

ASSOCIATION OF MANITOBA MUNICIPALITIES

PRESENTATION TO

**CANADA TRANSPORTATION ACT
REVIEW PANEL**

OCTOBER 25, 2000

Introduction

Thank you for allowing the Association of Manitoba Municipalities the opportunity to offer its views on the Canada Transportation Act Review. We welcome the chance to work with the panel throughout the review process to offer suggestions on transportation matters affecting Manitoba's municipalities.

The Association of Manitoba Municipalities (AMM) was created in January 1, 1999, following an amalgamation between the former Union of Manitoba Municipalities and the Manitoba Association of Urban Municipalities. As a result, the AMM now represents all of Manitoba's 201 municipal corporations. Our presentation this morning will outline the AMM's position on a number of issues in the area of rail, road, and air transportation. In an earlier submission to the review panel we dealt specifically with competitive rail access provisions such as rail line transference and discontinuance (abandonment), competitive access, and the harmonization of federal and provincial regulations. Additionally, that submission touched briefly on several road issues that arise in the context of the discussion of rail line abandonment. In a separate submission, the AMM plans to raise the issue of highways and roads in greater detail, as well as issues related to air transportation.

To begin, the AMM would like to indicate its appreciation for the appointment of Glen Findlay, former Minister of Highways and Transportation in Manitoba, as a member of the panel conducting the CTA Review. We believe that Mr. Findlay's extensive experience in the transportation field and his familiarity with rural and agricultural issues will allow him to bring a valuable and unique perspective to this review.

AMM Involvement in Transportation Issues

The AMM and its predecessors have appreciated the opportunity to have a significant degree of input into the transportation reforms of the 1990s. Although the AMM is a municipal

rather than an agricultural organization, the issues of the reform of the grain transportation system and rail line abandonment have had an impact on the rural road network, as well as the economic viability of many of our member municipalities. The AMM made three presentations to the Grain Review Secretariat at various stages of the process to highlight the concern on the part of Manitoba's municipalities over the reform of the grain transportation system, especially with respect to the privatization of CN and the elimination of the Crow Benefit and WGTA.

We would like to express our appreciation to the federal government for announcing the Prairie Grain Roads Program earlier this year in response to the recommendations of the Estey-Kroeger Report. This program will bring \$175 million in federal funding over the next five years to address the impact of grain handling and transportation reforms on rural roads in the western provinces, including \$33 million for Manitoba. While we appreciate that this represents recognition on the part of the federal government of the impact of grain handling and transportation reforms in the 1990s, this is not sufficient to address the loss of approximately \$2 billion in support payments from the agricultural sector in western Canada through the removal of the Crow Benefit and the WGTA, and reducing the amount spent on research and development. Even with the aid package for producers announced this spring by the federal and provincial governments and the Prairie Grain Roads Program, this reduction in funding has not been recovered. The Review of the CTA provides the federal government with an opportunity to engage Canadians in a comprehensive discussion on the importance of our rail and road infrastructure, and to begin the work of designing meaningful and effective measures to ensure the continued viability of this critical element of our economy.

Rail Line Abandonment

The issue of rail line abandonment as well as competitive access and the harmonization of regulations needs to be addressed within the context of Canada Transportation Act. In preparing

this submission, the AMM has worked closely with our sister organizations in other provinces, in particular with the Saskatchewan Association of Rural Municipalities (SARM) and the Federation of Canadian Municipalities (FCM) to ensure that these concerns are brought to the panel's attention. We believe that municipal involvement allows for grassroots participation in identifying key issues of concern to local residents, and allows for recommendations to be made by those closest to the real problems.

Rail line abandonment and the related issue of elevator closures has become one of the greatest transportation issues faced by both producers and rural communities. Since the earliest days of settlement on the Prairie, the railway has served as one of the primary modes of transportation in many rural communities, and grain elevators have become the focal point of local commerce, especially in the smallest communities. With the closure of grain elevators and the loss of rail service, many of these communities are struggling to survive. In addition, local producers are faced with longer truck hauls over an already stressed road infrastructure to bring grain to the nearest elevator.

The AMM would like to express its appreciation to the federal government regarding section 146.1 of the Act, which acknowledges the effect on roads incurred through the abandonment of a grain dependent branch line and the resulting shift to trucking. This amounts to \$10,000 for each mile of line in the municipality. The AMM recommends that the evaluation of costs of the effect of rail line abandonment be ongoing, and that the federal government continue to provide compensation to municipal governments equivalent to the cost imposed on local infrastructure.

In an evaluation of the relative merits of rail and truck transportation, the environmental impact of each of these modes of transportation needs to be taken into consideration. According to the figures published by the Transportation Climate Change Table, transport by truck results in

five times more greenhouse gas emissions than transport by rail. The cost of rail transport is also more economically efficient, although this is not reflected in the cost to shippers because the trucking industry does not directly pay for the cost of maintaining the roads, while the railways are responsible for the maintenance of rail lines. Any change in policy that saw trucking companies pay for road use would certainly make trucking rates look less attractive than is the case at the present time. The trucking industry would argue that it already pays for maintaining roads through the tax collected on fuel by the federal and provincial government, although very little of the road use fuel tax collected by the federal government makes its way back to our road infrastructure.

During the period 1977-1990, the federal government contributed \$700 to \$800 million to the Prairie Branch Line Rehabilitation Program for the express purpose of maintaining the Prairie branch line system for continued use by farmers. The Class I carriers have demonstrated that they are no longer interested in operating many of these branch lines by abandoning them. Creating a pro-competitive environment that would facilitate the purchase and operation of these lines would allow for the continued use of the existing infrastructure, thereby maximizing the return on the federal government's investment and minimizing the damages to the already overburdened publicly funded road system.

Promoting Rail Competition

The AMM is certainly aware of the economic factors that impact on the viability of many branch lines. Producers have the ability to haul grain longer distances than was the case when many of these rail lines were built early in the last century. The competitiveness of the railway system obliges the railways to make a profit from their business, and we cannot expect them to maintain uncompetitive lines in perpetuity. While it may not be possible or feasible to save every branch line, our membership supports the AMM in promoting the economic feasibility of our

branch lines to short line operators and, potentially, regional railways, who may see an opportunity in operating these lines. Therefore, our interest is in providing potential purchasers of branch lines that have been designated for discontinuance with the greatest possible opportunity to purchase such lines before they are abandoned and the track has been removed. In our experience, once a rail line is removed, it is gone forever.

At the present time, there is no requirement to advertise the availability of a railway line and subsequently offer the line to provincial governments or municipalities if no interest is expressed, as long as the company has a purchaser willing to operate the line and the railway has indicated its intention to transfer the line in its three-year plan. Neither the company nor the new owner is required to show that the line will actually continue to be operated under new ownership. If the new owner is either unable or unwilling to operate the line, service may effectively be discontinued, while other potential operators are prevented from bidding on the line and governments are prevented from obtaining the railway line at no more than net salvage value.

The loss of railway branch lines and the increasing dependence on trucking raises concerns about a lack of competition in the grain transportation sector. In areas that have a long haul to mainlines, short lines offer a competitive alternative to trucking if the railway infrastructure is still in place. Short line railways should be considered an essential component in the grain transportation system and we believe that the federal government should require the railways to abandon rail lines in packages that will assist short lines in becoming competitive and economically viable.

To encourage the viability of short lines and regional railways, the AMM would encourage the federal government to strengthen the current competitive measures within the CTA. We believe that short lines should have access to the competitive line rate when accessing

rail lines. Short lines should also be offered expanded running rights to allow them to deliver grain to points on CN or CP, depending on which was offering the best rates. Other existing shipper protections such as Interswitching, joint running rights, and final offer arbitration need to be maintained and even strengthened until there is sufficient competition in the system to provide effective and demonstrable reduction of rates. We note that joint running rights have been put in place in the eastern provinces, but this has only taken place in western Canada in a few specific instances. The AMM recommends that the CTA Panel consider the benefits of joint running rights in the western provinces, as has already been done in the east.

Harmonization of Federal-Provincial Regulations

Although railway legislation has traditionally been the sole responsibility of the federal government, the emergence of short lines operating under provincial legislation has created a significant role for provincial governments in this industry. The AMM has worked closely with our provincial government over the last few years to ensure that the relevant provincial legislation takes municipal concerns over rail line abandonment into consideration. During the last session of the Manitoba Legislature, the government passed Bill 14, *The Provincial Railways Amendment Act*, which encourages investment by preventing the removal of infrastructure before allowing an opportunity for the continued operation of the line in the public interest.

Currently, short lines are not eligible for the federal Grade Crossing Improvement Program or the proposed grade crossing consolidation program under *Railway Safety Program* because they are provincially regulated. This results in significant costs to municipalities to undertake rail-crossing improvements to enhance public safety. Therefore, the AMM recommends that federal and provincial regulations be harmonized to ensure the access of short lines to federal funding relating to grade crossing improvements and rail safety.

NATIONAL TRANSPORTATION INVESTMENT STRATEGY (NTIS)

At the 2000 Transport Ministers meeting, the provincial and territorial ministers reached a consensus position for immediate federal funding of a Canada-wide transportation strategy. The federal government is projected to realize a cumulative surplus in excess of \$20 billion from taxes on the transportation sector over the next six years. As a result, the AMM believes that a long-term, sustained federal funding commitment is now affordable and should be a priority for the federal government.

The single most important component of any transportation strategy is financial assistance for Canada's beleaguered highway system. According to a study done for the provincial and territorial Ministers of Transport, the cost of correcting all current deficiencies on the National Highway System is \$17.4 billion. In Manitoba alone, the cost of making only necessary upgrades to the National Highway System is \$768.2 million. While the second National Infrastructure program will bring \$600 million over 4 years (\$150 million per year) starting in fiscal year 2002-2003 through the Strategic Highway Infrastructure Program, this amount falls far short of the \$17.4 billion needed for the National Highways System.

The federal government currently receives approximately \$4 billion annually from road use fuel taxes, and proposes to spend only 2.5% of this revenue on provincial highway infrastructure over the next six years. Manitoba highway users pay the federal government about \$145 million annually in road use fuel taxes, yet none of this federal revenue is reinvested in Manitoba highways.

Over the past decade, provinces and territories have doubled their expenditures on the national highway system to over \$1.7 billion annually. Provinces and territories have sought an initial federal commitment of at least \$800 million annually to a NTIS. Although it would cost \$17.4 billion to bring Canada's national highway system up to proper standards, such an initiative

would provide benefits valued in excess of \$30 billion, save up to 247 lives per year, and reduce injury accidents by up to 16,000 per year. An improved highway system can provide significant productivity gains for industry and is critical to achieve a more productive and competitive economy.

Canada is the only country in the developed world where the federal government does not significantly participate in support major highway links to improve interjurisdictional trade and travel. In the United States, our major economic competitor, the federal government commits an average of \$35 billion annually to highway trust fund projects, adding to their productivity advantage over Canada and diverting travel related economic activity from Canadian to U.S. routes.

For these reasons, the AMM urges the federal government to financially support a National Transportation Investment Strategy by dedicating revenue from the federal fuel tax for this purpose. In addition, we support the establishment of a federal/provincial/territorial partnership to develop a national transportation vision, which would provide guidance for the enhancement of Canada's transportation system in the 21st century.

Regional Airport Issues

The issue of airports is relatively new to the AMM. Concerns over the level of funding available from the federal government and regulatory requirements were first brought to the AMM Convention in November 1999. Many of these issues have arisen as a result of the decision by the federal government to divest itself of the operation of local and regional airports through the National Airports Policy. One component of this policy was to initiate the Airport Capital Assistance Program (ACAP) to ensure that the municipalities operating these airports had access to sufficient funding for the purpose of maintaining critical airport infrastructure. It now

appears that the federal government is being unnecessarily restrictive in the scope of eligible projects and is jeopardizing the continued viability of these local and regional airports.

We were made aware of an example of this situation. A carrier withdrew its 737 airplane service from The Pas Airport because it was not economically feasible to fly a plane this large into The Pas at that time. As a result of this business decision by the carrier, Transport Canada advised the municipality that they no longer needed to maintain their runway for a 737 airplane and would therefore only qualify for funding under the Airport Capital Assistance Program (ACAP) to build a shorter runway. A decision of this type by Transport Canada effectively ensures that The Pas will never have 737 airplane service again. This jeopardizes future economic development opportunities for the municipality since certain types of investments will not be made if the municipality does not have a proper runway to accommodate a 737 airplane.

Since taking control of regional airports from the federal government, municipalities have experienced serious financial difficulties in operating these airports. Transport Canada operated most of these airports on a deficit basis for many years, but when the facilities were transferred to local control it was expected that local authorities would be able to institute economies and develop revenues sufficient to fund on-going operation, and ACAP would support their capital needs. While many regional airports have taken such action, it is becoming apparent that it is not practical to fully cover operating deficits by these means alone. If some form of on-going support is not developed, then devolution will have amounted to the effective downloading of essential public services to municipal government, which is less able to absorb such additional responsibilities. Many regional airports will always operate at a deficit. But in these cases deficits are incurred as investment in economic development, which benefit all levels of government. Although the federal government provided transitional funding to these airports for a few years after being transferred, that funding has been essentially exhausted. It is clear that the

terms under which these airports were transferred to local governments have resulted in many of these facilities not being sustainable in the long term. For example, of the ten airports in this category in Manitoba, five operate either in a break-even position or run a small deficit (under \$20,000), while five others run deficits of \$150,000 or more per year.

At the same time that regional airports have been starved for funding, in 1999/2000 the federal government accumulated a surplus of \$91 million from the airports industry. On revenues of \$263 million (largely from rents from the large national airports), Transport Canada spent only \$172 million on airport programs and subsidies. This surplus is expected to reach several hundred million dollars annually within a few years.

A number of regulatory issues also confront regional airports, such as the new emergency response standard, CAR 308 (Aircraft Emergency Intervention Services). We agree that safety must be an important consideration in the air transportation system, but unfortunately there has been little in the way of risk analysis or cost-benefit analysis done to justify such an expensive regulation with dubious safety benefits. In addition, there are legal liabilities if airports do not comply with the regulation. Small airports believe it is important to spend funds allocated for safety to address what are deemed to be the most likely eventualities in statistical terms. While we are pleased that upgrades done to comply with CAR 308 will be ACAP eligible, we are concerned that ACAP may not have sufficient funding available to assist with all of upgrades, in addition to the programs it already funds.

When Transport Canada operated a federal airports system, there was a natural check on unreasonable regulations. Now that this is gone, there are numerous anecdotes of Transport Canada inspectors requiring airports to immediately correct – at large cost – things that had been overlooked for many years when Transport Canada operated the airport. Some airports have been asked to remove boulders or cut trees that were not a problem while Transport Canada was

operating the airport. Within the context of the review of the Canada Transportation Act, there should be a review of the relationship between economic and safety regulations within a mode of transport, and in particular, a risk analysis and cost benefit justification should be required for proposed risk-mitigation regulations. Definition of the relationship between economic and safety regulation in a new CTA would be useful, not just for air transport but also for all modes of transportation.

This spring the AMM established a Manitoba Regional Airport Operators Committee to represent the interests of those airports that have been devolved to local authorities. This committee consists of representatives from the airports in Brandon, Dauphin, The Pas, Flin Flon, Lynn Lake, Thompson, Gillam, Southport (Portage), the RM of St. Andrews, Swan River and Winnipeg. The focus of the committee will be to examine the issues of mutual concern and lobby the federal government on funding and regulatory issues on behalf of all of these regional airports. We have sent a letter to the Minister of Transport as well as a number of industry stakeholders to make them aware of this committee and its mandate. The AMM will continue to work with regional airports to deal with these issues of increasing importance to many municipal governments.

Conclusion

In conclusion, the AMM would like to restate the continued importance of rail, road, and air transportation to communities across Manitoba. With respect to the competitiveness of the rail transportation system, we need to recognize the important role trucking has come to play in the transport of goods in Manitoba, and across the Prairies. More work needs to be done to study the interrelationship between the elimination of the Crow Benefit and WGTA, the abandonment of rail lines, and the emergence of a strong trucking industry. To develop sound public policy for

the future, we need to have an understanding of the effects of the major policy decisions of the 1980s and 1990s.

We believe that the Canada Transportation Act of 1996 focussed too much on the viability of the carrier industry at the expense of the viability of short line operators and end users of the rail service. The need for greater competition in the industry is becoming apparent, and this review of the CTA provides an excellent opportunity for the federal government to make improvements to the legislation that would balance the interests of all parties in this important sector of the Canadian economy.

In the areas of road and air transportation, the most important factor has been an absence (or in the case of regional airports, a withdrawal) of federal funding in the last few years. The lack of federal involvement in support of Canada's National Highway System has contributed to the deterioration of this important link, and provincial governments do not have sufficient resources to deal with this problem alone. In light of the fact that the federal government expects to post a cumulative surplus in excess of \$20 billion from taxes on the transportation sector over the next six years, we believe that now is the time for the federal government to make a significant investment in a National Transportation Investment Strategy, above and beyond the \$600 million made available through the National Infrastructure Program over the next four years by dedicated federal fuel tax revenue for that purpose. This should be done in conjunction with the establishment of a federal/provincial/territorial partnership to develop a national transportation vision, which would provide guidance for the enhancement of Canada's transportation system in the 21st century.

The devolution of regional airports to local authorities by the federal government has resulted in a number of challenges for these airports and the municipalities that own them. Although communities have taken the initiative to generate the additional revenue necessary to

operate airports on a break-even basis, many have been unable to do so. The transitional funding from the federal government is now exhausted in all but a few communities, and municipalities are faced with having to subsidize their airports out of general revenues, or lose an important link to the global economy. In light of the federal government's experience at running these airports in a deficit position and Transport Canada's surplus of \$91 million in 1999/2000, municipalities should not be forced into making such a choice. We believe that the eligibility requirements for ACAP funding needs to be re-evaluated to take into consideration a broader range of expenditures than is the case at the present time, and that sufficient funding needs to be in place for ACAP to cover all of these different mandates. Regional airports are also faced with expensive, onerous, and sometimes arbitrary regulatory issues without a risk analysis or cost-benefit analysis being done to justify expensive regulations with questionable safety benefits.

The AMM will continue to work with the Manitoba Airport Operators Committee to identify and address the funding and regulatory issues that affect our regional airports.

While we appreciate that this panel will be confronted with a significant number of presentations and issues during the course of this review of the Canada Transportation Act, we thank you for allowing us the opportunity to present the concerns of Manitoba's municipalities to you this morning.

Time permitting, I would be pleased to answer any questions the panel may have on the material the AMM has presented as part of our presentation.