

NATIONAL TRANSPORTATION POLICIES IN THE CONTEXT OF REGIONAL ECONOMIC BLOCS: A CANADIAN PERSPECTIVE

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INTRODUCTION

Transportation policy has traditionally played an 'enabling' role for regional and national economies. But it has also been asked to contribute to other national policy objectives, such as national defence, regional planning or fiscal policy, which are not necessarily consistent with the former. Despite important policy differences between countries, based on both structural and ideological factors, it is fair to say that the main pole within the formulation of transportation policy has traditionally been *regional* ↔ *national*.

The emergence of global economic blocs has caused an extension of this pole from *regional* ↔ *national* to *regional* ↔ *international*. The driving force is the need to ensure that transportation can continue to play its enabling role, this time within a larger economic unit. Hence within Europe the efforts to develop a Common Transport Policy and the struggle to define the frontiers between national and transnational transportation policy. This paper considers the implications of North American economic integration for Canadian national transportation policy.

1. DEVELOPMENT OF THE NORTH AMERICAN ECONOMIC BLOC

North America represents one of the big three global markets, number three based on population, but Canada-U.S. trade is still the biggest bilateral trading relationship in the world. The relationship is asymmetrical in a number of important respects. The Canadian economy is far more dependent on trade with the Americans than the U.S. economy. Two thirds of Canadian external trade is with the U.S.; Canadian exports to the U.S. represent 16.6 per cent of GDP, while U.S. exports to the north represent only 1.4 per cent of the U.S. economy¹. This asymmetry is further reflected in the dependence of the transportation sectors of the two countries on transborder or international trade. Almost 20 per cent of the intercity revenues of the Canadian for-hire trucking industry are derived from traffic to and from the United States; U.S. data on transborder trucking are not even collected, but it is probable that it represents only 2-3 per cent of industry revenues².

One of the key factors in explaining this asymmetry is the geographical distribution of the Canadian population, almost three quarters of which lives within 150 kilometres of the U.S. border, as illustrated in Figure 1³. Ontario and Quebec,

the industrial heartland of the country, are particularly integrated. Ninety percent of Ontario's foreign trade is with the U.S.

2. CANADIAN TRANSPORTATION POLICY DEVELOPMENT

Over the last century, Canada's transportation policy has followed the same broad evolution as that of other mature industrial powers. A period of tight regulation, designed to prevent the railways from abusing their monopoly power, has given way, during the second half of this century to an increased emphasis on the promotion

Table 1: Bilateral Trade Relationships (\$U.S., millions)

Bilateral Trade	1990	%
Canada - U.S.	169,937	
As percentage of: Canadian foreign trade		67.2%
U.S. foreign trade		18.7%
Japan - U.S.	143,963	
As percentage of: Japanese foreign trade		27.5%
U.S. foreign trade		15.8%
Germany-France	92,851	
As percentage of: German foreign trade		12.3%
French foreign trade		20.6%

Source: IMF (1991)

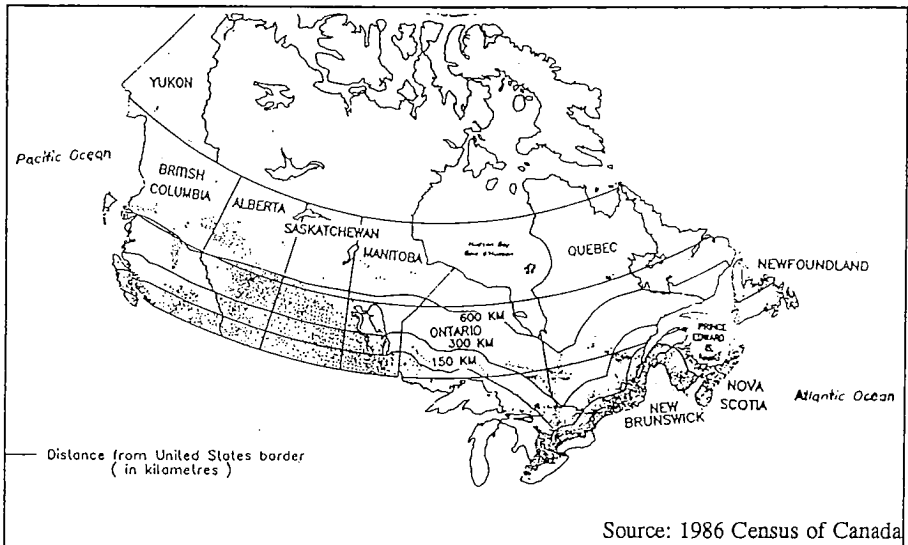
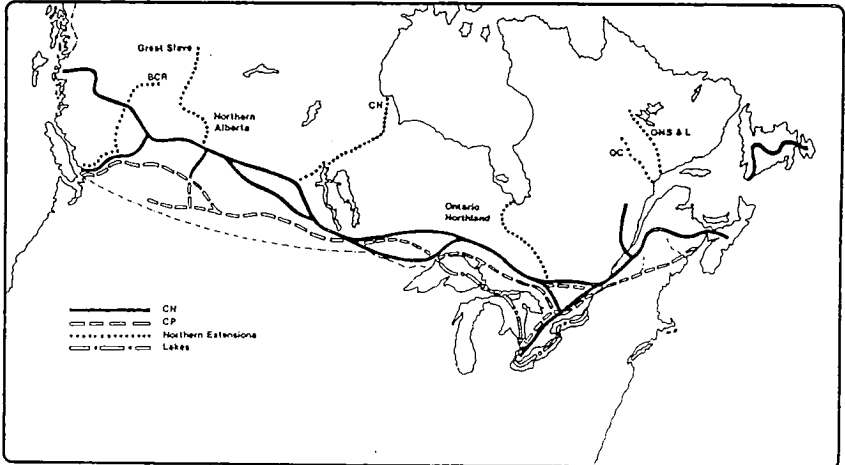


Figure 1: Canada's Population Distribution: 1986

of competition, primarily between modes.

At the same time, Canadian policies have been influenced by specific geographic and political factors. "If some countries have too much history, we have

too much geography", said Prime Minister Mackenzie King in 1936⁴. The development of the transportation network was driven by political factors—the desire to exercise sovereignty over the long frontier with the United States, the fulfilment of agreements with provinces entering the Canadian confederation—as much as by commercial ones. Trade was supposed to follow the rails, not the reverse. There have been two main consequences of such policies: 1) a systemic tendency to overcapacity, reinforced in the early part of this century by deliberate encouragement of competition within the rail mode, and 2) an east-west orientation dictated primarily by political, not commercial considerations (Figure 2).



Source: Transport Canada

Figure 2: Major Rail/Marine Links: Mid-1980s

The sheer size of the country, its sparse population and the long distances between many producers and their markets have challenged shippers, carriers and governments alike throughout the history of the country. Operators have struggled to make money from networks in which traffic was heavily concentrated on a small minority of links. 10 per cent of the rail network carried 50 per cent of the traffic in 1932, while 42 per cent of the network carried less than 5 per cent⁵. The picture has changed little in the past sixty years. A hundred years ago, the Statistical Year-Book of Canada showed Canada and the Australasian colonies at the bottom of the international league table for revenues per mile of track, at approximately half of the U.S. total⁶. Even today, after a century of demographic and economic growth, this ratio is little changed (although in absolute terms, the numbers are much larger)⁷.

The Canadian economy has traditionally been more transportation-intensive than that of most of its trading partners, including the United States, for example in terms of tonne-kilometres required per unit of gross domestic product (GDP). The

differential between Canada and the United States has traditionally been 25-40 per cent⁸. As in other countries, the ratio of transportation expenditures to GDP has declined steadily over the course of the century⁹, but it remains higher than that of the U.S.

Government expenditures on transportation have also represented a larger burden in Canada than south of the border. In the first twenty-five years of the confederation, transportation—essentially railway and canal building—swallowed up 77 per cent of total federal capital spending. Even today, public spending per capita on transportation (all levels of government) is approximately one third higher in Canada than in the U.S. Furthermore, the regional differences in per capita public spending are much greater in Canada than in the U.S. If we define outliers as states or provinces where public per capita spending on transportation is more than 1.5 times or less than 0.75 times the national average, only two per cent of Americans live in such jurisdictions compared to over forty per cent of Canadians¹⁰. Canada faces conflicting pressures on this issue: in the wake of the free trade agreement, shippers and carriers generally seek investments in north-south links which will improve access to North American markets; the poorer provinces seek funding for improvements to the national transportation infrastructure, e.g. the multilaning of the TransCanada Highway. Their object is to avoid marginalization on the fringes of the economic bloc. Their position is analogous to that of Ireland, the Iberian peninsula or Greece within the European Community.

3. LINKAGES BETWEEN CANADIAN & U.S. TRANSPORTATION POLICY

In Europe, the Commission of the EC has been the prime force struggling, with mixed success, to develop a Common Transport Policy. No equivalent to the Commission exists within North America. Transportation was specifically excluded from the Canada-U.S. Free Trade Agreement of 1987. And yet the pressures for integration of transportation policy are arguably greater on this side of the Atlantic than in Europe. The main difference is that in North America the channels for policy integration are primarily informal, taking the form of pressure from shippers and carriers, rather than formal and institutional. Because of the asymmetry in the relationship described above, the pressure has almost exclusively been for Canada to integrate its policies with those of its southern neighbour¹¹.

Until the 1960s, despite differences in points of detail, the transportation policies of both Canada and the United States were characterized by efforts to prevent abuses of monopoly power and to prevent 'excess competition' in certain modes. The preamble to the U.S. Interstate Commerce Act declared its policy to be "fair and impartial regulation of all modes...[so as] to recognize and preserve the inherent advantages of each¹²". From 1967 until the late 1970s, Canadian transportation policy was markedly more pro-competitive than that of the U.S.

Canada's National Transportation Act of 1967 declared its object to be the development of "an economic, efficient and adequate transportation system making the best possible use of all available modes at the lowest total cost". The main instrument was the easing of regulation of rates, so that, in the words of two commentators in the late 1970s, the railways could "compete forcefully in their markets, ...adjust almost all freight rates by commercial and competitive conditions, and...act like other firms in competitive industries"¹³. Ease of entry to the for-hire trucking industry was more liberal than was the case in the U.S. at both the state and the interstate levels. The social obligations of transportation operators were more clearly defined and subsidies were made more visible. Although Canadian branchline abandonment procedures remained cumbersome, the railways were compensated on the revenue side, notably through the provision for 'collective ratemaking', i.e. the exemption of the railways from the collusion provisions of Canadian antitrust legislation. While U.S. policy makers struggled to get a grip on fundamental problems such as railway restructuring, Canada appeared to most contemporaries to have struck a balance between the interests of carriers, shippers and governments.

However, Canadian satisfaction with the status quo eroded in the 1980s. As a result of deregulation, the U.S. leapfrogged Canada through the introduction of confidential contracts, measures to facilitate network rationalization and the easing of entry to the trucking industry. The number of interstate trucking licences increased from under 17,000 in 1978 (after thirty years of virtual immobilism) to almost 40,000 in 1988¹⁴. The U.S. Class I (larger) railroads were able to shed 65,000 km of road (a quarter of the network) from 1980 to 1989, much of it to short lines with lower labour costs¹⁵. After a period in the 1970s when American transportation rates were pushed up by energy price rises and increased labour costs, rates fell sharply in both current and constant dollars. Rail freight revenue per tonne-kilometre fell by 37 per cent in constant dollars between 1980 and 1989, while almost all sectors of the trucking industry also cut their rates in real terms¹⁶. These rate decreases were made possible primarily by an acceleration of productivity growth in the railway industry and by reductions in input costs—primarily labour, but also fuel—in the trucking industry, sectors of which faced deteriorating profitability through much of the 1980s. One crude indicator of the pace of productivity growth of the American railroads, tonne-kilometres per employee-hour, moved sharply upwards after 1980, more than doubling by the end of the decade. Preliminary estimates of total factor productivity confirm that the rate of railway productivity growth was faster under deregulation¹⁷.

As a result of U.S. deregulation, Canadian rail carriers became less competitive in transborder markets, which accounted for 20-25 per cent of transportation revenues. American railways were free to offer confidential rates, cancel joint international routes and apply surcharges to portions of such routes if they were deemed to generate insufficient revenues. Canadian railways were obliged to publish

their rates. Collective rate-making (between the two dominant Canadian carriers, Canadian National and Canadian Pacific) was legal in Canada, but there were fears that it would fall afoul of U.S. anti-trust legislation.

Following representations from the Canadian railways, the federal government ordered the Canadian Transport Commission, the regulatory agency, to hold hearings into transborder rates in 1984, as a result of which the CTC recommended that the regulations concerning transborder rates be harmonized with American regulations. The Canadian railways would have liked matters to stop there—they were basically satisfied with the status quo within Canada¹⁸. However, following further consultations with interested parties, the Canadian government decided to further deregulate *domestic* transportation. Although the federal Minister of Transportation denied that this decision was taken with an eye to Washington—"This is not the United States and any new transportation policy will only have long-term benefits if it is developed from a Canadian perspective"¹⁹—the U.S. experience of deregulation appears to have been a decisive factor. The majority of the Canadian shipper community seems to have swung behind deregulation during the early 1980s, attracted by the reductions in rates and the improvements in service on the other side of the border. In 1978, the majority of the members of the Canadian Industrial Traffic League (CITL) had opposed deregulation for fear of its impact on the small shipper; a 1985 poll of CITL members revealed that 91 per cent wanted price competition and that a large majority wanted less government regulation of transportation.

Canada's 1987 National Transportation Act has frequently been criticized by representatives of the railways because while it emulated the American approach by deregulating revenues, it maintained regulation over costs. Confidential contracts and the abolition of collective ratemaking were the major innovations on the revenue side; on the cost side, although branchline abandonment procedures were streamlined, the railways were not allowed to abandon more than 4 per cent of their network each year. The Motor Vehicle Transport Act was the companion legislation which deregulated interprovincial trucking. Most of the provinces took steps to deregulate intraprovincial trucking following the passage of the MVTA.

4. IMPACT OF NORTH AMERICAN INTEGRATION ON CANADIAN TRANSPORTATION POLICY OPTIONS

4.1 The Mouse and the Elephant?

The most significant issue of concern to Canadians is the tradeoff between economic integration and the effective exercise of political sovereignty. To what extent will partnership in a North American economic bloc deprive us of the ability to follow policies of our own making? This is an issue which has arisen in the

European Community as well, but with one crucial difference: no single country dominates the EC to the extent which the United States dominates North America.

To complicate the issue, the need for a 'level playing field' has become a rallying call of both shippers and carriers in Canada, to be invoked whenever governments propose measures which are perceived as running counter to their interests. To read the professional press, the image which emerges of the United States is of a low wage, low tax country with less rigorous environmental and safety standards. Examples of trucking enterprises from the Deep South which hire non-union labour at less than \$10/hour are taken to be representative of the U.S. trucking industry as a whole. Stories about companies relocating to New York and Illinois are cited in support of a theory that Canadian trucking firms are rapidly losing market share to the Americans. The reality is more complicated.

A recent comparison of the trucking industry in Canada and the United States indicated that in most instances labour costs are actually lower for Canadian firms than for American, particularly for larger companies. American base wages are lower, but fringe benefits (notably health and workers' compensation) are much higher. Although the same study found that *on average* operating expenses are 6 per cent higher per vehicle-kilometre in Canada, it identified many cases in which Canadian operators are cost-competitive. In fact, there is as much variation in operating expenses *within* each country as there is between the two countries²⁰. Similarly, hours of work regulations governing truckers allow longer hours in Canada than in the United States. Finally, weights and dimensions regulations with respect to highway vehicles tend to be allow larger vehicles in Canada; and there is no Canadian equivalent to the American lobby movement which recently secured a freeze on the extension on longer combination vehicles. The most authoritative study of market share in transborder trucking markets indicated that Canadian carriers have a larger share than Americans, notwithstanding the increases in taxes which they have faced over the past few years²¹.

4.2 Other Factors in Transportation Competitiveness

Besides transportation policy, other factors affect the relative competitiveness of Canadian and U.S. carriers, for example:

- **currency fluctuations:** from 1976 to 1986, the Canadian dollar decreased 41 per cent in value against its U.S. counterpart. This benefited both Canadian exporters and transportation operators, offsetting some of the cost advantages which American shippers gained from deregulation. In U.S. dollar terms, Canadian and U.S. trucking rates moved in tandem during the first half of the decade. From 1986 to November 1991, the Canadian dollar gained 26 per cent in value, thereby reducing the competitiveness of Canadian shippers and carriers alike. Fluctuations of

this magnitude probably outweigh any conceivable effects stemming from transportation policy differences.

- energy policy:** in the early 1980s, Canadian fuel prices were deliberately held below world levels. In the mid-1980s, they were allowed to reach world levels. The drops in global oil prices after 1985 were largely offset by tax increases in Canada, whereas in the United States oil prices followed world prices quite closely throughout the decade.

Table 2: Retail Gasoline Prices (1978 = 100)

	1978	1980	1982	1984	1986	1987	1988	1989
Canada (\$Cdn)	100	124	211	237	228	235	237	242
(\$U.S.)	100	121	195	212	188	202	219	233
U.S.A.	100	185	193	181	138	141	141	153

Source: Fuel Efficiency of Passenger Cars (Paris: International Energy Agency, 1991).

- monetary policy and interest rates:** Canadian interest rates have historically been 1-1.5 per cent higher than American ones. This differential increased sharply after 1988, as illustrated in Figure 3. This factor contributed to the financial difficulties of Canadian carriers following deregulation.

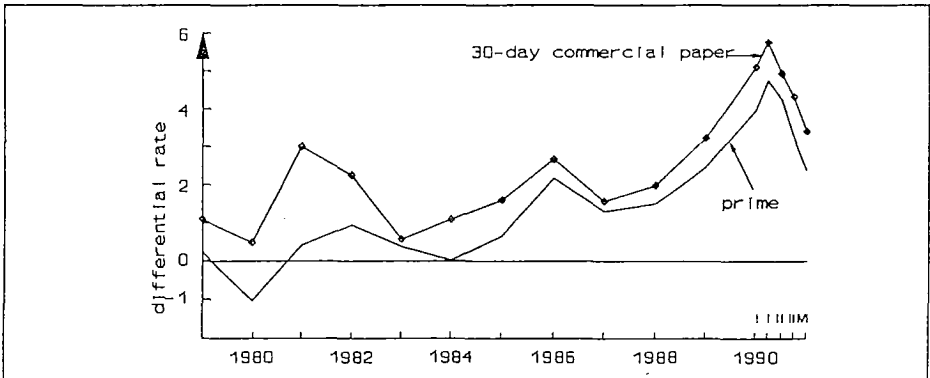


Figure 3: Interest rate spread between Canada & United States

- **subsidies:** notwithstanding deregulation, both countries subsidize elements of their transportation systems. One of the major Canadian subsidies is for west-bound rail movements of export grain, accounting for \$645 million in 1990. A variety of subsidized services are offered by U.S. ports to attract business: for example, introductory free calls for ocean carriers at the Virginia Ports' Authority or rebates on import/export containers using the Port of New York and New Jersey²². The existence of these subsidies limits the ability of the Canadian government to impose user charges on its port and marine infrastructure.

In addition, it has been hypothesized that geographic factors, notably the greater population density of the United States, offer the possibility of economies of density which do not exist in Canada. This is of concern particularly in relation to competition between Canadian and U.S. freight railways²³.

4.3 The Scope for National Transportation Policy in Canada

What is the scope for national transportation policy in Canada? It is perhaps tempting as the smaller party, and the one with more at stake in the relationship to focus on the elements leading towards convergence between Canada and the United States. These might be summarized as:

- **technological:** the technology of the transportation sector is not Canadian, but North American. Moreover, in most instances, the Canadian market is too small to justify production runs of significantly different products. This limits the ability of Canadian governments to impose safety or environmental standards (although the limitation is not absolute). Hence, for example, Canadian fuel consumption standards for automobiles have followed the lead set by the U.S. Railway operational and safety regulations are predominantly North American in scope. There are some exceptions, for example, truck weights and dimensions, for which national standards do not really exist in either country despite efforts at harmonization.
- **economic:** the transportation industries, despite differences related to scale, are at broadly similar levels of development in each country. For example, the comparative advantages of the various modes have evolved along similar lines. Both countries have faced pressure to modify their transportation policies to take these trends into account.
- **'political':** as the volume of North American trade develops, the pressure from Canadian shippers and carriers for comparability of Canadian and

U.S. policies has probably grown, although I do not have scientific evidence for this statement. Again, there are exceptions. The Canadian airlines have so far successfully dissuaded Ottawa from accepting the principle of cabotage in the current open skies negotiations. The railways unsuccessfully resisted domestic deregulation in the mid-1980s, fearing (correctly) that only revenues would be deregulated. The internal political pressures for conformity would doubtless be invoked should Canada decide to develop independent environmental policies, such as carbon taxes, which increased the differential in diesel fuel costs between Canada and the U.S.

However, four important qualifications need to be made. First, important though the pressures towards convergence are, Canadian transportation policies are not simply a carbon copy of American ones. The National Transportation Act reflects traditional Canadian concerns regarding regional equity as well as efficiency. It looks increasingly unlikely as if Canadian negotiators in the 'open skies' talks concerning North American air transportation services will sacrifice national carriers in the name of lower air fares. Second, there is an implicit assumption in most of the Canadian nationalist criticisms of continental integration that the result would be a lowering of standards for Canada. A comparison of Canadian and U.S. standards in a range of environmental, safety and labour issues does not bear this out. Third, there remains scope for regionally based transportation policies within the nation state. For example, the policies being developed to address congestion and air quality problems in the Los Angeles basin—among other things, the promotion of car/van pooling, alternate fuels, mixed zoning and transit development—go far beyond the timid approach of Washington's National Energy Policy. Similarly, the developing North American economic market should not prove an impediment to the enactment of air quality strategies in regions such as Greater Vancouver. Finally, some of the most important dangers to independent Canadian policies are internal. In particular, the main threat to continued support for regional transportation networks is the deterioration of the financial health of the federal and provincial governments. The funding sources which made possible the equity side of the traditional Canadian equity/efficiency equation are drying up, while the demands for funding to upgrade and maintain our transportation system are not. In 1975, transportation accounted for 6.1 per cent of federal spending and 6-17 per cent of provincial spending, depending on the province. By 1988-89, these percentages were down to 3.4 per cent and 4.6-9.3 per cent respectively²⁴. Meanwhile, interest payments on the federal debt now account for 35-36 cents on the dollar. Sovereignty begins at home.

NOTES

1. Directory of Trade Statistics: Yearbook (Washington, International Monetary Fund, 1991).
2. Trucking in Canada: 1988 (Ottawa: Statistics Canada Catalogue 53-222, 1990), tables 2.3 and 2.7.
3. Mitchell, R., Canada's Population from Ocean to Ocean (Ottawa: Statistics Canada, 1989), 7.
4. The Canadian Global Almanac: 1992. Toronto: Global Press. 1991. 100.
5. Report of the Royal Commission to Enquire into Railways and Transportation in Canada (Ottawa, 1932), 33.
6. The Statistical Year-Book of Canada for 1891 (Ottawa: Government Printing Bureau, 1892), 467.
7. Based on analysis of U.S. data in Analysis of Class I Railroads: 1989 (Washington, Association of American Railroads, 1990) and Canadian data in Rail in Canada: 1989 (Ottawa: Statistics Canada Catalogue 52-216, 1991).
8. See evidence presented in Jones, J., "Familiar Features in New Settings: Key Issues in Canadian Freight Transportation Policy" in A Forum on Canadian Freight Transportation Policy (Kingston: School of Policy Studies, 1992, forthcoming).
9. Lessard, J.-C., Transportation in Canada (Ottawa, 1956), 57-59.
10. State Government Finances in 1988 (Washington, D.C., Department of Commerce, 1990) and Government Expenditures on Transportation by Province: 1985/86-1988/89 (Ottawa: Transport Canada Report TP7064E, 1991).
11. The only exception to this rule was in the 1970s, when the Canadian National Transportation Act of 1967 was viewed by certain U.S. economists and policy analysts as a model to be emulated.
12. Munro, John M., Trade Liberalization and Transportation in International Trade (Toronto: University of Toronto Press, 1969), 68.
13. Heaver, T.D. & Nelson, J.C., "The role of railway regulation in national policy in Canada", Journal of transport Economics & Policy, vol. xiv, no.1 (1980), 9.
14. American Trucking Trends: 1989 (Alexandria, Va.: American Trucking Associations, no date), 13.

15. Railroad Facts (Washington, D.C.: American Association of Railroads, 1990), 44.
16. Railroad Facts, 31. This decrease cannot be explained away by factors such as changes in the traffic mix. The biggest decreases in trucking revenue per tkm between 1980 and 1988 were experienced by petroleum carriers and specialized carriers of "other" commodities (-28 per cent); general freight (-24 per cent); building materials (-17 per cent) and refrigerated products (-16 per cent). Motor Carrier Annual Report (Alexandria, Va.: American Trucking Associations, various years).
17. Tretheway, M.W. & Waters, W.G. II, "Recent productivity trends in Canadian and U.S. railroads", Proceedings of the 26th Annual Meeting of the Canadian Transportation Research Forum (Regina: University of Saskatchewan, 1991), 436-450.
18. See, for example, interview of W.W. Stinson, then President of CP Limited in New York Journal of Commerce, January 25, 1985.
19. Toronto Globe & Mail, February 22, 1985.
20. Comparison of Canadian and U.S. Trucking Costs in Transborder Markets (Calgary: Trimac Consulting Services, 1991), Appendix A.
21. Review of Transborder Trucking Markets (Montreal: Peat Marwick Stevenson & Kellogg, 1991), 47.
22. Annual Report of the National Transportation Agency of Canada: 1990 (Ottawa, Ministry of Supplies & Services, 1991), 39; MacDonald, John, "On the offensive: enhancing the competitive position", Portus (Spring 1990), 50.
23. Cubukgil, A., Structural Change and Regulatory Reform in Rail Transport: Opportunities for Separating the Ownership of Track and Carriage (Ottawa: Economic Council of Canada, 1987), chapter 2.
24. Government Expenditures on Transportation by Province: 1985/86—1988/89 (Transport Canada Report TP7064E, 1990), fig. 3, table 1.2; Canadian Economic Observer: historical Statistical Supplement: 1990/91 (Ottawa: Statistics Canada Catalogue 11-210, 1991), table 1.10.