

CHAPTER 19

REACHING OUR DESTINATION: A PASSENGER TRANSPORTATION FRAMEWORK FOR THE 21ST CENTURY

INTRODUCTION

In Chapter 4, we set out the foundations for a new passenger transportation framework. These foundations included a goal and four objectives along with principles for travellers, carriers and the providers of infrastructure — terminals, links and traffic control services. We also discussed the implications for governments and the transition mechanisms needed to help travellers, carriers and infrastructure providers adjust to a new framework based on these foundations.

In Chapters 5 to 16, we made recommendations that will enable governments to bring current passenger transportation policy into line with our goal, objectives and principles.

In this chapter, we repeat our principles from Chapter 4 and summarize our recommendations with respect to each principle. This provides a comprehensive list of the changes that we recommend. These changes, when implemented into laws, regulations and institutional adjustments, will result in a new passenger transportation framework for the 21st century. We conclude with a discussion on how these changes will meet our objectives.

ACHIEVING OUR FRAMEWORK

In this section, we restate our principles and summarize the changes that we recommend for their implementation. We do not intend this list of changes to be a menu from which to pick and choose. Our recommendations are interrelated and their positive impacts must be combined to put our framework into effect.

CHANGES FOR TRAVELLERS

Paying the Full Costs of Travel

Each traveller will pay the full cost of his or her travel, and travellers, in total, will pay the full cost of the passenger transportation system, including those costs related to protecting the environment, safety and accidents.

(Recommendation 4.3)

Taxpayers will not subsidize travellers. Rather, travellers using a public mode of transportation will pay fares sufficient to cover their share of the carrier's full cost of providing services, including the cost of terminals, links and traffic control. Similarly, private-car and private-airplane operators will pay taxes or charges sufficient to cover their share of the full cost of terminals, links and traffic control. Travellers will also pay, through either a portion of their fare, a tax or a charge, for any environmental damage they cause and for all safety and accident costs associated with their travel.

Specifically:

- Charges for environmental damage will include the costs of clean-up and mitigation, administration of policies and regulations, compensation to those affected and a best estimate of damage where compensation cannot be made.
(Recommendation 7.4)
- Where environmental goals have been established in the absence of reliable information on damage costs; governments will set environmental charges and/or regulations at a level expected to induce the behavioural change needed to meet such goals.
(Recommendation 7.5)

- Charges for safety and accident costs will include the cost of safety services provided by governments, and health care costs currently borne by the health insurance system.
(Recommendation 8.1)

Access for People with Disabilities

Travellers with physical or mental disabilities will have opportunities similar to those enjoyed by all Canadians to use public passenger transportation.

(Recommendation 4.4)

While governments and industry have taken important steps to provide access to intercity passenger transportation services for people with disabilities, our approach will go further. Carriers and providers of infrastructure will be required to take greater responsibility to provide accessible passenger transportation.

Specifically:

- Governments will establish a goal that all travellers in Canada have access to public transportation in a safe, reasonably comfortable and dignified fashion, irrespective of physical or mental ability.
(Recommendation 9.1)
- Carriers and providers of infrastructure will decide how best to meet performance standards that provide improved accessibility for people with disabilities and will do this within a reasonable period of time.
(Recommendation 9.5)
- Carriers and providers of infrastructure will begin immediately to ensure that their specifications for new equipment and infrastructure provide continuing improvements in accessibility, and will

implement, where practicable, retrofitting programs for their equipment and infrastructure.

(Recommendation 9.3)

- Groups representing people with disabilities, carrier associations and the National Transportation Agency will jointly establish a mechanism, such as a coded identification card system, that will enable carrier personnel to quickly identify the kinds of services and facilities needed by each traveller with a disability, including whether or not the traveller requires an attendant for safety or other reasons.
(Recommendation 9.6)
- When the National Transportation Agency or a carrier decides that, for safety reasons, an attendant is needed during a trip to assist an individual with a disability, the attendant's fare will be borne by the carrier.
(Recommendation 9.8)
- Carriers will ensure that any personnel who might be required to assist travellers with disabilities are trained to deal with such travellers with sensitivity and understanding.
(Recommendation 9.9)
- Canadians with disabilities, governments, carriers and manufacturers, through advisory and coordinating groups, will ensure that new services, equipment and infrastructure adequately serve those for whom they are intended.
(Recommendation 9.11)

CHANGES FOR CARRIERS

Competition and market forces will be the prime agents in providing viable and efficient carrier services.

(Recommendation 4.5)

Carriers will provide services in a competitive environment, operating under the same commercial principles, economic forces and general rules as other businesses.

Governments will make the entry of new competitors into all carrier services easier by eliminating or easing restrictions. All potential entrants that are "fit, willing and able" will have an opportunity to supply passenger carrier services and have access to terminals, links and traffic control so long as they are prepared to pay their share of the costs, as well as any costs they impose with respect to environmental damage, safety and accidents. As well, anyone providing a carrier service will be able to withdraw these services, without undue delay, subject to adequate notice.

Specifically:

- Federal, provincial and territorial governments will amend their legislation concerning the regulation of intercity buses to reduce entry restrictions to "fit, willing and able" criteria, and require only public notice of route abandonments and publication of schedules and fares.
(Recommendation 13.1)
- The federal government and the Government of Alberta will amend their legislation to eliminate the 10 percent ceiling on individual holdings that currently applies to Air Canada and Pacific Western Airlines, the parent of Canadian Airlines International.
(Recommendation 11.2)
- The federal government will invite Canadian air carriers to make public proposals for future international air route designations, with the air carrier offering the best package to be granted the route and the reasons made public, and Canadian air carriers will be allowed to sell designated international routes to one another.
(Recommendations 11.3 and 11.4)
- Governments will abstain from making any financial contribution that is intended to ensure the survival of air carriers.
(Recommendation 11.5)

- The federal government will amend legislation to make rail track accessible to all qualified passenger carriers who are willing to pay for what they use and will ensure that all such carriers have access to essential rail infrastructure and are treated equally in the movement of their traffic.
(Recommendation 6.7)
- After a 10-year transition period, all passenger train routes will be unsubsidized and open to any carrier who is "fit, willing and able."
(Recommendation 12.4)
- Airport and municipal authorities will cooperate to ensure unrestricted access to airports by all ground connectors who pay their share of the costs, and the federal government will similarly grant all ground connectors open access to federally owned airports and rail stations.
(Recommendation 15.1)
- The federal government will require that all agreements for the sale or lease of federally owned transportation infrastructure include provisions that oblige the operating authority to grant open access to all intermodal connectors on equal terms and conditions.
(Recommendation 15.2)

Under current international arrangements, if a Canadian air carrier is no longer owned and controlled by Canadians, its designation as a "national airline" and, consequently, its ability to fly international routes, can be challenged. Although restrictions on ownership do not apply to other modes, we propose to limit foreign ownership for the Canadian air carrier industry because of the current international regulatory regime.

Specifically:

- The federal government will retain the existing limits on foreign ownership and control of air carriers.
(Recommendation 11.1)

- If faced with a potential reduction to only one major Canadian air carrier, the federal government will override limitations on foreign ownership and control for the explicit purpose of, and to the extent required to, ensure competition in the domestic market.
(Recommendation 11.6)

CHANGES FOR PROVIDERS OF INFRASTRUCTURE

Terminals, links and traffic control services will be priced on a terminal-by-terminal, link-by-link and service-by-service basis.

(Recommendation 4.6)

Where there is sufficient competition, or where users are in a strong bargaining position with providers of terminals, links or traffic control services — and so long as there are appropriate charges for environmental damage, safety and accidents — competition and market forces will determine prices and investment decisions for passenger transportation infrastructure.

(Recommendation 4.7)

Where regulations are required, they will be designed to ensure that pricing and investment decisions will be similar to what would otherwise occur through competitive market forces.

(Recommendation 4.8)

Setting Prices

Travellers will only pay for what they use. Prices will reflect the travellers' or carriers' use of each terminal, link or traffic control service and will be designed to encourage neither over-use nor under-use. Travellers using only some parts of the system will not pay for the

parts they do not use and from which they do not benefit. Where such prices will not recover the full cost, they will be adjusted to provide for full cost recovery in such a way as to minimize the loss of efficiency.

Specifically:

- Provincial and territorial governments and road agencies will consider conventional tolling systems when new or expanded limited-access highways are required, with tolls set to cover any costs of the road link in question that exceed those recovered by fuel taxes. (Recommendation 5.6)
- Provincial and territorial governments will institute weight-distance taxes for trucks as part of an overall road-financing program. (Recommendation 5.5)
- Airport operators will obtain their funding from site-specific charges on an airport-by-airport basis, rather than through an allocation from the Air Transportation Tax. Charges to travellers will reflect the commercial potential of the airport, not historical costs. (Recommendations 5.1 and 5.3)
- The operator of the air navigation system will obtain funding for the system by charging aircraft operators directly for their share of air navigation and air traffic control costs through charges that differ by type of flight, class of aircraft and value of benefits received, rather than through an allocation from the Air Transportation Tax. This system will replace the Air Transportation Tax. (Recommendation 5.7)

A decision to move to a link-by-link charge for the existing road system will be based, in part, on technological feasibility, administrative cost and public acceptability. Such a change will likely be gradual or come in stages, except for a limited number of new toll roads.

Specifically:

- Provincial and territorial governments will meet the costs of their highway system, and any agreed upon National Highway System projects within their borders, through fuel taxes and other charges. (Recommendation 6.6)

Making Investment Decisions

Investments will be made only in those projects in which benefits to travellers exceed costs, and that yield the highest level of benefits over costs, regardless of mode. In making investment decisions, all costs, including safety, accident and environmental costs, as well as interest on funds invested, will be taken into account. Adequate provision will be made for maintenance. New technologies will be considered along with existing technologies, and full consideration will be given to the potential for intermodal operations to contribute to efficiency and ease of travel.

Specifically:

- For transferring airports to Local Airport Authorities, the federal government's valuation of existing airport capital facilities will reflect the commercial potential of the facilities, not historical costs. (Recommendation 5.3)
- Governments or Local Airport Authorities will make airport investments on an airport-by-airport basis and will only make new airport investments where costs, including a return on investment, can be expected to be repaid through future revenues. (Recommendations 5.1 and 5.3)
- In determining the extent of restoration and upgrading of the national highway network, provincial and territorial governments will be guided by a comparison of benefits and costs on individual projects, rather than by uniform engineering standards. (Recommendation 6.4)

- Governments will invest in high-speed rail infrastructure only if the benefits to the passenger transportation system exceed the costs, and if taxpayers do not have to pay any operating subsidies. (Recommendation 12.6)
- Any railway company will be allowed to abandon any amount of track without a limit (see also Recommendation 6.9). (Recommendation 6.8)
- All responsible agencies, in evaluating safety improvements in different modes, will use comparable values for injury and loss of life. (Recommendation 8.2)

CHANGES FOR GOVERNMENTS

The Functions of Government

Governments will be responsible for establishing policies in relation to the framework, setting and enforcing standards, gathering and reporting information to the public, ensuring a sufficient level of research, maintaining competition and regulating monopolies.

(Recommendation 4.9)

Federal, provincial and territorial transportation departments will move towards being small policy-oriented departments. They will advise governments on policy with respect to government transportation agencies, establish guidelines for project evaluation, notably for the assignment of joint costs to modes and user classes, and will be responsible for taking a cross-modal view of transportation issues. To the extent that environmental and safety policies are tailored to transportation, rather than being of general application, transportation departments will be involved in the development of environmental and safety policies and charges with environmental and health authorities. The departments will shed most or all of their operating responsibilities outside of safety regulation.

Specifically:

- The federal government will transfer all remaining airports to Local Airport Authorities and/or to other types of local operators. (Recommendation 6.1)
- The federal government will convert the air navigation system from a departmental organization to either a Crown corporation or an independent institution. (Recommendation 6.2)
- Each provincial and territorial government will establish a Crown corporation, supplemented by an advisory group, to be responsible for providing roads more efficiently and making pricing and investment decisions more transparent. (Recommendation 6.3)

Government agencies might still be used to provide some carrier services and operate some infrastructure. They would, however, be expected to function without subsidies, and private-sector firms would in general be free to enter the market in competition with such government operators.

In carrying out their policy-making responsibilities, governments will take a long-term view. We expressed concern in our Interim Report, and do again in this report, about a possible loss of important railway corridors as railways streamline their operations and abandon track. Governments will ensure that valuable, irreplaceable corridors are not lost for future transportation use.

Specifically:

- Railway companies will offer abandoned rail rights-of-way, under a formal procedure, to governments and then to other railway companies before such rights-of-way can be converted to other uses. All levels of government will develop policies, based on explicit criteria, for deciding which corridors they wish to retain for future

transportation use and will ensure that land so acquired is maintained intact as a corridor.

(Recommendation 6.9)

The role of government as referee will be expanded, and governments will collect and publish improved data on the passenger transportation system.

Specifically:

- The federal government will review the *Competition Act* and related policy and, if required, will strengthen the powers needed to prevent anti-competitive practices in the intercity bus industry. (Recommendation 13.2)
- The federal government will extend its regulations governing the anti-competitive practices of computer reservation systems beyond the air mode to take a multimodal approach. (Recommendation 15.3)
- The federal government will establish the regulations under which any high-speed rail system will operate, including safety and environmental regulations. (Recommendation 12.8)
- The National Transportation Agency will ensure that abandoned railway corridors are offered to governments or other railway companies at a reasonable price. (Recommendation 6.9)
- The National Transportation Agency will take more active responsibility for ensuring that transportation services become more accessible to those with disabilities. (Recommendation 9.4).
- The National Transportation Agency will establish minimum national standards of transportation accessibility for persons with disabilities. (Recommendation 9.2)

- The National Transportation Agency will mediate disputes regarding the requirement for an attendant to accompany a traveller with a disability.
(Recommendation 9.7)
- Provincial and territorial governments will implement more-uniform and adequate minimum accessibility standards for inter-city buses for travellers with disabilities, or, if that does not occur, the federal government will rescind its delegated responsibility for nationally applied accessibility standards to ensure more uniformity.
(Recommendation 9.10)
- Governments will further develop travel and other transportation data for public use, and the federal government will publish an annual report card on the passenger transportation system.
(Recommendations 16.2, 16.3 and 16.4)

Transferring operating functions from government departments to the private sector or independent agencies will considerably reduce government personnel and financial requirements. We expect that these functions will be carried out with fewer people and at lower cost than is currently the case. Small additional government resources might be required to carry out expanded refereeing functions and to collect improved data on the transportation system. In addition, as the bus industry is brought within the scope of competition review, the federal government may have to increase resources for competition policy. This increase, however, should be more than offset by reductions in the cost of provincial regulatory bureaucracies.

The Responsibilities of Levels of Government

Decision making authority of governments will be assigned to the level of government that is both closest to the people and most able to exercise such authority efficiently.

(Recommendation 4.10)

We asked ourselves whether achieving our framework will be possible under the current allocation of responsibilities among levels of government for the different modes.

We recognize that the policies of one level of government regarding a mode for which it is responsible can affect other modes that are the responsibility of another level of government. As long as the affected modes are paying their way, however, this type of interaction is not inherently a problem.

Given current jurisdictional arrangements, good will, cooperation and coordination among levels of government are essential to achieving comparable treatment of different modes. Our framework can be implemented using a cooperative approach, and within existing jurisdictional arrangements.

Specifically:

- A National Highway System will be identified by the Council of Ministers Responsible for Transportation and Highway Safety and will be operated and maintained through cooperative action of provincial and territorial governments and/or their road agencies. (Recommendation 6.5)

Local or regional governments will take policy responsibility for environmental damage when the source and effects are local. Similarly, the federal government will take responsibility when environmental damage from one region affects other regions or countries.

Specifically:

- Local and regional governments will address low-level ozone problems, focussing on ozone non-attainment areas, using special regional regulations such as speed limits, periodic motor-vehicle emissions testing, and emissions surcharges at times of the year when low-level ozone is a problem. (Recommendation 7.1)

- The federal government will strive for international agreement on an effective strategy to control global warming, and will seek to harmonize domestic policies and taxes with those of the international community.
(Recommendation 7.2)

Treating the Modes Equally

Governments will tax and regulate all modes equally.

(Recommendation 4.11)

Governments will not treat the modes differently in terms of taxes, charges or regulations. Governments will collect taxes for general revenue purposes from all modes on the same basis, set charges to cover the efficient cost of providing services and facilities and use the revenues for that purpose, and apply charges and regulations equally to all modes to address the costs that transportation activities impose on society.

Specifically:

- All fuel taxes will be used for transportation purposes or as a means of charging for costs, such as environmental damage and health care system costs, caused by transportation.
(Recommendation 5.4)
- Governments will apply environmental emissions charges equally to all modes and to non-transportation sources, on as close to a per-unit-of-emission basis as practical.
(Recommendation 7.6)
- Governments will set regulations for the effective control of environmentally damaging emissions that impose similar obligations in terms of cost per unit of abatement on each mode, and that treat

non-transportation sources of pollutants similarly to transportation sources.

(Recommendation 7.3)

- Governments will separate revenues from environmental emission charges from revenues from other passenger transportation charges and use such funds to clean up the environmental damage, compensate those affected, or lower general tax rates. They will not use such funds to expand or maintain the passenger transportation system.

(Recommendation 7.7)

Improving Accountability and Transparency

Decision making will be transparent so that Canadians can understand why governments or their agencies make the passenger transportation choices they make, and so that those making decisions can be held accountable.

(Recommendation 4.12)

Those responsible for making and applying the rules and for spending travellers' and taxpayers' money will be more accountable for their actions. Governments will improve accountability by making relevant information available to the public and by making it easy to understand.

Specifically:

- If agencies that are established to manage transportation infrastructure are monopoly suppliers, the level of government responsible will ensure that advisory bodies of travellers and other interested parties are created to counsel management on investment priorities, charging mechanisms and the prices needed to achieve self-sufficiency.

(Recommendation 16.1)

- Governments will clearly report to the public the amount of, and reason for, any continuing subsidies to carriers.
(Recommendations 12.5, 14.4 and 16.4)
- Governments will make public the benefits and costs of any high-speed rail project in which they invest or subsidize and will consult the public on the implication of such investments.
(Recommendation 12.7)
- Government will allocate resources, and provincial and territorial governments will cooperate with the federal government to ensure the further improvement and collection of travel and other transportation data, and the data will be made available to the public.
(Recommendations 16.2 and 16.3)
- The federal government will publish an annual report card on the passenger transportation system that will include information on the use of the system, subsidies, extent of cost recovery, and degree to which objectives are being met, as well as information on the reliability and safety of the passenger transportation system.
(Recommendation 16.4)

TRANSITION REQUIREMENTS

In cases where time is required to ease the problems caused by steep price adjustments, or where a carrier, a particular carrier service, a terminal or a link is given another chance to survive within the new framework, financial assistance will be designed to encourage adjustment.

(Recommendation 4.13)

If a carrier, a particular carrier service, a terminal or a link cannot survive despite a reasonable period of time for adjustment, the terminal or link will be closed or the service discontinued.

(Recommendation 4.14)

Since the passenger transportation system that will result from our framework will differ from the current system, governments will give travellers, carriers and facility providers time to adjust. In this adjustment period, any remaining subsidy from the taxpayers will be:

- provided, where possible, to move people in the most efficient way, regardless of mode;
- provided and managed by the level of government that has responsibility for the mode in question;
- borne by taxpayers in the jurisdiction that makes the decision, not by other transportation users; and
- provided on a declining basis, for a reasonable adjustment period, and then terminated.

Even when they are given financial assistance and a reasonable time to adjust, some carriers or facilities might not be able to achieve commercial viability. In such cases, they will be closed down.

We recognize four cases in which governments may have to provide transitional subsidies.

Specifically, they are:

- *Airports*: Whenever applying our principles to airports, including all Transport Canada airports, will result in steep increases in average charges to travellers, governments will provide transitional subsidies to be phased out over 10 years. The initial level of subsidy will be based on the current operating subsidy and will be used for capital as well as operating expenditures or, if the airport is closed, for other local transportation purposes.
(Recommendation 5.2)
- *Passenger rail*: The federal government will enact legislation to give VIA Rail a mandate to operate on a commercial basis, with the general subsidy having a sunset provision of 10 years. During this

period, VIA Rail will have greater freedom to manage, including investment decisions, route selection, service levels and pricing; will be allowed to compete for other services such as commuter services and transporting mail; and will be required to file and publish detailed annual operating plans and financial reports, including the costs and revenues related to individual routes. At the end of 10 years, all routes will be unsubsidized (see also discussion of remote services later in this section).

(Recommendations 12.1, 12.2, 12.3 and 12.4)

- *Intercity bus:* If necessary to avoid steep increases in bus fares on particular routes following the relaxation of economic regulation of the intercity bus industry, governments will provide transitional subsidies on a declining basis not to exceed 10 years.
(Recommendation 13.3)
- *Ferries:* If necessary to avoid steep increases in fares, governments will provide transitional subsidies not to exceed 10 years on individual ferry routes (see also discussion of constitutionally provided ferry services later in this section).
(Recommendation 14.1)

In some cases, governments might choose to continue subsidies to passenger transportation services that are not commercially viable. Such subsidies are not consistent with our framework and, in general, should not be maintained. If, however, governments continue to provide subsidies despite our recommendations, they will do so in such a way as to ensure that services are as efficient as possible. In addition, such subsidies will be provided from general tax revenues and not from charges to travellers.

Specifically with respect to:

- *Remote train service:* Governments may decide to continue providing passenger transportation service to some communities that currently have remote train service. In this case, governments will use the most efficient mode and carrier, and, if feasible, use competitive bidding to choose the mode and carrier. In addition,

governments will provide the subsidy in such a way that the subsidized carrier will bring passengers to transfer at the closest convenient point to a commercial, unsubsidized carrier.

(Recommendation 12.5)

- *Constitutionally provided ferry services:* The federal government may use subsidies, if required, to maintain constitutionally guaranteed ferry services. Except for the ferry service between North Sydney, Nova Scotia, and Port aux Basques, Newfoundland, for which there is a constitutional limit on rates, continuing taxpayer subsidies to other ferry services will be no higher than required to maintain the service. In the case of the Nova Scotia to Newfoundland service, and any other constitutionally guaranteed services that require taxpayer subsidies to continue, the federal government will strive for the highest degree of cost recovery consistent with the constitutional obligations, and may offer the affected province a federal grant instead of the subsidy.

(Recommendation 14.2)

MEETING OUR OBJECTIVES

In Chapter 4, we stated that the goal of the passenger transportation system should be to move people to where they want to go, and we proposed:

Four guiding objectives:

- **safety;**
- **protection of the environment;**
- **fairness to taxpayers, travellers and carriers; and**
- **efficiency, so that services are provided only where benefits to the individual traveller equal or exceed the cost, and given levels of service are provided at the lowest possible cost.**

(Recommendation 4.1)

We also concluded that:

Governments pursue nation-building and regional development objectives through other programs rather than using the passenger transportation system.

(Recommendation 4.2)

Our recommendations will create a passenger transportation system that is safe, that is more protective of the environment, that ensures fairness to taxpayers, travellers and carriers, and that operates more efficiently.

IMPROVING SAFETY

We are encouraged by long-term trends in transportation safety, which show impressive improvements in all modes. We also recognize that safety improvements demand innovation — new technologies and new attitudes and behaviour by carriers and travellers. Our framework encourages such innovation.

Government Regulations

Governments have been responsible for many safety improvements: in vehicles, by regulating vehicle performance; and in infrastructure, by adopting design standards. We recognize that such actions have generally been effective, and our framework reaffirms the role of government in maintaining the safety of the system through regulations. Our recommendations will strengthen the role of governments in providing objective analysis of accident trends and potential safety measures. Further, we have recommended that governments use comparable values for injury or loss of life for all modes when they establish regulations or invest directly in transportation infrastructure. This will help achieve a coordinated approach to safety among branches and levels of government.



Using Charges to Change Behaviour

The payments that carriers and travellers already make toward accident costs, either directly or through insurance systems, have provided strong incentives for personal and corporate improvements in safety and have contributed to overall long-term improvements. Currently, however, carriers and travellers do not pay all the costs associated with accidents and safety prevention programs. Under our framework, governments will encourage greater safety by:

- making the safety costs of transportation as transparent as possible;
- ensuring that travellers and carriers pay all the costs of accidents by having provincial and territorial health-insurance systems reclaim all costs of treating accident victims from companies insuring vehicles and carriers; and
- ensuring that travellers and carriers pay all prevention costs by charging travellers and carriers directly for the costs of government transportation safety programs, such as emergency rescue services, police traffic enforcement and the administrative costs of regulating safety. In addition, users will pay for the safety components built into infrastructure by means of appropriate pricing for such infrastructure.

Conclusions on Safety

We are convinced that when travellers and carriers face the full costs of accidents and safety programs, they will change their behaviour to reduce accidents. We also expect that the discipline involved in objectively assessing risks, evaluating safety measures, and providing accountability and transparency in setting charges will encourage governments to treat the modes with greater consistency, thereby getting the most safety improvement per dollar spent.

GREATER PROTECTION OF THE ENVIRONMENT

Efforts to protect and improve Canada's environment have moved forward on many fronts in recent years. Public support for environmental programs has grown, encouraging increases in government spending and the regulation of individual and corporate activities. In addition, governments have attempted to coordinate their activities through the Canadian Conference of Ministers of the Environment, and the federal government has cooperated with other countries in environmental protection.

Government Regulations

Under our framework, current regulatory controls will continue where they are cost-effective and will apply to all modes equally. Coordination among governments will be further improved by using common standards for environmental costs when evaluating regulations and investments in transportation infrastructure.

Using Charges to Change Behaviour

In a more radical addition to the current approach, our principles call for travellers, carriers and providers of infrastructure to pay the environmental costs of travel and transportation investments. Making the environmental consequences of transportation obvious through transparent charges will considerably improve the strength and consistency of efforts to protect the environment. Carriers and travellers will take environmental damage into account in a consistent way when making transportation decisions.

Carriers and travellers will make such decisions by applying the same benefit-cost test that governments will apply in their decisions on regulations and public investments — that is, they will ask "Is the benefit worth the cost?" Since carriers and travellers will be using a common set of valuations of environmental damages — the same set as used by governments in their environmental decisions — consistency and efficiency in achieving environmental goals will be

promoted. Governments will not need to predict where and how carriers and travellers should achieve reductions. The decisions can be left to users.

We are aware that the ability to measure environmental damage and assess its costs is limited and that (as in the case of other ill-defined risks) misperceptions of possible effects of preventive actions lead to a great range of public opinions — from indifference to strident demands for the strongest measures. We also recognize that political agreements on national goals might themselves be based on misperceptions. We argue strongly that governments ensure that the scientific evidence for environmental problems and solutions, and the most objective assessment of such evidence, be disseminated to the public as widely as possible.

Under our framework, governments will use revenues from environmental charges to clean up damage and to compensate those affected by such damage. Substantial surpluses, however, will remain. For example, governments will gain revenues from carbon dioxide (CO₂) emission charges, but it is unlikely that people at risk from global warming will be identified or compensated individually. Governments will use surplus environmental revenues to benefit all Canadians by reducing general taxes.

Conclusions on Protecting the Environment

We recommend that travellers and carriers pay the costs of the damage they impose on the environment. We base this recommendation in part on the belief that users are generally able to affect the amount of damage they cause by their choice of vehicle or amount and type of travel.

We also believe that environmental charges will make the passenger transportation system more fair by guaranteeing that users provide compensation to taxpayers for the environmental costs that their use of the passenger transportation system imposes. Those who travel less will not pay the environmental costs imposed by those who travel

more. Carriers and others who save money by using more-polluting vehicles will not gain an automatic competitive advantage over those who invest in pollution reduction. Travellers and carriers in the various modes will not be subject to different regulatory standards.

While our recommendations call for radical change, we believe they are rational, fair and will achieve national environmental goals efficiently and at a lower overall cost.

GREATER FAIRNESS TO TAXPAYERS, TRAVELLERS AND CARRIERS

Our recommendations are guided by the objective of fair treatment for all Canadians. In general, under our framework, transportation policy will be neutral in its treatment of individuals and identifiable groups of individuals, favouring none above others, and favouring no group identified by region or by shared activities. All Canadians will have access to the transportation system on the same terms.

Specifically:

- governments will remove any barriers that prevent "fit, willing and able" carriers from entering transportation markets and getting access to essential facilities;
- governments will not favour travellers over non-travellers by providing large subsidies to some travellers; and
- governments will treat carriers and travellers in different modes equally.

Special Circumstances

We recognize three special circumstances in applying these general rules of fairness:

- *People with disabilities:* Under our framework, travellers with physical or mental disabilities will have opportunities to use public passenger transportation that are similar to those enjoyed by all

Canadians. Carriers will make a sufficient proportion of their new intercity transportation vehicles accessible to people with disabilities, and will ensure that travellers with disabilities are treated with sensitivity and understanding.

- *Constitutionally provided ferry services:* The federal government is obliged under the Constitution to assume responsibility for certain ferry services and, in one case, to maintain a limit on rates. Governments will apply our recommendations on the management of infrastructure, and may institute competitive tendering to carriers for these ferry services. The result will be services provided in as cost-effective a manner as possible, thus reducing the amount of taxpayer support required.
- *Certain non-viable facilities and services:* There may be circumstances in which governments decide that a commercially non-viable transportation facility or service should be provided or guaranteed. Again, governments will apply our recommendations on the management of facilities, and may institute public competitive tendering to carriers for these facilities and services. This will reduce subsidies.

Eliminating Subsidies

In general, subsidies from taxpayers and transportation users to certain groups of travellers are unfair — for example, air travellers being supported by non-travellers for the costs of air navigation systems and airport expenses or train travellers being supported by direct subsidies from taxpayers for their ticket. This unfairness is compounded by its effect on travel behaviour. Subsidies from taxpayers make some transportation services cheaper, encouraging travellers to use them more and — to the extent that the subsidy is above the average for transportation — causing travellers to switch from other modes. Such subsidies to one mode are unfair to other modes that could offer competing services.

The remedy is straightforward. Under our framework, carriers, and ultimately travellers, will pay all of the costs of infrastructure and services. This remedy will also apply to those modes that receive large

subsidies — passenger train services and those ferry services for which there are no constitutional obligations. For example, our estimates show that passenger train services receive payments from taxpayers far in excess of fares received from travellers, while the public gains little if anything in terms of environmental improvement from these large expenditures. Such subsidized train services also compete unfairly with services provided by other modes, particularly intercity bus carriers.

Appropriate charges for environmental damage will also make the transportation system more fair than it is at present, even where there are no simple administrative systems for identifying those who bear the damage and for providing them with compensation. Where the evidence shows that the environmental damage differs substantially by region, as is the case with low-level ozone, and if feasible administratively, it would be fairer to differentiate the charges by region.

Conclusions on Fairness

Under our framework, the goal of the passenger transportation system is to move people to where they want to go. Taxpayers should not be required to support one mode when a cheaper mode is available. Such support is unfair to taxpayers and to the operators and users of the other modes.

A MORE EFFICIENT TRANSPORTATION SYSTEM

Competition and Innovation

The passenger transportation system will be made more efficient, delivering better service at lower costs, through reforms in management, pricing policies and investment decision making.

We are convinced that competition will spur innovation. Our recommendations, therefore, introduce competition wherever possible: competition among modes, among carriers within modes and, where relevant, among providers of facilities. For example, improving ease

of entry by bus carriers will reduce costs and fares, improve services on trunk routes and allow lower-cost operations to offer new services to smaller communities. Ensuring that competing carriers get access to air and bus terminals, train stations and computer reservation systems will encourage innovation and cost-cutting, to the benefit of all travellers.

In addition, our recommendations on the transparency of the budgeting processes of agencies, and on advisory roles for users of infrastructure provided by agencies, will encourage providers of infrastructure that are not subject to much direct competition to continually seek innovations that improve service and lower costs.

Commercialization of Services

Putting transportation infrastructure and carriers on a more commercial basis will lower costs and improve services to carriers. For example, commercialization of air navigation services will free management to pursue innovation and improved efficiency.

For constitutionally guaranteed ferry services and for any remote train services that governments judge to require continuing taxpayer support, tendering by open contracts will allow competing operations to demonstrate their efficiency. It will also provide travellers and taxpayers with the best service at the least cost.

Pricing and Investment

Requiring travellers to pay the full costs of their travel and removing taxpayer subsidies are important components of our proposals for efficiency. Equal treatment of modes and carriers means that users pay prices that represent the true costs of services, with no hidden contribution from others such as taxpayers and victims of environmental damage.

Our recommendations for pricing and investment are intended to achieve efficiency in the transportation system. Carriers and infrastructure providers will design efficient pricing systems, subject to



the requirement that they recover all costs. With appropriate pricing in place, travellers and carriers will make decisions that maximize the benefits from travelling. Similarly, consideration of social costs and benefits, without regard to mode and jurisdictional limits, will guide agencies in setting priorities for investments in public transportation infrastructure.

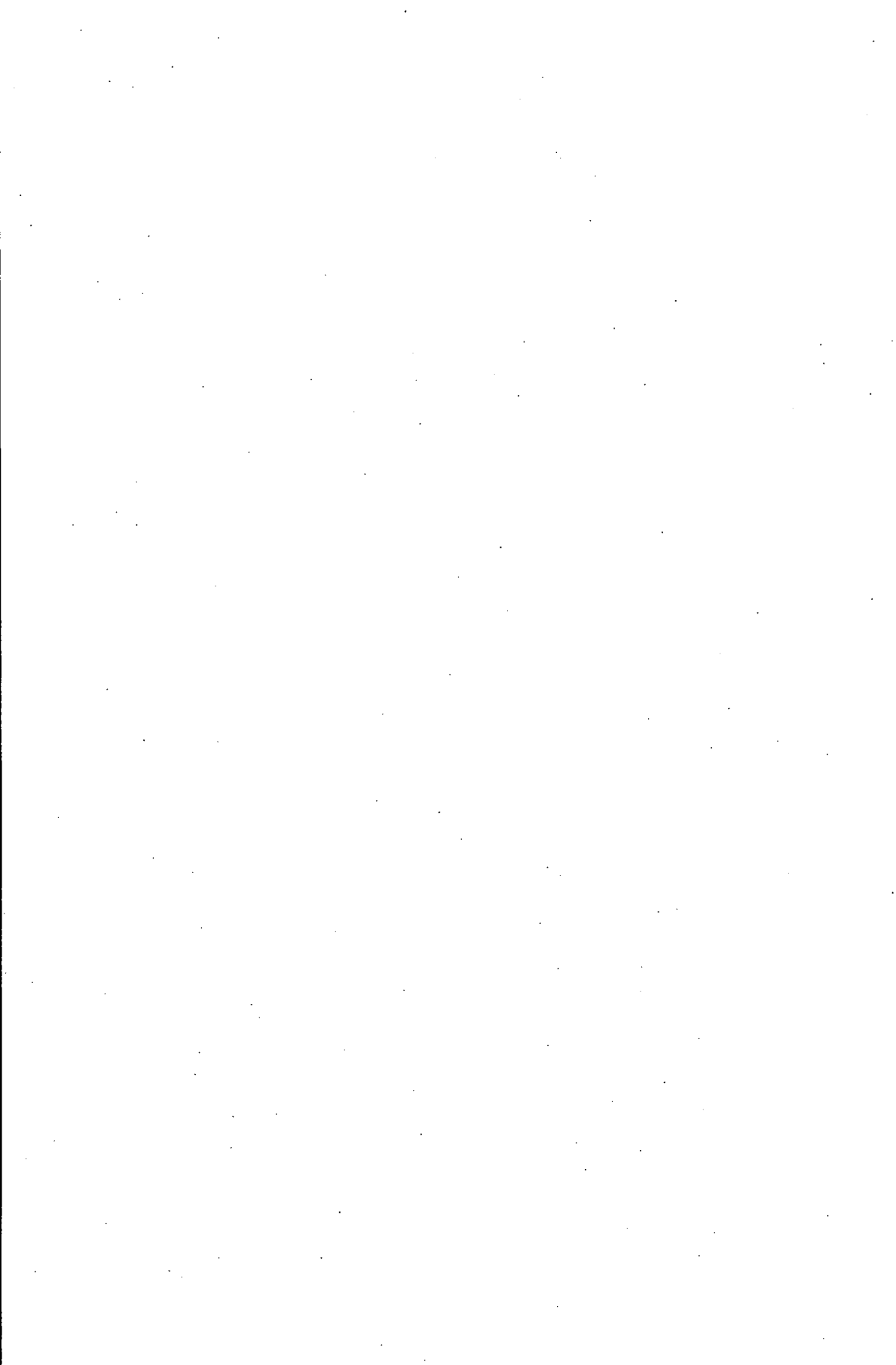
Conclusions on Efficiency

As we have emphasized throughout this report, efficiency is achieved whenever Canadians make the most of the resources that are devoted to transportation, and devote the amount of resources to transportation that wastes neither opportunities nor money. An efficient transportation system is one that contributes the most to Canadians' standard of living.

REACHING OUR DESTINATION

No one can predict the future with any accuracy. In looking ahead, we see many changes that could affect intercity passenger transportation. For example, the environmental costs of transportation-related pollutants may prove substantially higher or lower than currently estimated, public demand may shift toward the train or the bus, and new technology may expand road capacity, reduce the environmental costs of car use, and make air travel cheaper. The possibilities for change are infinite.

What we set out to do was to develop principles under which travellers, carriers and governments will achieve what we believe are widely held objectives in a broad range of circumstances. Our principles will ensure a framework in which costs are reflected in prices paid by travellers, and institutions are flexible and responsive. This framework will constrain transportation activities that become too costly relative to benefits provided, and will encourage the transportation industry to take advantage of new opportunities resulting from improved technology and other favourable developments.



APPENDIX A

ORDER IN COUNCIL

P.C. 1989-2096



PRIVY COUNCIL

Certified to be a true copy of a Minute of a Meeting of the Committee of the Privy Council, approved by Her Excellency the Governor General on the 19th day of October, 1989.

The Committee of the Privy Council, on the recommendation of the Prime Minister, advise that a Commission do issue under Part I of the Inquiries Act and under the Great Seal of Canada appointing:

Louis Davies Hyndman of Edmonton, Alberta
Marie-Josée Drouin of Montreal, Quebec
Susan A. Fish of Toronto, Ontario
Marc Gaudry of Montreal, Quebec
William P. Kelly, C.M., of Ottawa, Ontario
John B. Hamilton, O.C. of Toronto, Ontario
John Forbes Helliwell of Vancouver, British Columbia
James D. McNiven of Halifax, Nova Scotia
Dr. Maurice LeClair, O.C., M.D., of Westmount, Quebec

together with such other persons as may be named from time to time, to inquire into and report upon a national integrated inter-city passenger transportation system to meet the needs of Canada and Canadians in the 21st century and to ensure that transportation links among Canada's regions and communities are maintained and improved; and

The Committee also advise that the study include an examination of

- (a) the role of a national integrated inter-city passenger transportation system, in the context of
- the relationship of the inter-city passenger system with the whole transportation system;
 - the current extent and state of Canada's inter-city passenger transportation system;
 - demographic and population trends;
 - social trends and user preferences;
 - technological developments in the transportation industry;
 - international transportation developments and how they could impact on Canada's competitiveness;
 - the economic prospects for the Canadian economy and their likely impact on inter-city passenger transportation requirements;
 - the mobility needs of Canadians;

...2

- (b) the structure of a national integrated inter-city passenger transportation system for transportation by air, marine, highway and rail and the relations among the modes, taking into account
- the means to encourage Canadians to travel within Canada;
 - the appropriate mix among the various modes so as to maximize the effectiveness, efficiency and competitiveness of the system;
 - the financial implications of such a system, including initial capital requirements as well as the cost of maintaining and operating the system;
 - the promotion of energy efficient means of transportation;
 - the environmental impact of various options in order to achieve a balance between the environmental impact and the transportation needs of Canadians;
- (c) the potential for and the constraints on achieving a national integrated inter-city passenger transportation system by
- advising on the institutional arrangements required, including any arrangements needed to rationalize and coordinate the respective roles of the three levels of government in Canada in the provision of inter-city passenger transportation services;
 - examining the relevant labour relations environment;
 - assessing the transportation industry-government interface;

.../3

- (d) the appropriate financial arrangements to achieve a national integrated inter-city passenger transportation system by
- taking into account the jurisdictions of the different levels of government and the role of the private sector;
 - taking into account the overall cost to Canadians;
 - considering the concept of appropriate user shares;
 - examining means of attracting private financing to major transportation projects; and

The Committee also advise that the

Commissioners

- (1) be authorized to adopt such procedures and methods as they may from time to time deem expedient for the proper conduct of the inquiry and to sit at such times and in such places as may be required;
- (2) be authorized to rent such space and facilities as may be required for the purposes of the inquiry, in accordance with Treasury Board policies;
- (3) be authorized to engage the services of such experts and other persons as are referred to in section 11 of the Inquiries Act, at such rates of remuneration and reimbursement as may be approved by the Treasury Board;
- (4) be directed, within the ambit of their work, to seek the views of all provincial and territorial governments as well as interested Canadians from all walks of life and all regions of the country;
- (5) be directed to submit an interim report to the Governor in Council in both official languages not later than eighteen months from now;
- (6) be directed to submit a final report to the Governor in Council in both official languages with all reasonable dispatch but no more than three years from now;

.../4

P.C. 1989-2096

- 4 -

- (7) be directed to file the records and papers of the inquiry as soon as reasonably may be after the conclusion of the inquiry with the Clerk of the Privy Council; and

The Committee also advise that Louis Davies Hyndman of Edmonton, Alberta, and Marie-Josée Drouin of Montreal, Quebec, be the Chairman and Vice-Chairman respectively of the Commission; and

The Committee further advise that Janet Smith of Ottawa, Ontario, be appointed Executive Director of the Commission.

CERTIFIED TO BE A TRUE COPY - COPIE CERTIFIÉE CONFORME



CLERK OF THE PRIVY COUNCIL - LE GREFFIER DU CONSEIL PRIVÉ



APPENDIX B

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