to excessive levels of traffic congestion. This "gridlock" has a negative impact on our economy and the environment. As we move forward, it will be imperative that Canada's trading corridors be renewed, enhanced and maintained to support Canada's growth.

2.3 *Advanced Technologies*

Recent history has seen significant advances in information and communications technologies and their ability to enhance the productive capabilities of firms. These advances are allowing companies to better share information, better connect with their clients, and to streamline their operations. Advances in

⁵ Statistics Canada, Gross Domestic Product (expenditure-based) 1999.

technology have even created the opportunity for the emergence for new forms of commerce such as electronic commerce.

Advanced technologies are providing individuals, firms and customers with the capability to communicate and share information over great distances. And while electronic commerce applications will allow companies to expand their markets, it will be the reliability of distribution networks that will be critical to realizing the potential of Internet-based commerce.

Technology is also changing the way in which transportation companies manage the movement of people and products. One significant trend in this regard is the emergence of integrated logistics chains. By coordinating the management of inventory, packaging and transportation as a single function, companies are shipping and receiving products through a seamless, multi-modal system.

Supply chains are not the only impact of technology on transportation. Intelligent transportation systems (ITS) incorporate advanced navigation, route guidance, communication, sensor and computer technologies and apply them to a broad range of transportation applications, facilitating a greater movement of people, products and goods throughout the world. Technology is enhancing the levels of accessibility, sustainability, productivity and safety of our transportation system.

The travelling public is similarly taking advantage of advanced technologies to enhance their transportation needs. Many travellers use the Internet to make their travel arrangements. Transportation companies need the capability to adapt to the changing business environment in order to deliver competitive services to their customers.

2.4 Environment

The transportation sector is inherently linked with Canada's environmental priorities. Air, water and noise pollution, Greenhouse Gas Emissions (GHG), as well as the use of land and other natural resources are direct consequences of transportation activities. These environmental matters are generated through transportation activities such as the construction of infrastructure; the production, operation, maintenance and disposal of vehicles; as well as the provision of energy and fuel. While these issues and their regulation are highly complex, transportation and economic policy initiatives have an important contributing role in meeting Canada's environmental objectives.

Climate Change Process

Transportation was one of 16 "issue tables" that were developed as part of Canada's National Strategy on Climate Change. The "issue tables" were multi-stakeholder advisory groups that discussed options for climate change action for various sectors.

The Transportation Issue Table recommended different approaches for reducing the amount of greenhouse gasses emitted in Canada each year. Potential approaches included technological improvements to vehicles, fuels and infrastructure; changing the way transportation is used; as well as managing the demand for transportation. The following were identified as a list of potential programs to implement these goals.

- Research, Development and Demonstrations
- Government Operations
- Regulation
- Economic Instruments
- Voluntary Agreements

Recommendations of the Transportation Issue Table on Climate Change

The Transportation Issue Table commissioned 24 research studies to consider these various approaches, and then evaluated the feasibility of these approaches in their November 1999 “Options Paper.” In reviewing the Options Paper, it is clear that some of the final recommendations of the Transportation Issue Table are related to the Canadian Chamber of Commerce position on GHG and climate change and are worth mentioning here.⁶

The Transportation Issue Table considered market mechanisms such as prices, fees and charges but could not reach consensus regarding the feasibility of these options. The Canadian Chamber of Commerce has maintained that Canada’s climate change strategy should achieve a balance of Canada’s environmental and economic objectives within the context of our dependence on international trade. The Canadian Chamber believes that using mechanisms such as taxes and fees to effect transportation will diminish the competitiveness of Canada’s transportation sector and our economy. The Chamber has indicated that Canada produces only a fraction of the GHG emissions that are created by the industrialized nations and that Canada’s position within the global economy requires that it maintain a competitive advantage.

The Transportation Issue Table identified the increased use of intelligent transportation systems (ITS) to improve traffic flow among the “most promising” measures to reduce GHG. The Canadian Chamber of Commerce has similarly indicated that measures to enhance traffic flow and reduce traffic

⁶ The Canadian Chamber of Commerce adopted a comprehensive position on Greenhouse Gas Emissions and Climate Change at its 1998 Annual General Meeting. The “Greenhouse Gas Emissions and Climate Change” resolution is available at www.chamber.ca or in the Chamber’s annual “Policy Positions” booklet.

congestion will prove not only to increase Canada's economic performance but will enhance the sustainability of transportation activities.

The Transportation Issue Table recommended that a more frequent resurfacing of the National Highway System was a “more promising” measure to reducing greenhouse gas emissions. Infrastructure that is better constructed and better maintained contributes more to the long-term sustainability and competitiveness of Canada's transportation system.

The position of the Canadian Chamber of Commerce has been that measures to address climate change must focus on voluntary, flexible and cost-effective approaches which will provide for continued strong economic growth while reducing net emissions of greenhouse gases.

2.5 Looking Forward

Canada's transportation sector is currently facing a number of challenges as well as a number of opportunities for growth. Solutions to these challenges should be introduced with the aim of providing high quality transportation services to shippers and the travelling public, keeping in mind the importance of viable operating conditions for Canadian carriers.

SECTION 3 - Transportation Policy in Canada

The *Canada Transportation Act* (1996) provides the policy framework for Canada's transportation sector. Section 5 of the Act prescribes a "National Transportation Policy", a statement that identifies the priorities of Canadian transportation policy. The National Transportation Policy indicates that "competition and market forces are, whenever possible, the prime agents in providing viable and effective transportation services." The section also states that "economic regulation of carriers and modes of transportation occurs only in respect of those services and regions where regulation is necessary."

The *Canada Transportation Act* (1996) represents a significant development for Canada's transportation industry. This policy established that the federal government's approach to the economic side of transportation would be one of deregulation, that the federal government would devolve the maintenance and operation of many transportation services to private entities, and that competition and market forces would ensure the delivery of transportation services.

The Canadian Chamber of Commerce agrees with the principal tenets of the *Canada Transportation Act* (1996) and believes that competition and market forces have proven successful in making Canada's transportation sector more competitive and more responsive to the needs of our economy. Some of the benefits of deregulation and competition have been the following.

- Increased air passenger and air cargo traffic with the United States resulting from the liberalization of air traffic with the United States.
- Increased efficiency and speed in logistics as a result of deregulation in surface transportation such as highway and rail transportation.
- Increased growth in the short line rail sector.

The implementation of Canada's policy framework, however, has been ad hoc and inconsistent. In many cases, the implementation of this policy has not supported the NAFTA trade approach and has not recognized that Canada's transportation capacity is an integrated part of a North American economy. As a result, the full benefits of a competitive, market-based system have yet to be realized, and barriers to growth and profitability remain. Some rural areas, in particular, have yet to realize the benefits of a competitive system. Deregulation has brought about changes in the transportation industry as firms seek greater efficiencies, and some rural and non-hub communities have yet to see the benefits of a multi-carrier market.

Canada's response to these shortcomings has tended towards a re-regulation of the industry. For example, Bill C-34 (2000) amended the *Canada Transportation Act* and introduced a revenue cap on grain transportation by railways. Policy initiatives such as these may meet short-term objectives, but they run contrary to the tenets of the *Canada Transportation Act* and diminish the benefits of a competitive environment. The federal government needs to resist the urge to re-regulate the economic side of transportation services in going forward towards a more competitive environment.

While the *Canada Transportation Act* (1996) began the move towards competition and market forces, the establishment of a National Transportation Policy Framework is the next step in the evolution of Canada's transportation system. Canada is at a crossroads. If we do not use this opportunity to move ahead and promote a competitive environment we will fail to realize our economic objectives.

Recommendation: In developing transportation policy, the federal government should reiterate its commitment to competition and market forces and develop a more comprehensive policy framework to support NAFTA and govern Canada's transportation system. This framework should be relevant to all regions of Canada, enhancing the commercial and social viability of both rural and urban areas.

- Transportation policy should enhance Canada's economic union by harmonizing regulatory standards and removing barriers to trade within Canada. No additional regulations or standards should be imposed on Canada's transportation system without a substantial cost-benefit analysis.
- The federal government should move to equalize the tax burden on transportation with that of the United States.
- Efforts and partnerships need to be explored that will remove the significant development barriers that are present in with respect to linkages with rural and non-hub markets.
- Federal rents and charges should cover only the actual costs incurred by the federal government in fulfilling its duties under the National Transportation Policy.

SECTION 4- Moving Forward: National Transportation Policy for Canada

The Canadian Chamber of Commerce believes that Canada's transportation system requires a comprehensive transportation policy framework to realize its potential as a competitive, market-based system. The Government of Canada needs to show leadership in developing this policy framework, reiterating Canada's commitment to a market-based system and providing a set of principles or priorities that will guide the implementation of this policy. Without a coordinated, long-term strategic plan, Canada's competitive position will dissipate. This strategy should relate to all modes of transportation, as well as the needs of both shippers and carriers. In particular, this policy framework needs to recognize trends and set principles in the following areas:

- Canada's integration into a global and North American economy,
- The need for a national, multi-modal infrastructure strategy.
- Increased integration, cooperation and competition between modes of transportation, and the need for common treatment of the modes in areas such as taxation, safety regulation and operating standards.
- Approach to devolution of transportation services.
- Enhancing the financial, social and environmental sustainability of Canada's transportation system.
- Strengthening Canada's economic union by harmonizing standards throughout Canada and enhancing interprovincial trading links.

Public policy should reflect these realities. Competition rules and regulations need to balance the interests of users with those of providers, while transportation policy framework needs to provide the environment where Canadian carriers can grow and compete. These trends and their importance will be discussed below and the recommendations will be summarized in section 5.

4.1 Canada's Integration into a Global and North American Economy.

It was mentioned earlier that globalization is creating opportunities for Canadians to trade throughout the world. Many of our export resources such as grain, coal, potash and forest products come from points that are far from tidewater and offshore markets, and transportation is critical to moving these commodities to markets throughout the world.

Marine transportation is vital to Canada as a major trading nation, particularly for trade with countries other than the U.S., where road and rail are not options. Canadian ports handled 376 million tonnes of goods in 1997, three-quarters of which was international shipments.⁷ These shipments also included 20 million tonnes of containerized goods, most through Montreal, Vancouver and Halifax.

North American Trade

Canada's integration into a global economy is particularly true within the North American continent. Canada-U.S. trade is growing by approximately 10 per cent each year. 85% of Canadian exports go to the U.S., 50% of Canada's air cargo traffic is trade with the United States, and more than 28 % of Canada's rail freight tonnage is destined for the United States.

The most common mode of Canada – U.S. trade is trucking. In 1998, trucks carried 63% of Canada's \$270 billion in exports to the U.S., while 80% of Canada's \$204 billion in imports from the U.S. arrived by truck.

Truck traffic between Canada and the United States has increased significantly since the coming into force of the Canada-U.S. Free Trade Agreement in 1991 and the North American Free Trade Agreement in 1994. Currently, more than thirteen million trucks pass between Canada and the United States each year, or

⁷ WESTAC and Van Horne, 64.

about 36 500 per day.⁸ This is compared to about seven million in 1990. Table 2 illustrates this trend. As the table indicates, the percentage of truck traffic that travelled across the US border (north-south) increased during the period 1990-1996, when compared with truck traffic within Canada (east-west).

Table 2 : Comparisons of Truck Traffic within Canada and across the US Border : 1990 and 1996⁹

	Traffic within Canada	Traffic across US Border
1990	70%	30%
1996	59%	41%

(Source : WESTAC and the Van Horne Institute, 1999).

Although truck traffic is the most common mode of Canada – US trade, railways carry a higher percentage of tonnage. Railways carry 59% of the tonnage moved by surface transport, and carry as much as 70% of the tonne-km generated by surface transport. Much of this rail freight consists of commodities such as lumber, potash, newsprint, wood pulp and containers on flat cars.¹⁰ Railways transport large volumes of these commodities to ports for export by water, and in many instances, deliver them directly to the US.

Canada – U.S. transportation has also increased in the area of passenger travel. The number of air travellers between Canada and the U.S. increased from 12 million passengers in 1988 to nearly 18 million in 1998. The number of scheduled Canadian commercial flights to the U.S. has expanded by about a third in the last five years. Passenger rail is a similarly important component of intercity transportation and carries people to destinations throughout Canada and the United States.

⁸ Transport Canada, based on Statistics Canada, International Travel Section

⁹ This table reflects the percentage of all for-hire truck traffic on a tonne-km basis (e.g. the movement of one tonne of freight a distance of one kilometre).

¹⁰ WESTAC and Van Horne (1999) p. 58.

Canada's increased integration with the United States has not happened without direction. Rather, Canada's integration with the U.S. has resulted directly from public policy choices to liberalize the trading and transportation environments. NAFTA, open skies and surface deregulation initiatives have all contributed to a greater degree of integration within North America.

Current Initiatives

The Government of Canada should be commended for its current initiatives towards broadening Canada's linkages with the international community. For instance, the federal government has been working to expand Canada's air service agreements with other countries and has recently negotiated agreements with Austria, Poland and Iceland. Agreements such as these will expand the destinations available to Canadians and increase the opportunities for foreign business to arrive in Canada. The Canadian Chamber of Commerce believes that similar agreements with the potential to expand opportunities for Canadian carriers and passengers should be pursued where the benefits of the agreement are reciprocal.

The federal government should also be commended for its work in facilitating travel and trade in North America. The government has been working to enhance transportation infrastructure at border crossings and points of entry, as well as implementing new and innovative programs to streamline border procedures and facilitate movement between Canada and the United States. The following are prime examples of initiatives are being taken.

- the CANPASS program was designed to facilitate border crossings in airport, marine port and highway points of entry. CANPASS program has been successfully implemented at a number of Canada-U.S. points of entry.
- a "Commercial Vehicle Processing Centre" was designed to reduce delays at the Fort Erie-Buffalo border crossing,

- the Government of Canada recently signed an agreement with the United States to expand the framework for in-transit preclearance (ITPC) services at major Canadian airports such as Vancouver, Edmonton, Calgary, Toronto and Montreal.
- the rail industry is working closely with customs agencies in both Canada and the United States to develop preclearance procedures for rail transportation, thus increasing the efficiency of the rail system and facilitating greater trade in North America.

The implementation of these programs enhances efficiency, reduces waiting times and increases border traffic capacity.

A wide range of public and private sector groups are currently engaged in discussions and projects that seek to improve border infrastructure and the transportation systems which use them. The recent establishment of the Canada-US Partnership (CUSP), a forum which examines border cooperation among other issues, is a positive step forward in discussing and resolving common border concerns. The CUSP discussions are focused not only on congestion at specific border crossings, but on the larger issue of shared border management. The continuing growth in the volume of Canada-US trade and traffic requires a shared vision and strategic approach to border management that will allow both countries to work together in a coordinated fashion. There are significant benefits for both Canada and the US to a longer-term strategy developed by governments and business so that border management actions facilitate business and do not hamper it.

Although this discussion has focused on a degree of cooperation, policy needs to recognize the degree of competition that similarly results from North American economic integration. Canadian carriers from all modes are faced with competition from U.S. rivals and require an “even-playing field” when competing

with U.S. firms. Regulatory areas such as taxation and operating standards should not disadvantage Canadian firms competing with U.S. firms.

Recommendations

It has been shown here that transportation is closely linked with Canada's economic priorities. Canada's National Transportation Policy Framework should reflect the international nature of trade, and like NAFTA and the Canada-U.S. Free Trade Agreement, should recognize the integration of our North American economy.

- Canada's transportation policy should be used to facilitate greater access, cooperation and competition with the global economy, particularly within North America.
- *Canada Transportation Act* should recognize that international trade is fundamental to the well-being of Canada and that transportation is fundamentally related to our economic growth.
- Excessive levels of taxation should be reduced to promote competition and profitability in the transportation industry.
- Levels of regulation and operating standards should be minimized and designed to facilitate increased movement within North America.
- Transportation policy needs to pay close attention to trade facilitation issues such as customs procedures, immigration rules, cargo liability regimes, security arrangements, and all other components of transportation, including input taxes, that if not harmonized and streamlined, could prevent the best performance of our carriers and facility operators.
 - Maximize the use of advanced technology applications in all modes, especially to enhance the flow of traffic at border crossings. Such systems include advanced traffic management systems, advanced traveller information systems and advanced vehicle control systems.
 - The federal government should work with provincial governments to provide necessary road and other infrastructure improvements at border crossings.

4.2 Need for a long-term infrastructure strategy.

A fundamental aspect of a transportation system is infrastructure. The *Canada Transportation Act* (1996) considers the relationship between shippers and carriers, but says little about the maintenance and enhancement of infrastructure. Infrastructure is the platform upon which the entire transportation system operates. It is the roads, railways, air transport facilities, pipelines and port systems which Canadian carriers use to deliver services and compete with U.S. carriers. Infrastructure also includes the facilities that the travelling public use for business and leisure travel, it is a vital element to the competitiveness and efficiency of our transportation system.

WESTAC estimates that federal revenues from transportation activities reached \$4.185 billion in 1997 / 1998.¹¹ These revenues include federal fuel excise tax from rail, air, road diesel and road gasoline, but do not include fuel excise tax from domestic marine carriers or user fees for Coast Guard services.¹²

WESTAC also estimates that federal spending on direct subsidies and grants to transportation was \$1.781 billion during this period. WESTAC emphasizes, however, that “annual spending is only a snapshot of a single year”, and that these amounts do not include the investments in facilities and services (e.g. airport operations, marine safety and Coast Guard) that the federal government has made over the years.

As indicated earlier, forecasts for Canada’s economic growth are increasing. Canada’s transportation infrastructure is under stress, and will continue to erode as economic growth, trade and travel continue. The essential segments of transportation infrastructure are described throughout this section.

¹¹ WESTAC and The Van Horne Institute, page 44.

¹² This amount applies only to federal revenues. WESTAC estimates that the provinces and territories drew \$8.711 billion from transportation activities in 1997 / 1998, (\$5.8 billion from fuel taxes and \$ 2.9 billion from licence fees).

National Highway System

Canada's National Highway system (NHS) is approximately 25 000 km of highways that extends from coast-to-coast, connects all capital cities, major population and commercial centres, important ferry terminals and major access points to the United States. The NHS facilitates both interprovincial and international trade for Canada's economy. Levels of road use and traffic have risen in nearly every region and the NHS has been under increasing stress. Nearly 80 billion vehicle-kilometres were generated in 1996, up almost nine per cent from 1993 and almost **40** per cent from 1986.¹³ Traffic is most heavily concentrated around Canada's urban areas, although rural areas are similarly dependent on viable highway infrastructure. Canada's busiest corridor is the 401-Autoroute 20 corridor running from Windsor to Quebec City.¹⁴ Ontario and Quebec generate more than 60 per cent of the total vehicle-kilometres driven on the National Highway System. The second busiest corridor is a portion of the Trans-Canada Highway in the lower mainland of British Columbia running from Chilliwack to Vancouver. British Columbia generates 14 per cent of the total vehicle-kilometres driven in Canada. The third busiest corridor is Highway 2 running between Calgary and Edmonton; Alberta generates 11 per cent of the vehicle-kilometres driven in Canada.

The most recent report commissioned by the Council of Ministers Responsible for Transportation and Highway Safety indicates that the NHS is in need of significant work to restore it to satisfactory levels. Based on 1997 conditions, this report estimates the cost of restoring the NHS as \$17.4 billion.¹⁵

¹³ Transport Canada Annual Report 1999, p86.

¹⁴ Transport Canada Annual Report 1999, p86.

¹⁵ Council of Ministers Responsible for Transportation and Highway Safety, *National Highway System : Condition and Investment Needs Update 1997* (September 1998).

Border Crossings

Vehicle traffic between Canada and the United States has similarly been increasing over the past few years. Crossborder traffic is heavily concentrated among a small number of sites. From 1997 to 1998, almost 90 per cent of total truck movements passed through 20 border-crossing sites. Ontario has four of the busiest truck crossings, the bridges at Windsor, Sarnia, Niagara Falls and Fort Erie handled 6.6 million trucks in 1998, or 54 per cent of the total truck traffic. Driven by NAFTA trade, this traffic contributes to the high levels of traffic congestion and gridlock in Southern Ontario trading corridors that was described earlier. The next busiest crossings were the Pacific Highway in British Columbia and at Lacolle, Quebec. In addition to these two crossings, B.C. and Quebec each had three border crossings each in Canada's top 20. New Brunswick had two border crossings in the top 20, while the Prairie provinces each had one.

While this discussion has used the term "border crossings", it is important to note that points of entry are not necessarily on our borders. Points of entry into Canada are also located in airports. Increased levels of infrastructure and service at points of entry in airports are similarly important in facilitating the movement of people and goods into Canada. Constant improvements to border and transportation infrastructure are vital to ensuring the continued expansion of Canada-US trade and the efficient movement of tourists and business people across the border.

Airports

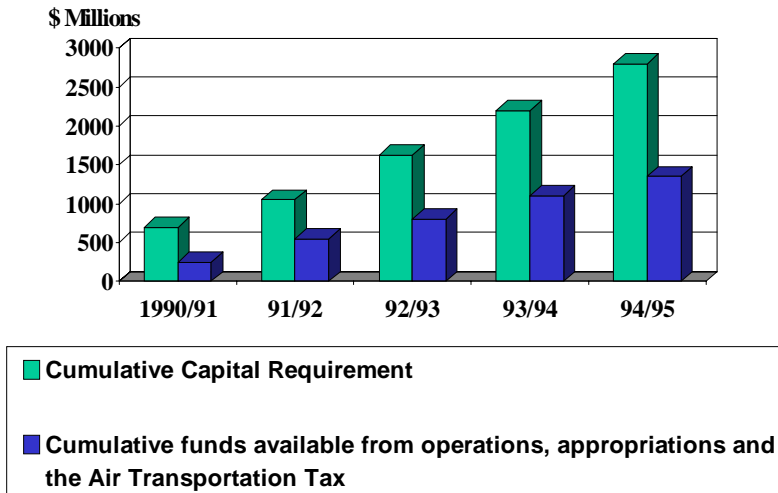
The National Airport System (NAS) comprises 26 airports in provincial capitals and major centres across Canada. Together, all NAS airports handle 95% of passenger and 98% of cargo traffic in Canada. The National Airports Policy

(1994) established the framework for providing greater local control of NAS airports, and the Government of Canada has been active in devolving these NAS airports to Canadian Airport authorities (CAA). In addition, airports in Calgary, Edmonton, Montreal and Vancouver were devolved to local airport authorities (LAA) prior to the introduction of the National Airports Policy. These airport authorities are not-for-profit entities that operate and fund the airports.

Canada's air transport system similarly depends heavily on capital investments to maintain safety and efficiency. CAAs that manage National Airport System airports are fully responsible for capital improvements to their airport. CAAs and LAAs do not qualify to receive public funding for capital improvement projects. In fact, Transport Canada has moved from a position of spending as much as \$400 million annually on airports in the middle 1980s to receiving \$250 million each year in "rent" on those same properties. Over the next several years, the NAS airports will pay rent to the federal government that will inflate to half-a-billion dollars per year, while the effect of the federal government's historic investment in airport infrastructure will continue to decline. This has important implications for the air transportation system and must be addressed by the federal government.

Table 3 : Capital Funding Shortfall

Source: Main Estimates Program Summaries. Departmental Revenue Forecasts, Draft Airports Authority Group Business Plan (1989/90)



As indicated above, the federal government’s business plan anticipated a cumulative capital requirement of nearly \$3 Billion by 1994/95, and projected a \$1.4 Billion financing shortfall by that date.

Canada’s transportation system also includes hundreds of small airports that serve communities and regions throughout the country. In fact, these small airports are often vital links to the communities and economies of rural areas. Many of these non-NAS airports, those located in smaller communities throughout Canada, have been devolved to the local municipalities. Unlike NAS airports, these facilities are eligible to receive funding for capital improvements through the Airport Capital Assistance Program (ACAP). This program, however, is too small and too restrictive to provide adequate support. Some small airports are in danger of reducing services to bare minimum levels or even closing due to lack of capital funding.

Although Transport Canada has divested itself of most financial obligations to small airports, it still has the authority to impose regulations concerning safety. While there is little doubt that safety is a principal concern of a viable air transportation system, many of these regulations have significant cost impacts on smaller airports that are not in a position to meet them. A case in point is CAR 308 “ Aircraft Emergency Intervention Services.” In many cases, local airport authorities may have other equally important safety priorities such as improvements to lighting or runway resurfacing. However, the mandatory nature of CAR 308 threatens large cost burdens on small airports and, in the process, leaves them little scope to pursue other upgrades. New and unsupported regulations such as CAR 308 are being imposed without any acceptable risk analyses will further jeopardize the future of these airports.

The management and operation of Canada’s airports will be discussed further in the section on divestiture of transportation services.

Marine Infrastructure

Canada’s transportation system is similarly dependent on a viable marine infrastructure system. Canadian shipping companies using the Great Lakes / St. Lawrence Seaway moved over 70 million tonnes of cargo, and combined with the U.S. domestic fleet moved more than 210 million tonnes of cargo between U.S. and Canadian markets. Marine infrastructure not only includes ship as well as ports with marine terminals and modern container facilities that can transfer cargo to other modes of transportation, but also includes Coast Guard Services, piloting and other navigational aids, and channel dredging. Although the government’s approach to shipbuilding is generally done through its industrial policy, ships are a vital part of transportation infrastructure and shipbuilding should be regarded as an important form of capital investment in Canada’s transportation system.

Vancouver is Canada's largest port and the main terminal for goods being shipped to the Asia-Pacific region. In Eastern Canada, shipments are divided among several ports, including Montreal, Halifax, Port Cartier, Sept-Îles, Saint John and Quebec City.

Like Canada's air transport system, the Government of Canada has been devolving marine infrastructure to give local regions greater control of their ports. The *Canada Marine Act* implemented the National Marine Policy that called for three categories of ports: independently managed Canada Port Authorities (CPAs), regional and local ports and remote ports. This policy also commercializes the St. Lawrence Seaway.

Rail Infrastructure

Canadian railways operated almost 50 000 route-kilometres of track in 1999. This includes both the Class I network carriers such as CN, CPR and Via Rail Canada, as well as the Class II and III network that comprises smaller carriers such as regional and shortline railways.

Canada's railways carry both people and goods. VIA Rail carried 3.9 million passengers in 1999-2000, generating more than 900 million passenger miles. Passenger rail is an important component of intercity transportation, especially in central corridors such as Ontario and Quebec. It is worth reiterating that railways carry 59% of the tonnage moved by surface transport, and carry as much as 70% of the tonne-km generated by surface transport. Much of this rail freight consists of commodities such as lumber, potash, newsprint, wood pulp and containers on flat cars.¹⁶ Railways transport large volumes of these commodities to ports for export by water, and in many instances, deliver them directly to the US.

¹⁶ WESTAC and Van Horne (1999) p. 58.

Canada has a relatively small population and market, but vast geography and sparse population creates the need for a larger rail network. Per person, Canada maintains more than twice the rail lines of the United States and more than six times the rail lines of Western Europe. Maintaining and enhancing these networks is costly, and railways are among the top industries in Canada when comparing the percentage of revenues that are reinvested into capital. Railways reinvest almost 25% of their revenue in capital. Canadian National and the Canadian Pacific Railway invested \$6.1 billion in capital over the last five years. Via Rail has also made significant investments in rail infrastructure, particularly within the Windsor-Quebec City corridor.

Pipeline

Pipelines are another means of transporting resources. Canada's pipelines are privately owned, operated and maintained, they gather crude oil and natural gas from producers and distribute these resources to consumers. Pipelines are also a means to exporting these resources, exports accounted for 54% of the natural gas and 49% of the crude oil shipped by pipeline in 1997.¹⁷

4.2.1 International Comparison

Canada's investment in infrastructure has been minimal when compared with other industrialized nations. Canada is the only G8 country without a comprehensive, national transportation infrastructure plan. The quality and reliability of transportation infrastructure is one of the foremost factors affecting decisions to locate businesses. As a result, transportation infrastructure is a key element of Canada's productivity and competitive position.

¹⁷ WESTAC and The Van Horne Institute, *Moving Forward: A Guide to the Importance of Transportation in Canada*. (December 1999) p. 11.

The competitive implications of Canada's lack of significant investment becomes clear when we consider the infrastructure plan of our major trading partner, the United States. The United States began its comprehensive federal investment plan for transportation infrastructure in the early 1990s. Enacted in 1991, the Intermodal Surface Transportation Efficiency Act, known as ISTEA ("ICE TEA"), was the most significant restructuring of surface transportation programs since 1956. ISTEA authorized \$121 billion in federal aid for highways, \$1.6 billion for safety, and \$31.5 billion for transit. ISTEA funded transportation infrastructure projects throughout the 1990s and received strong bipartisan support for its continuance and reauthorization.

The American commitment to infrastructure improvements continued with the enactment of the Transportation Equity Act for the 21st Century (TEA-21) in 1998.

¹⁸ Like its predecessor, TEA-21 represents a significant investment in transportation infrastructure. TEA-21 is a six-year program with a total budget of \$217 billion, it is particularly targetted at intermodel investments and the efficiency of trade corridors. TEA-21 regards transportation as a single, integrated system, and it regards infrastructure as an "integrated platform" upon which that system operates.

The U.S. government has also demonstrated a concerted effort to increasing the sustainability of trade corridors and facilitating NAFTA trade. The National Corridor Planning and Development Program and the Coordinated Border Infrastructure Program are targetted at border crossings and trade corridors. These programs include significant investments in both infrastructure and technology.

The U.S. also uses flexible financing tools to facilitate private sector investment, including tax abatements, tax increment financing and personal and corporate

¹⁸ The TEA-21 website can be found at : <http://www.fhwa.dot.gov/tea21/index.htm>. This site provides the legislation and funding tables detailing the apportionments and allocations.

income tax exemptions or credits. The result is that the U.S., based on a strong lead by the federal government, is investing heavily in infrastructure renewal to benefit economic growth.

4.2.2 Infrastructure : An Integrated Platform

While the various elements of transportation infrastructure have been described here individually, this does not mean that the transportation system should be regarded as multiple systems. On the contrary, each of these infrastructure elements is one component of an integrated transportation system. To a certain degree, each component is dependent on the others to bring people and materials to its location, or to deliver its shipments to its final spot. Indeed, many end-to-end movements involve more than one mode of transportation with the various modes of transportation acting as part of a larger transportation network.

The costs of inadequate infrastructure are substantial. First, there is the impact on the environment. During Canada's climate change process, the Transportation Table recognized this fact when it recommended that Canada enhance the viability of National Highway System in order to reduce congestion, improve the flow of traffic and reduce Greenhouse gas emissions (GHG).

Second, there is the loss of transportation activity and the economic loss that accompanies it. It is not unusual for Canadian trucks to travel along east-west corridors primarily through the United States. Similarly, Canadian railways and ports are in direct competition with U.S. competitors to deliver goods in North America. This "bypass" trend has a negative impact on the Canadian economy. Once traffic is lost to the U.S., it is difficult to win back. A number of Canada's smaller airports are in danger of reducing services. As many of these communities are dependent on these airports, reduction of service will be detrimental to the economy and business climates of those regions. Moreover,

investment in Canada will diminish if the environment is not attractive and conducive to growth.

Finally, there is the impact on Canada's regional and social development. The quality of life for Canadians and Canadian communities, in both urban and rural areas, is negatively impacted when transportation infrastructure is inadequate. For instance, traffic congestion and "gridlock" has an impact on economic, environmental and social prosperity. As indicated earlier, this is especially true in Canada's urban areas and along our major trade corridors.

Recommendation: The Government of Canada should take a leadership role in ensuring a world-class infrastructure for Canada. The federal government should not regard its investment in infrastructure as subsidizing a particular industry or mode, but rather as providing Canadians with the platform that they require to compete and prosper. Cost-benefit analyses should be performed to ensure that best use and maximum efficiencies are achieved for each of the modes.

- Amend the Canada Transportation Act to acknowledge the importance of infrastructure as part of a national transportation system.
- Create a National Transportation Investment Strategy. This strategy should be multi-modal and funding should come from within the current spending envelope without raising taxes.
- Commit the revenues collected from fuel excise tax towards a fund for the maintenance and renewal of infrastructure. Funds should be directed towards the mode from which they were derived.

This fund should operate for a period not less than 10 years in such a manner as to mobilize municipal, provincial and private sector capital in the following structure:

- Federal government infrastructure development objectives must be clearly identified and communicated to institutional investors, the public and other levels of government
- A broad range of private sector investment (acquisitions, partnerships, outsourcing) must be pursued within the fund.
- Selected infrastructure projects must contribute to the productivity, competitiveness and quality of life in Canada.
- A formal process for evaluating unsolicited public-private partnership submissions to the fund must be developed.

- The RFP process must be streamlined to mitigate pursuit costs, maintain confidentiality and expedite decision-making.
- Innovative delivery mechanisms to stimulate investment in strategic infrastructure must be explored.

This strategy should also include the following:

- A federal/provincial-territorial agreement on a long-term funding formula to provide for the ongoing maintenance and construction of the National Highway System in Canada.
- The funding program will also include provincial, territorial and federal priorities related to trade corridors, border crossings, strategic economic transportation corridors and intermodal rail facilities as part of a broader investment strategy.
- Enhance the capitalization of small airports by directing rents into an “airport reserve” which should be used to increase the Airports Capital Assistance Program (ACAP) funding to small airports, rather than revenues going into the general revenues of the federal government.
- Create a National Corridor Planning and Development Program, as well as a Coordinated Border Infrastructure Program.
- The Government of Canada should establish an agency to administer and implement its infrastructure programs.

4.3 Increased integration, cooperation and competition among transportation modes.

A significant trend in the transportation industry has been the rise of intermodal shipping. Intermodal shipping takes advantage of the strengths of two or more transportation modes to deliver its cargo. Intermodal traffic is carried by a combination of ship, rail, truck and air transportation as it moves towards its destination. The rise in intermodal shipping and the increased integration of the modes means Canada's transportation needs are being delivered by a true "transportation system."

Public policy should acknowledge this trend in Canada's transportation industry. Namely, that people and goods are being moved by a seamless, multimodal transportation system. While the current policy framework states that "competition and market forces are...the prime agents in providing viable and effective transportation services," this policy is generally focused on competition between carriers within a particular mode. The policy framework should recognize that Canada's transportation system is increasingly a single, integrated system, and that competition and market forces should apply to competition between the modes as well as between carriers.

If the transportation system is to provide a high level of integrated services, then each mode within that system must be able to compete and grow. Public policy should not provide one mode of transportation with a significant competitive advantage over another. Carriers from all modes must be given equal opportunities to recover costs, reinvest in infrastructure and new technologies, and expand their services. Just as the federal government needs to ensure that taxation and fee structures are consistent within North America, the government similarly needs to ensure that levels of taxation and regulation are consistent between the modes of transportation. In particular, the government cannot allow its tax regime to disadvantage any particular mode.

Taxation

Excessive levels of taxation have an impact on the ability of firms to recover their costs and maintain competitive rates. For example, excessive levels of fuel taxation have a negative impact on transportation companies. The federal excise tax of 10.0 cents per litre is applied to all gasoline sold in Canada. For diesel fuel the federal excise tax is 4.0 cents per litre. These taxes are added to the ex-tax price or pre-tax price of gasoline paid by retailers. These excessive levels of taxation have a significant impact on the ability of carriers to provide affordable transportation services. Moreover, this impact is felt in all modes of transportation and is ultimately passed on to the consumer.

The transportation sector is also highly capital-intensive and rates of depreciation of assets and taxes on capital affect the ability of firms to compete. For example, Canadian railways face aggregate taxation rates 51 percent higher than those faced by U.S. railways. Canadian trucking firms also face competitive problems. In the U.S., tractors are fully depreciated after four years and trailers after six, while in Canada the remaining balance on tractors is 17.3% and on trailers 14.3%. This provides an incentive in the U.S. for faster fleet turnover, and by extension more rapid introduction of cleaner engines. The federal government needs to ensure that levels of taxation within the transportation sector do not disadvantage Canadian carriers as they compete for North American traffic.

Infrastructure

Another element of the transportation sector that impacts on intermodal competition was described above – infrastructure. Competition between carriers and modes will only enhance our transportation system if the infrastructure provides the environment where firms can deliver high quality services.

Competition between modes is a vital element of an integrated transportation system, shippers need the assurance that they are employing the most efficient method of transportation to move their people and goods. A competitive environment will result in increased levels of choice and service for Canadian businesses and the travelling public. Even where market entry is marginal, the possibility for competition that is provided by a competitive environment will realize these benefits.

Recommendation: In developing transportation policy, the Government of Canada should:

- Recognize transportation as a seamless, multi-modal system that can provide integrated packages of low cost services to meet customer demands in new ways.
- Examine the current operating environment for carriers and ensure that opportunities for competitive markets are maximized, including a review of international agreements and their impact on carriers (e.g. Open skies).
- Develop a specific strategy that addresses the economic disadvantages for rural and non-hub centres, including a workable, commercially-based solution that better integrates rural and non-hub transfer of goods and people that makes transport from and to those areas economically feasible and not a barrier to economic development.

4.4 Approach to the devolution and divestiture of transportation services.

A significant trend in the transportation sector has been the changing role for government. Traditionally, the federal government has owned, maintained and operated transportation services such as airports, ports, and even service providers such as airlines and railways. Not-for-profit, non-shareholder corporations have become popular vehicles for the federal government to convert operating activities previously housed within a federal department or Crown corporation to a quasi private sector structure. As described throughout this report, this approach has largely been a success as not-for-profit, non-shareholder corporations have proven to be an excellent alternative method of delivering service.

The federal government's approach to the devolution of its transportation interests has not been consistent. Rather, the federal government has taken a series of different approaches to devolving transportation services to not-for-profit corporations. The prime examples of these various approaches are as follows.

Nav Canada

Created under its own legislation, Nav Canada owns all of its assets having purchased them outright from the Crown for 1.5 billion dollars. The role of the federal government is to appoint 3 directors, approve by-law changes, ensure that the legislation is being honoured and to act as the safety regulator.

Port Authorities

Unlike the other models in which the corporation is explicitly described as *not* an agency of the Crown, Canadian Port Authorities are clearly

designated as agencies of the Crown. They are the managers of a federal property, paying an annual stipend based on gross revenue to the Crown for that privilege. Five of seven directorial appointments are controlled or approved by the Minister.

Airport Authorities

Airport Authorities have long-term leases with the Crown that are complex, intrusive and highly restrictive. The Crown nominates (not appoints) two directors, ensures compliance with the lease, approves all major capital investments by outside organizations, approves the land use plan and requires a host of other compliances and approvals. Furthermore, the leases are not consistent between the various centres. As will be described below, the lease arrangements for airport authorities in Canada are not consistent among the various centres.

Inconsistent Approach between Centres

The implementation of the National Airport Policy (NAP) is a prime example of the inconsistent approach to devolution, both between modes and between centres. In his October 2000 report, the Auditor General of Canada indicated this concern. “We are concerned that eight years into the transfer process, Transport Canada has yet to clearly define its role as landlord and overseer of the National Airports System.”¹⁹

The NAP prescribed that airport assets would be transferred to local authorities through a series of individual lease arrangements, and that these arrangements would be pursued according to the principles of fairness and equity. In his 2000 report, the Auditor General of Canada questions the consistency of Transport

¹⁹ Report of the Auditor General of Canada to the House of Commons, October 2000. Chapter 10, paragraph 10.2.

Canada's approach. "Transport Canada cannot demonstrate how the deals done for all of the transferred airports are equitable, uniform, consistent and fair with one another as the government directed."²⁰ Moreover, the Auditor General noted that "Transport Canada was unable to demonstrate how the significant differences among airports in, for example, the base revenue per passenger and the base operating and capital cost amounts (three key components of the CAA rent formula) ensured equity and fairness among the transfer deals."²¹

More Comprehensive Approach Necessary

The Government of Canada must clearly define its role in transportation and implement a more consistent approach in devolving transportation facilities to local authorities. Canada's transportation policy should have, at its core, a clear idea on what the role of government is in transportation, and public policy should reflect this position. Moreover, the federal government must regard these facilities as part of an integrated transportation system and not as individual assets.

Recommendation: *Canada Transportation Act* should prescribe principles for the devolution of transportation infrastructure and services to private entities. These principles should address the following.

- Establish a consistent governance model for the management of transportation facilities across all modes.
- Ensure a federal government focus on safety with respect to airports, leaving the management of airports to local airport authorities.
- Establish a more transparent process for determining rents that are imposed upon Airport Authorities.
- Base rents on the real costs and expenses incurred by Airport Authorities.
- Initiate a rent cap for the total rents the Government of Canada extracts from individual airports.

²⁰ Report of the Auditor General of Canada to the House of Commons, October 2000. Chapter 10, paragraph 10.2.

²¹ 10.99

Conclusions

Moving forward, Canada needs a comprehensive framework for the development and implementation of a modern transportation policy. Canada can no longer afford to develop public policy without considering the broader implications for our international competitiveness, our environment and our society. As such, Canada's transportation policy should recognize the importance of international trade, infrastructure, integration among the modes, and the devolution of transportation services. Each of these factors is fundamentally related to the capacity of our transportation system and our economy, and each of these factors needs to be recognized by a modern transportation policy.

Section 5 – Summary of Recommendations

Canada needs a comprehensive, national transportation policy framework . This framework should recognize Canada as part of an international economy and establish a competitive environment for Canada’s transportation system. The objective of the policy framework should recognize the importance of infrastructure and create a climate where carriers can recover costs and where trade can be conducted.

The Canadian Chamber of Commerce also believes that transportation policy should be developed in consultation with regions and communities from across Canada to ensure that the policy framework constitutes a true “national policy.”

RECOMMENDATIONS

5.1 Economic Development and Regulation

- 5.1.1 Transportation policy should enhance Canada’s economic union by harmonizing regulatory standards and removing barriers within Canada. No additional regulations or standards should be imposed on Canada’s transportation system without a substantial cost-benefit analysis.
- 5.1.2 The federal government should move to equalize the tax burden on transportation with that of the United States.
- 5.1.3 Efforts and partnerships need to be explored that will remove the significant development barriers that are present in with respect to linkages with rural and non-hub markets.
- 5.1.4 Federal rents and charges should cover only the actual costs incurred by the federal government in fulfilling its duties under the National Transportation Policy.

5.2 Canada's Integration into a Global and North American Economy

The federal government should reiterate its commitment to competition and market forces and develop a more comprehensive policy framework to support NAFTA and govern Canada's transportation system. This framework should be relevant to all regions of Canada, enhancing the commercial and social viability of both rural and urban areas.

5.2.1 Canada's transportation policy should be used to facilitate greater access, cooperation and competition with the global economy, particularly within North America.

5.2.2 *Canada Transportation Act* should recognize that international trade is fundamental to the well-being of Canada and that transportation is fundamentally related to our economic growth.

5.2.3 Excessive levels of taxation should be reduced to promote competition and profitability in the transportation industry.

5.2.4 Levels of regulation and operating standards should be minimized and designed to facilitate increased movement within North America.

5.2.5 Transportation policy needs to pay close attention to trade facilitation issues such as customs procedures, immigration rules, cargo liability regimes, security arrangements, and all other components of transportation, including input taxes, that if not harmonized and streamlined, could prevent the best performance of our carriers and facility operators.

5.2.6 Maximize the use of advanced technology applications in all modes, especially to enhance the flow of traffic at border crossings. Such systems include advanced traffic management systems, advanced traveller information systems and advanced vehicle control systems.

5.2.7 The federal government should work with provincial governments to provide necessary road and other infrastructure improvements at border crossings.

5.3 Need for a long-term infrastructure strategy

The Government of Canada should take a leadership role in ensuring a world-class infrastructure for Canada. The federal government should regard this investment in infrastructure as providing Canadians with the platform that they require to compete and prosper. Cost-benefit analyses should be performed to ensure that best use and maximum efficiencies are achieved for each of the modes.

- 5.3.1 Amend the *Canada Transportation Act* to acknowledge the importance of infrastructure as part of a national transportation system.
- 5.3.2 Create a National Transportation Investment Strategy. This strategy should be multi-modal and funding should come from within the current spending envelope without raising taxes.
- 5.3.3 Commit the revenues collected from fuel excise tax towards a fund for the maintenance and renewal of infrastructure. Funds should be directed towards the mode from which they were derived.
- 5.3.4 This fund should operate for a period not less than 10 years in such a manner as to mobilize municipal, provincial and private sector capital in the following structure:
- Federal government infrastructure development objectives must be clearly identified and communicated to institutional investors, the public and other levels of government
 - A broad range of private sector investment (acquisitions, partnerships, outsourcing) must be pursued within the fund.
 - Selected infrastructure projects must contribute to the productivity, competitiveness and quality of life in Canada.
 - A formal process for evaluating unsolicited public-private partnership submissions to the fund must be developed.
 - The RFP process must be streamlined to mitigate pursuit costs, maintain confidentiality and expedite decision-making.
 - Innovative delivery mechanisms to stimulate investment in strategic infrastructure must be explored.

This strategy should also include the following:

- A federal/provincial-territorial agreement on a long-term funding formula to provide for the ongoing maintenance and construction of the National Highway System in Canada.
- The funding program will also include provincial, territorial and federal priorities related to trade corridors, border crossings, strategic economic transportation corridors and intermodal rail facilities as part of a broader investment strategy.
- Enhance the capitalization of small airports by directing rents into an “airport reserve” which should be used to increase the Airports Capital Assistance Program (ACAP) funding to small airports, rather than revenues going into the general revenues of the federal government.

- 5.3.5 Create a National Corridor Planning and Development Program, as well as a Coordinated Border Infrastructure Program.
- 5.3.6 The Government of Canada should establish an agency to administer and implement its infrastructure programs.

5.4 Increased integration, cooperation and competition among modes of transportation.

In developing transportation policy, the Government of Canada should:

- 5.4.1 Recognize transportation as a seamless, multi-modal system that can provide integrated packages of low cost services to meet customer demands in new ways.
- 5.4.2 Examine the current operating environment for carriers and ensure that opportunities for competitive markets are maximized, including a review of international agreements and their impact on carriers (e.g. Open skies).
- 5.4.3 Develop a specific strategy that addresses the economic disadvantages for rural and non-hub centres, including a workable, commercially-based solution that better integrates rural and non-hub transfer of goods and people that makes transport from and to those areas economically feasible and not a barrier to economic development.

5.5 Approach to the Devolution of Transportation Services

Canada Transportation Act should prescribe principles for the devolution of transportation infrastructure and services to private entities, including the following priorities:

- 5.5.1 Establish a consistent governance model for the management of transportation facilities across all modes.
- 5.5.2 Ensure a federal government focus on safety with respect to airports, leaving the management of airports to local airport authorities.
- 5.5.3 Establish a more transparent process for determining rents that are imposed upon Airport Authorities.
- 5.5.4 Base rents on the real costs and expenses incurred by Airport Authorities.
- 5.5.5 Initiate a rent cap for the total rents the Government of Canada extracts from individual airports.

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