

# **Preparing Canada's Transportation Industry for a Changing World**

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**La Chambre de Commerce du Canada**

## Canadian Chamber of Commerce

- 170,000 members and 350 local chambers, representing all industries and regions of Canada
- 10 committees, including a Transportation Committee made up of business leaders from carriers and users of the transportation sector.



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# Policy Development Process

- Recently conducted our Annual General Meeting and policy sessions
- “Grassroots” process where communities and businesses from across Canada introduce and discuss policy issues.
- Many local Chambers, as well as the CCC Board of Directors, identified transportation as a critical issue for Canada’s economy
- Economic growth, competition, infrastructure and the need for a national transportation framework were common issues.



# Transportation :

## An Essential Component of Canada's Economy

- Canadian economy is dependent on a reliable and sustainable transportation system.
- Transportation is fundamental to moving goods and people in virtually every sector of the Canadian economy.
- Canada is an exporting nation; around 40% of Canada's GDP are the result of exports.



# Commitment to Competition

- Section 5 of the *Canada Transportation Act* (1996) affirms Canada's commitment to "competition and market forces", as well as regulation only "where regulation is necessary."
- This approach has been a positive framework for Canada's transportation industry and deserves full support.



# Positive Results

- Competition and market forces have been successful in realizing competitive rates and improved service throughout the transportation sector.
  - Canada's shippers enjoy the lowest rail freight rates in the world (Railway Association of Canada).
  - An abundance of service providers are operating in air, rail, trucking, and marine transportation, both domestically and internationally.



# Time to Take the Next Step

- In reviewing the *Canada Transportation Act*, Canada has the opportunity to examine its policy of allowing competition and market forces to be the prime agents in providing viable transportation services.
- Canada can use this opportunity to strengthen the current approach, or we can retreat into delivering transportation services through industry regulation.
- The Canadian Chamber of Commerce believes that the *Canada Transportation Act* should reinforce its commitment to market forces and competition, as well to prescribe a national transportation framework for Canada



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# Re-Regulation of Transportation 8

- There is a recent trend toward re-regulation of some elements of the transportation sector.
  - Airline merger regulations
  - Grain-handling legislation
  - Airport Rents
- Governments need to resist the urge to re-regulate the transportation industry.
- *Canada Transportation Act* should affirm Canada's commitment to competition and market forces and protect the service provider / client relationship.



# Transportation as Commodity

- Section 5 (b) of the Act prescribes a market-based approach for transportation services, but section 5 (d) allows for transportation to be employed as a regional economic development tool.
- The Act allows governments to regard transportation services as a commodity that can be employed for regional economic development.
- The CTA should use this opportunity to emphasize Canada's commitment to "competition and market forces" as the "prime agents in providing viable and effective transportation services."



# Transportation Policy in Canada

- *Canada Transportation Act* (1996) prescribes a deregulated, market-oriented approach, but many trends of today's transportation industry are not addressed.
  - Approach to devolution and divestiture
  - Need for sustained and continuous investment in infrastructure
  - Canada's increased integration into a North American and global marketplace.
  - Competition between modes of transportation.



# Approach to Divestiture

- Privatization is emerging in transportation services; the relationship between the federal government and private organizations is not fully clear. For example :

*“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”*

(Auditor General of Canada, October 2000)



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# Approach to Divestiture

- The federal government's approach to devolution and divestiture is not consistent throughout the different modes
  - NAV Canada was sold entirely to private interests and is now a model for the world in air navigation.
  - Some marine ports are maintained as public entities.
  - National Airport System (NAS) airports were devolved through a series of individual and inconsistent lease agreements.
- National transportation framework should more clearly define the role of the federal government in transportation and include parameters for the devolution of transportation



# Infrastructure

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- Transportation is among the most capital-intensive industries.
- Railways are highly capital intensive; railways reinvest almost 25% of their revenue in capital. (Railway Assoc. Canada).
- Canada's air transportation system depends heavily on capital investments. In some cases, the viability of small airports is in danger due to lack of capital funding.
- Road use in Canada is steadily increasing and our National Highway System requires significant investment to restore it to an acceptable standard.



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# Infrastructure

- With increased privatization, Canada's transportation industry must have the attractiveness and capability to procure investment capital
- The Act focuses on governing the carriers, for the protection and benefit of the consumers, but is largely silent on infrastructure.
- Canada should regard infrastructure funding as an investment.
- National transportation framework should ensure a first class, seamless multimodal system that recognizes the strategic importance of Canadian transportation infrastructure.

# North American Integration

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- Canada-US Trade is growing by approximately 10 per cent each year; 85% of Canadian exports go to the U.S.
- Canadians require efficient transportation throughout our North-South trade corridors.
  - North-south traffic, to and from the US, grew from 18% of total Canadian rail freight tonnage in 1985 to 28 % in 1997.
  - 50% of Canada's air cargo traffic is trade with the United States.
  - Constant improvements to border crossings and transportation infrastructure are vital to ensuring the continued advancement of Canada-US Trade
- National transportation framework should recognize Canada as a competitor in an international economy and emphasize trade facilitation issues such as border crossings.

# Competition with U.S. Carriers

- Transportation services are in direct competition with U.S. carriers as well as other modes.
- In a number of ways, Canadian components are disadvantaged.
  - Canadian ports are taxed on their property, U.S. ports can float tax-free municipal bonds to assist investment.
  - Canadian railways face aggregate taxation rates that are 51 percent higher than in the U.S.
  - The U.S. Transportation Equity Act for the 21st Century (TEA-21) program contemplates the spending of \$218 billion through 2003. Much of this spending is directed at infrastructure projects.



# Competition with U.S. Carriers

- Traffic that is lost to U.S. carriers is difficult to win back.
- National transportation framework should recognize that the viability of Canada's transportation sector requires Canada to be competitive with the U.S.



# Competition between Modes

- Similarly, there is direct competition among the modes of transportation, a positive development for Canada.
- To realize the benefits of competition, public policy should provide the environment where carriers can attract investment and recover costs. Tax equity between modes of transport and between jurisdictions is essential.
  - E.g. High fuel taxes means more costs for carriers and shippers



# Conclusions

- Canada should take this opportunity to reiterate its commitment to market forces and competition as the prime agents in providing viable and effective transportation services.
- Canada should resist the urge to re-regulate the transportation industry.
- *Canada Transportation Act* should prescribe a national transportation framework that is comprehensive, clearly-defined and regards transportation as a key enabler of the Canadian economy.



# Conclusions

- National transportation policy should provide a framework that clearly defines the role of government in the provision and management of transportation services.
- This framework should be reflective of the changing nature of this industry by addressing items such as :
  - The need for consistency in devolution.
  - Canada as a competitor in North American and global markets.
  - The importance of infrastructure.
  - The need to provide an level-playing field between modes.

