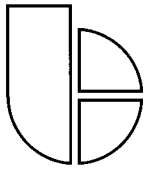


**Submission
to the
Canada Transportation Act
Review Panel**

November 2000



1. Introduction

The Business Council of British Columbia is pleased to present this submission to the *Canada Transportation Act* Review Panel.

By way of background, the Business Council is an industry association representing 165 large and mid-sized employers with a significant presence in British Columbia. Our members are drawn from all major sectors comprising the provincial economy, including forestry, tourism, transportation, telecommunications, engineering, mining, retail, construction, agri-food, oil and gas, pipelines, telecommunications, advanced technology, financial services, education, health care and the professions. Taken together, the Council's member companies and affiliated industry associations account for one-quarter of all jobs in the province.

This submission deals primarily with two of the matters identified as falling within the CTA Review Panel's terms of reference:

- the adequacy of the national transportation policy set out in Section 5 of the *Canada Transportation Act* (the Act);
- the effectiveness of the existing legislative and regulatory framework in sustaining the high levels of transportation capital investment required to enhance productivity and promote competitiveness and innovation.

As an initial introductory comment, the Business Council of British Columbia wishes to indicate that we are in general agreement with the positions taken by the Greater Vancouver Gateway Council, which has also submitted a brief to the Panel. Most of the organizations that belong to the GVGC are also members of the Business Council. More

importantly, the Business Council shares the GVGC's vision of making the Vancouver region the "Gateway of choice for North America". Achieving this vision depends on establishing a fair competitive framework with U.S. gateways. It also requires that British Columbia – and indeed all of Western Canada – have a modern, efficient and competitive transportation system. In such a system, transportation carriers will earn rates of return sufficient to allow them to re-invest in maintaining and enhancing infrastructure and operations; shippers will have competitive choices wherever this is practicable; intrusive, command-and-control government regulation will be kept to the minimum necessary to ensure a safe, efficient and up-to-date transportation network; and fiscal and regulatory policy frameworks will explicitly recognize commercial and competitive realities while seeking to facilitate necessary investments in transportation services and infrastructure.

2. Broader Context for the CTA Review

The CTA review comes at a time of significant change in the economic and business environment facing Canadian carriers and shippers. Among the many trends relevant to transportation policy and planning in Canada, the following stand out:

- 1) Continuing growth in both intra-North American and trans-oceanic trade.
- 2) The increasing importance of international trade to the Canadian economy, particularly since the advent of NAFTA (see below).
- 3) The implementation, in the United States, of a major program to expand and modernize transportation infrastructure (including highways and ports), a development that will intensify the competitive pressures on Canadian ports, marine terminals and other components of the transportation system.
- 4) A rise in the proportion of goods being shipped by truck rather than rail.
- 5) The movement of larger volumes of high-valued goods by air.

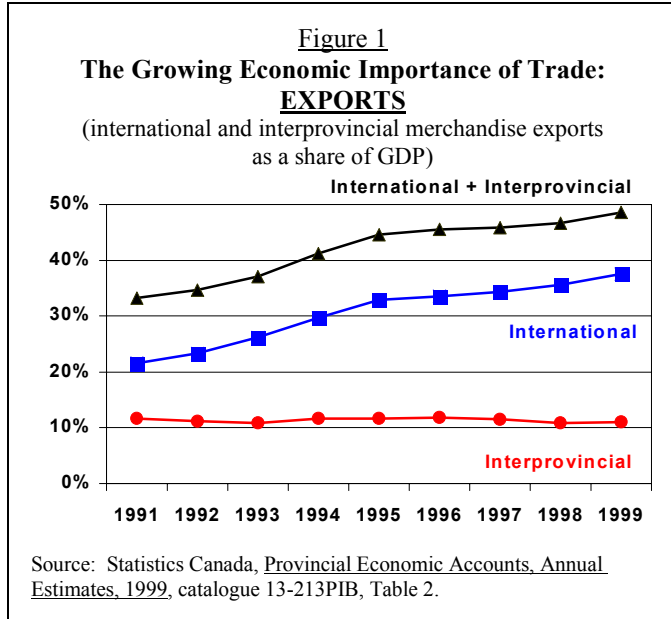
- 6) The adoption and refinement of new information and communication technologies that are affecting transportation services, supply chain management, and other business systems.
- 7) Declining real communications and transportation costs, a trend that has accelerated with de-regulation.
- 8) More mergers and acquisitions across a range of leading industrial sectors, including transportation.
- 9) Strong growth in tourism – by some measures, it now ranks as the world’s biggest industry.
- 10) Containerization of cargo coupled with greater use of intermodal transportation services.
- 11) Increasing concern by different levels of government about air pollution, greenhouse gas emissions, and the impact of road congestion in urban centers.

From a transportation policy perspective, perhaps the most important of the above trends is the Canadian economy’s growing dependence on extra-provincial trade – that is, exports and imports among provinces within Canada and with other countries. In what follows the focus is on merchandise trade; however, it is worth noting that global trade in services is also increasing rapidly.

Figures 1 and 2 depict merchandise trade flows within Canada and with other countries as a percentage of Canada’s gross domestic product (GDP). As the 1990s progressed, trade in goods accounted for a rising proportion of GDP. Trade with other countries – especially the United States – has expanded much faster than internal trade, but the

volume of interprovincial trade is still impressive: in 1999, interprovincial exports of goods were valued at \$189 billion, equivalent to one-fifth of the country's GDP.¹

Figure 1 reveals that for Canada as a whole, interprovincial plus international exports of goods now amount to close to half of GDP, up from one-third in 1991. The



increase is wholly attributable to international merchandise exports, which have soared from 22% to almost 38% of GDP over the period. Extra-provincial imports of goods similarly have risen strongly (Figure 2), reaching 45% of GDP in 1999, compared to less than a third at the beginning of the decade. Again, growing international imports explain

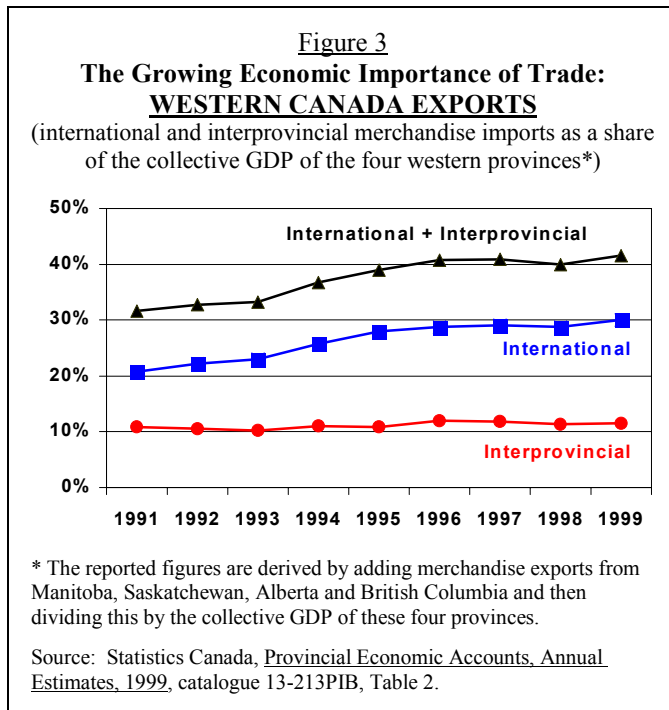


this pattern, as interprovincial imports have remained more or less constant as a proportion of Canadian GDP.

Figure 3 provides some additional detail specific to Western Canada. It shows that extra-provincial exports – that is, exports of goods from a province to other parts of Canada as well as to other countries – rose as a share of the collective GDP of the four western provinces by

¹ Note that by definition, interprovincial imports of goods equal interprovincial exports both in dollar terms and as a percentage of GDP.

approximately ten percentage points during the 1990s. Once again, this is mainly due to the expansion of international rather than internal Canadian trade. The increase in the ratio of extra-provincial exports to GDP for the western provinces has been somewhat smaller than that for Canada. This largely reflects the dramatic growth of automobile-related exports to the United States out of Ontario.



The implication of the story told by these three Figures is straightforward: as the value of trade in goods has increased relative to GDP, the transportation system has become an ever-more important determinant of economic performance for all parts of Canada, including the western provinces. Extra-provincial merchandise exports represent 41.5% of GDP in Western Canada, and an even larger proportion in some other provinces. Virtually all of these goods are moved to market by rail, truck, ship, or air – or some combination thereof. It is a notable feature of modern economies that they are able to move goods between markets at a lower real cost, and have more means at their disposal to meet foreign demand more flexibly, than in previous decades. As trade in goods with external markets continues to drive a larger fraction of economic activity in all of the provinces, access to efficient, high quality transportation networks will become more vital to their competitive success.

3. National Transportation Policy

In Canada, government policy has paid scant attention to transportation's role as an enabler of economic activity, including cross-border and other forms of international trade. Instead, Canadian governments have tended to treat transportation above all as a reliable source of tax revenues. A different philosophy has emerged in the United States,

especially in the past decade. There, policy-makers have come to understand that an efficient, world-class transportation system generates substantial economic dividends for the country as a whole. That is why the US government has committed more than \$200 billion of incremental funding to expand and improve transportation infrastructure – notably highways and ports – and why the tax burden on American transportation service providers has been kept well below the levels prevailing in Canada.

At present, the *Canada Transportation Act* emphasizes the policy objective of fostering “a safe, economic, efficient and adequate” transportation system for shippers and travelers. We believe there is a need to include another policy objective, namely, ensuring that the transportation system enhances Canada’s ability to compete and succeed in North American and wider global markets. With international exports and imports together now equivalent to two-thirds of national GDP, and globalization continuing apace, incorporating such a provision in the *Act* is overdue. The Business Council therefore recommends that Section 5 be altered to state that a principal goal of federal transportation policy is to support the continued growth and strengthen the international competitiveness of the Canadian economy.

More generally, we believe federal transportation policy should be re-framed to place a higher priority on promoting competitiveness and ensuring that transportation decisions are more closely integrated with international trade, industrial development and tourism policies. At the same time, the federal government should take the lead in working with other levels of government to broaden understanding of the pivotal role of the transportation system as a facilitator of economic activity and the well-being of Canadians.

4. Sustaining Adequate Levels of Capital Investment

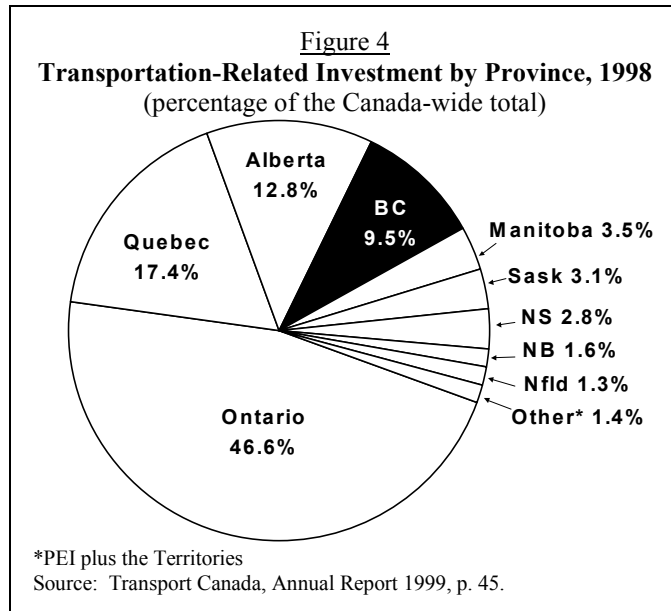
Without ongoing capital investment, the competitiveness and operational efficiency of rail lines, airports, marine terminals, ports, and the road system will deteriorate over time. Figure 4 summarizes the distribution of transportation-related investment as a percentage of the national total by province for 1998. In that year, just under 30% of transportation

investment took place in Western Canada.² In recent years, overall transportation-related investment has reached \$30 billion (current dollars) or more. Of this, some two-thirds involves the acquisition of equipment, including containers, locomotives, rail rolling stock, ships, aircraft, commercial trucks, and other vehicles. Approximately one-fifth is engineering construction activity such as roads, railway track,

airport runways, bridges and tunnels. The remainder is classified as transport-related building construction – freight terminals and warehouses, railway shops, other equipment storage facilities, aircraft hangers, passenger terminals, and the like.³ Within the various categories of transport-related investment, arguably the need for additional capital spending is greatest in the areas of engineering and building construction.

In most regions of Canada, including British Columbia, transportation investment, particularly by the public sector, has kept pace neither with an expanding economy, nor with the rapid growth of external trade. To address this situation, the Business Council advocates a number of new policy directions.

First, the federal and provincial governments should encourage the development of new, innovative financing vehicles to spur investment in key components of the transportation system, including ports, airports and marine terminals. The tax-exempt bond financing presently used in the United States to build transportation infrastructure is a model that we believe could be successfully adopted in Canada.



² See Transport Canada, *Annual Report 1999*, chapters 2 and 6.

³ *Ibid.*, Appendix 2-2, p. 10.

Second, we recommend that the federal government re-invest a specified portion of fuel taxes collected from the transportation sector in designated priority infrastructure improvements, including roads, border crossings and ports. The Greater Vancouver Gateway Council has identified a group of infrastructure projects that should have first call on any new federal funding made available to southwestern British Columbia.⁴

Third, the federal government should also take the lead in working with the provinces and local governments to identify and remove regulatory obstacles to transportation investment. At present, major transportation projects, both in BC and other provinces, typically encounter interminable delays due to protracted and complex regulatory review processes and jurisdictional overlaps between different levels of government. We are aware of examples of significant projects within the Greater Vancouver region that have not been pursued because of lengthy review processes and the high costs associated with the complex and confusing mix of legal and regulatory requirements imposed by different levels of government.

A strong commitment by the federal government to shorten review times and expedite regulatory decisions around major transportation projects would help to break what has become a log-jam. Ideally, the *Canada Transportation Act* should be amended to give the Minister authority – or perhaps even to require the Minister – to take steps to expedite review processes in the case of capital investment projects deemed of particular importance to the transportation system. The Greater Vancouver Gateway Council has urged the establishment, in Vancouver, of an office of federal “project expediter” who would be charged with coordinating the fast-tracking of regulatory review for infrastructure projects important to the transportation system and competitiveness of the region. We believe this GVGC proposal deserves serious consideration.

⁴ Greater Vancouver Gateway Council, *Vision for the Future* (Summer 1999), pp. 14-15. The Greater Vancouver Gateway Council is engaged in ongoing discussions with all stakeholders in the gateway transportation system to further refine a major commercial transportation network based on this list. Decisions regarding project funding should not be made until consultation with area stakeholders.

Apart from this, the Business Council recommends that the Minister of Transport commission a detailed review of impediments to new infrastructure projects in the Greater Vancouver area. The review should devote particular attention to the impact of present regulatory approval processes on project development, the extent and consequences of overlap and duplication between different government agencies and authorities, and whether local and provincial land use and transportation planning processes adequately consider issues related to the movement of goods. Although the federal government does not have jurisdiction over local land use planning or transportation decisions, it can and should seek to influence such decisions when larger public and economic interests are at stake – as is almost always the case with major transportation projects. Our experience is that local governments and agencies rarely consider the ramifications of their decisions for the transportation system as a whole, still less for the competitiveness of the export industries that are primary engines of wealth creation in British Columbia and the rest of Canada.

A Balanced Approach to Taxation

Tax policy is a factor that bears directly on investment in transportation and the competitiveness of the transportation system. At present in Canada, the fixed tax burden (i.e., profit-insensitive taxes) on transportation is too high. The biggest concerns relate to taxes on capital, property, fuel, and other business inputs. High fixed taxes are a particular problem for capital-intensive industries – a category that includes most components of the transportation sector. Municipal property taxes on Vancouver Gateway seaport operations are between two and ten times higher than in competing American gateways.⁵ A number of studies have shown that as a share of revenues, the business tax burden on both airports and railways is significantly higher in Canada than the United States. All of this results in a higher cost structure, which in turn encourages some Canadian shippers to use US transportation networks – at the cost of reduced economic activity and fewer jobs here in Canada.

⁵ Greater Vancouver Gateway Council, [Vision for the Future](#) (Summer 1999), p. 11.

Without a competitive tax structure, transportation providers cannot afford the investments needed for Canada to succeed in world markets; nor can the transportation system itself properly perform the enabling role within the economy referred to earlier. In an era of sizable budget surpluses, the Business Council believes the federal government should be moving to equalize the tax burden on transportation with that in the United States. The main focus should be on reducing federal fuel and capital taxes, moving toward US-equivalent tax treatment of investment in capital equipment, and working to persuade other levels of government to lower property, capital, fuel and other input taxes within their own spheres of jurisdiction.

5. Other Issues

From a British Columbia perspective, the shift from rail to road as a mode for the transport of goods raises a number of issues. Both nationally and in BC, trucking's share of the freight transportation market has increased over time. On a tonnage basis, trucks account for about 40% of the Canadian surface transportation market, and for more than 60% of freight revenues.⁶ Land use pressures, ever-worsening traffic congestion, and concerns over local air quality as well as emissions of greenhouse gases all suggest that there would be benefits from increasing the proportion of freight shipped via rail. The growth of container shipping and ongoing efforts to integrate road/rail services are helping to further this goal. But more needs to be done. A lower fixed tax burden on railways, as recommended above, would help to facilitate greater use of this mode by lessening the relative tax-disadvantage under which railways in Canada currently operate.

A specific transportation issue of great importance to British Columbia is the future of Vancouver International Airport (YVR). The growth of business at the airport has been a rare source of strength for a generally sluggish provincial economy in recent years. The number of passengers moved jumped from 10 million in 1992 to 16 million in 1999, while the number of carriers using the airport climbed from 26 to 50. Some \$700 million

⁶ "The Economic Importance of Rail Transportation for Selected Industries in Canada," Industry Canada web site (<http://strategis.ic.gc.ca/SSG/ti00043e.html>)

in capital expenditures have been made to create a modern facility that recently was rated the best in North America by the International Air Transport Association.

Looking ahead, the prospects for continued growth at YVR are favourable, but there are obstacles to overcome. One is the burden of high fixed taxes and fees mentioned earlier. This includes the impact of aviation fuel taxes on international flights – competing US west coast airports don't have such taxes – and the \$60 million the airport now pays the federal government in “ground rent” every year. Since devolution in 1992, Vancouver Airport has paid in excess of \$400 million in rent to Ottawa, far in excess of the book value or historical cost of the facility. Although we recognize this is not an issue likely to be dealt with by the Review Panel, the Business Council of British Columbia urges the federal government to accede to the Vancouver International Airport Authority's request to negotiate a new and more realistic rental arrangement.

Another challenge is traffic congestion between the airport and the Port of Vancouver and other key lower mainland destinations. The Airport Authority is committed to expanding Vancouver's air cargo business. In order to do so, however, it must be able to accommodate customer requirements for just-in-time delivery of high-value products. This requires improved inter-modal connectivity. There is also a need for better transit links between the airport and downtown. We are pleased that the federal government has decided to co-sponsor a study that will explore options for addressing this situation.

6. Conclusion

The Business Council of British Columbia is grateful for the opportunity to make this submission to the *Canada Transportation Act* Review Panel. We would be pleased to discuss any of the matters raised in this submission with the Panel.