CHAPTER 5

RATIONALIZATION OF RAILWAY PLANT

The Commission's concept of rationalizing the railway plant is a dynamic one that envisages adaptive changes to meet new conditions as they arise. This involves the elimination of plant and services no longer needed and conversely the provision of new plant and services when they are needed. During this continuous process the success of rail management will, to a large degree, depend upon its ability to adjust railway plant and services to changes in demand.

In the first volume of our Report the problem of uneconomic passenger service was dealt with and recommendations were made to remove this burden from the freight shipper and to allow railways freedom to eliminate this unprofitable segment of their passenger business.

The problem of uneconomic branch lines was also dealt with in the first volume of the Report. It was pointed out that owing to the lack of expected development in certain areas and to the advent of competitive carriers, there was now a substantial mileage of uneconomic lines that put a burden on shippers. It was recommended that this burden be removed by the abandonment of the unprofitable lines. To avoid the disruption that such a programme could bring to labour, shippers, investment tied to rail, as well as individuals and communities affected, it was recommended that this programme be spread over a period of time. No time limit was set but the Commission expressed the view that the programme could be largely completed in fifteen years. To relieve other shippers of this burden during

the adjustment period it was recommended that a sum, not exceeding $13 million in any one year, be made available to compensate for losses actually sustained during this period.

In this chapter a plan is suggested for implementing these recommendations. An examination is also made of the problem of rail utilization in Canada in order to determine, insofar as possible, the kind of rail transportation that will be needed in the years ahead. This information is necessary so that a programme of plant reduction undertaken at this time will not interfere with the future rail transport requirements of the nation; and to devise policies that, insofar as possible, will allow the building of new rail lines and the providing of services that will not now or in the immediate future place a burden on shippers. The allegations that duplications of lines and services exist with the resultant increases in costs to both major railways is examined and related to the recommendations being made by the Commission. Finally, suggestions are appended to deal with the problem of investment tied to rail.

Before beginning a discussion of the above matters, the Commission wishes to state its views as to the responsibilities of the various participants in a rail rationalization programme. Government, rail companies, railway labour and the shipping public must work together and each discharge their responsibilities if Canada is to enjoy a fully efficient transport system.

In a rationalization programme the role of government is to encourage the most efficient allocation of transportation resources, first, by providing a regulatory environment that will allow rail management the greatest possible freedom to adjust to changing conditions, consistent with the protection of the legitimate interests of the shippers. Secondly, it should encourage and assist, when necessary, rail companies in achieving their objectives.

Management of rail facilities is the responsibility of the rail company, be it privately or publicly owned. Within the framework of government regulations, management must be free to manage. The responsibility must be theirs to initiate the removal of unprofitable segments of their business, to streamline their operations, to reduce costs and to initiate new facilities to meet the needs of the shipping public. No one else can do this for them and no one else should try to do so. That management must do the managing is an elementary principle, the acceptance of which we believe is vital to the achievement of an efficient rail transport system in Canada.

The removal of rail lines will inevitably affect labour. It is believed that the gradual programme that has been suggested will enable labour, displaced in one segment of the business, to be largely absorbed into other more profitable segments. Despite this, there will inevitably be problems of relocation and some loss of jobs. Full and frank disclosure should help to allay fears which are often worse than the realities of the situation. Without minimizing the problems involved, the Commission is confident that enlightened railway and union management can solve them with a minimum of hardship. The objectives are similar in both - a profitable rail enterprise that can afford to pay reasonable wages. We believe that direct co-operation between the parties concerned is the most efficient method of arriving at lasting solutions to these problems. This is not to say that railway labour should be excluded from any plans the government may have to assist in the problems of technological unemployment and relocation of labour forces by retraining or other means. Nor is it suggested that special assistance in this field should not be made available if the parties concerned can demonstrate their need. But such relocational or

other assistance should be recognized, known and earmarked separate from National Transportation Policy objectives.

It is of primary interest to the shipping public that rationalization promises to reduce rail costs. Shippers should realize that it is they who pay for loss operations and that their self-interest demands that they assist rather than hinder rail management's efforts to reduce the losses. In the process individual shippers may suffer inconveniences and perhaps even financial loss. This is part of the price that all must pay from time to time for the inevitable changes that must take place. No shipper should expect other shippers to subsidize his transportation bill.

Not only shippers, but many others will be affected, directly or indirectly, by the changes that must be brought about. It is believed, however, that the Commission's recommendations would give adequate protection to all from undue hardships during the transition period. Moreover, the degree of inconvenience and loss will be minimized if there is co-operation and understanding on the part of all those concerned with this problem.

Trends in Rail Utilization

It has been generally recognized that Canada has a very large network of railways in relation to the total amount of goods to be transported. The burden of this excess capacity has not allowed the railways to realize fully the economies possible in rail transport. For many years the hope was maintained that with the expected increase in population and economic activity Canada would grow into her railways. It now seems more probable, as a result of uneven economic growth and the changing pattern of transportation, that excess plant will continue to exist in some areas and that

new facilities will be required in others.

In order to examine the validity of these hypotheses, three studies were made:

1. Changes in railway utilization in the past thirty-five years in Canada.
2. The effect of the expected economic growth in Canada on rail transportation requirements.
3. The problem of the effect of technological changes in the transport industry and the relationship of these to rail plant requirements.

From these studies certain conclusions emerge and the implications of these on railway plant rationalization are discussed.

Rail Utilization 1926 to 1959

Data were available from Canadian National Railways on gross ton-miles carried per mile of track by sub-divisions for various years from 1926 to 1959. These data were grouped into four periods, namely 1926 to 1935, 1936 to 1945, 1946 to 1955 and 1956 to 1959. For each period, information for the following years was obtained:

1926-1935 - each individual year
1936-1945 - 1936, 1937, 1940, 1941 and 1944
1946-1955 - 1947, 1948, 1950 and 1953
1956-1959 - 1956 and 1959.

The objective of the grouping was to minimize the influence of individual years by averaging.

Only data for lines in use over the whole period were used. The lines were divided into main and branch. The objective was to compare growth of through movements with growth of gathering and distribution. Any such

division is to some extent arbitrary since there is no precise definition of branch line as contrasted with main line. In a general way main lines are those that carry through traffic between relatively large centres whereas branch lines are appendages to the main lines, leaving it at some point and ending at a small community, or joining a second main line. To make this division, the Commission relied on the judgement of men having a detailed knowledge of the system. No doubt other experts might make some changes but it is believed that such changes would be minor and that the division that was made is useful for the purpose for which it was intended. By their very nature, most branch lines carry small tonnages and most main lines large tonnages.

Tonnages carried by main and branch lines were averaged by sub-divisions and finally by regions.

A summary of the results obtained is presented in Table III and calculations made from the data in this table are tabulated on page 128. The results show a total increase in tonnage carried from 1926-35 to 1956-59 of 36 billion gross ton-miles. Significantly, of this amount 35 billion gross ton-miles accrued on the main lines and only 1 billion on the branch lines. The branch lines are carrying a smaller percentage of the total tonnage today than they were thirty years ago.

Main line tonnages increased relatively more in the Atlantic and Western regions than in the Central region. This may be due to the earlier and greater impact of truck competition in the Central region. Least improvement in branch line tonnage occurred in the Western region and most in the Maritime region. This would suggest that in relation to the traffic available, the greatest excess of railway plant occurs in the Western region.

TABLE III

TONNAGES MOVING OVER MAIN AND BRANCH LINES OF CANADIAN NATIONAL RAILWAYS BY REGIONS, 1926-59, IN GROSS TON-MILES[1]

Region and period	Branch lines Average[2]	Branch lines Total	Main lines Average[2]	Main lines Total	All lines Average[2]	All lines Total
	('000)	(millions)	('000)	(millions)	('000)	(millions)
ATLANTIC[3]	1,579 miles		1,580 miles		3,159 miles	
1926-35	176	278	2,341	3,699	1,259	3,977
1936-45	288	455	4,289	6,776	2,289	7,231
1946-55	427	674	5,705	9,014	3,067	9,688
1956-59	449	710	6,689	10,569	3,570	11,279
CENTRAL	1,877 miles		5,595 miles		7,472 miles	
1926-35	300	562	3,970	22,212	3,048	22,774
1936-45	361	678	4,162	23,287	3,207	23,965
1946-55	475	892	5,894	32,977	4,533	33,869
1956-59	443	831	6,063	33,924	4,651	34,755
WESTERN	5,275 miles		5,950 miles		11,225 miles	
1926-35	263	1,385	2,619	15,584	1,512	16,969
1936-45	300	1,582	2,994	17,817	1,728	19,399
1946-55	395	2,083	4,233	25,187	2,429	27,270
1956-59	379	1,999	5,445	32,396	3,064	34,395
TOTAL	8,731 miles		13,125 miles		21,856 miles	
1926-35	289	2,526	3,162	41,495	2,014	44,021
1936-45	311	2,714	3,648	47,880	2,315	50,594
1946-55	418	3,648	5,118	67,178	3,241	70,826
1956-59	405	3,539	5,858	76,889	3,680	80,428

1/ Only lines that were in existence for the entire period were used.

2/ Average is per mile of track.

3/ Excludes Newfoundland.

Summarizing from Table III, we find that branch line mileage is a substantial part of total rail mileage in each region:

Atlantic region	50 per cent
Central "	25 " "
Western "	47 " "
System Total	40 per cent

Yet the branch line contribution to total ton-mile traffic has been small:

1926-35	5.7 per cent
1936-45	5.3 " "
1946-55	5.1 " "
1956-59	4.4 " "

The share of branch line to total traffic declined from 5.7 to 4.4 per cent, or by almost a quarter, from 1926-35 to 1956-59.

As pointed out, the above data are from Canadian National Railways. Similar information was not available from Canadian Pacific Railway, but CPR data were obtained for the years 1931, 1948 and 1954. An examination of this material showed no evidence of a pattern different from that found on Canadian National lines.

A comparison was made of the tonnage carried on lines in 1931 with that carried in 1954 on both railways. A summary of the results is presented in Table IV.

TABLE IV

A COMPARISON OF THE TONNAGE CARRIED

ON RAILWAY LINES IN 1931 AND 1954

Tonnage carried in 1931			Tonnage carried in 1954					
			Less than 1931		Same as 1931		Greater than 1931	
NTM per MT[1]	Miles	Per cent of total mileage	Miles	Per cent	Miles	Per cent	Miles	Per cent
Canadian National Lines								
0- 249	9,653	45.9	0	-	7,296	75.6	2,357	24.4
250- 499	2,005	9.5	426	21.2	486	24.2	1,093	54.6
500-1,999	6,892	32.7	654	9.5	2,210	32.1	4,028	58.4
2,000/	2,498	11.9	377	15.1	497	19.9	1,624	65.0
Canadian Pacific Lines								
0- 249	7,230	45.2	0	-	5,975	82.6	1,255	17.4
250- 499	2,277	14.2	506	22.2	564	24.8	1,207	53.0
500-1,999	4,212	26.4	405	9.6	412	9.8	3,395	80.6
2,000/	2,265	14.2	42	1.8	108	4.8	2,115	93.4

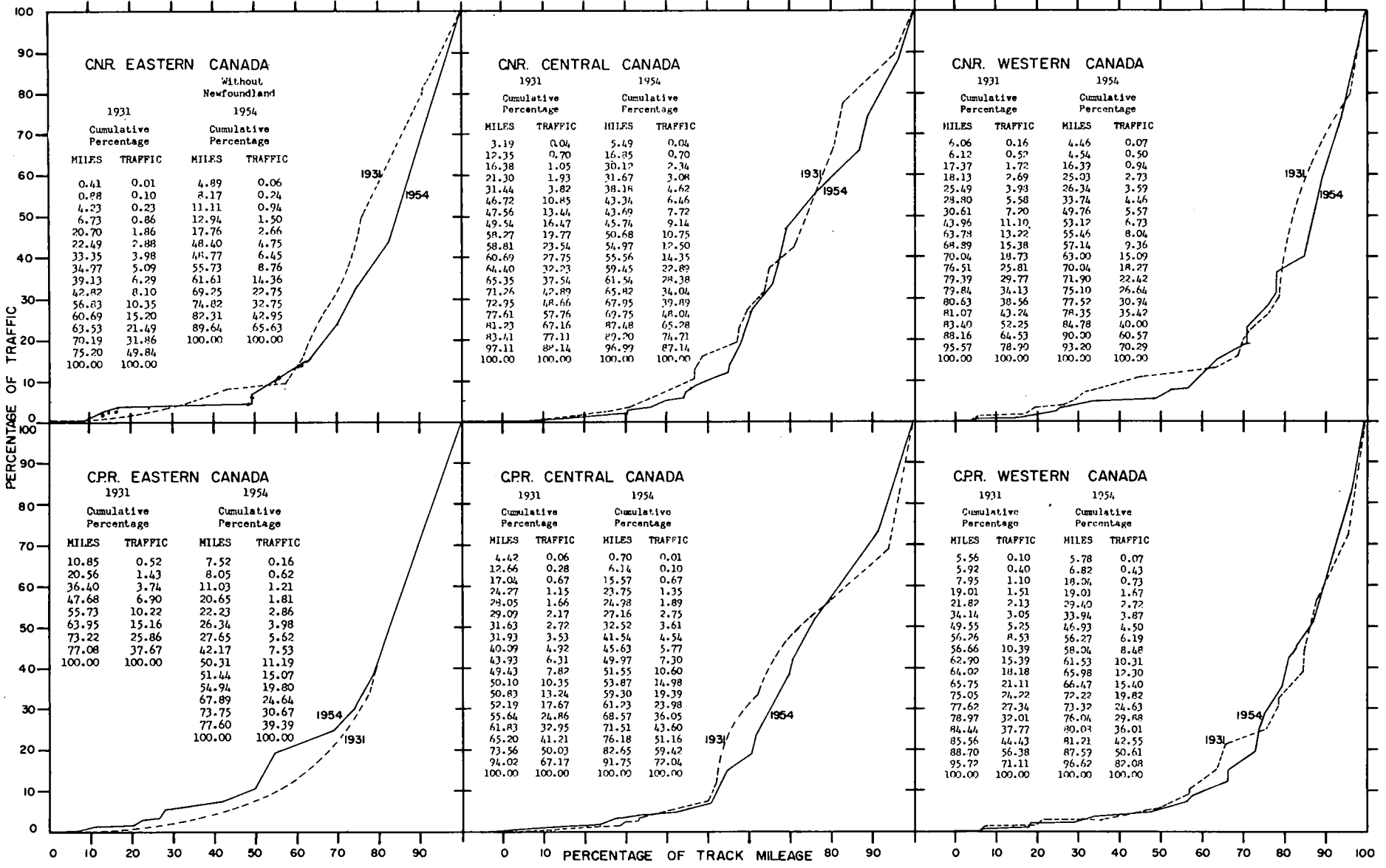
1/ Net ton-miles per mile of track in thousands.

These results show clearly that on both railways those lines that carried little tonnage in 1931, when railway construction virtually halted, were for the most part carrying little in 1954, while those carrying high tonnage in 1931 were carrying even greater amounts in 1954.

This relationship is also demonstrated graphically in Figure 3. This figure shows comparatively for 1931 and 1954, by regions for each major railway, the density-mileage distribution of traffic by cumulative percentages, based on more detailed density intervals than could be shown in Table IV. It will be noted that a very large amount of railway plant on both railways and in all regions was used to move a very small

FIGURE 3

CUMULATIVE PERCENTAGE DISTRIBUTION OF MILEAGE BY FREIGHT TONNAGE CARRIED 1931 AND 1954 BY REGIONS, CNR AND CPR



CNR EASTERN CANADA (Without Newfoundland)

1931 Cumulative Percentage		1954 Cumulative Percentage	
MILES	TRAFFIC	MILES	TRAFFIC
0.41	0.01	4.89	0.06
0.88	0.10	8.17	0.24
4.23	0.23	11.11	0.94
6.73	0.86	12.94	1.50
20.70	1.86	17.76	2.66
22.49	2.88	48.40	4.75
33.35	3.98	48.77	6.45
34.97	5.09	55.73	8.76
39.13	6.29	61.61	14.36
42.82	8.10	69.25	22.75
56.83	10.35	74.82	32.75
60.69	15.20	82.31	42.95
63.53	21.49	89.64	65.63
70.19	31.86	100.00	100.00
75.20	49.84		
100.00	100.00		

CNR. CENTRAL CANADA

1931 Cumulative Percentage		1954 Cumulative Percentage	
MILES	TRAFFIC	MILES	TRAFFIC
3.19	0.04	5.49	0.04
12.35	0.70	16.85	0.70
16.38	1.05	30.12	2.34
21.30	1.93	31.67	3.08
31.44	3.82	38.16	4.62
46.72	10.85	43.34	6.46
47.56	13.44	43.69	7.72
49.54	16.47	45.74	9.14
58.27	19.77	50.68	10.75
58.81	23.54	54.97	12.50
60.69	27.75	55.56	14.35
64.40	32.23	59.45	22.89
65.35	37.54	61.54	28.38
71.26	42.89	65.82	34.04
72.95	48.66	67.95	39.89
77.61	57.76	69.75	48.04
81.23	67.16	87.48	65.28
83.41	77.11	89.20	74.71
97.11	89.14	96.99	87.14
100.00	100.00	100.00	100.00

CNR. WESTERN CANADA

1931 Cumulative Percentage		1954 Cumulative Percentage	
MILES	TRAFFIC	MILES	TRAFFIC
6.06	0.16	4.46	0.07
6.12	0.52	4.54	0.50
17.37	1.72	16.39	0.94
18.13	2.69	25.03	2.73
25.49	3.93	26.34	3.59
28.80	5.58	33.74	4.46
30.61	7.20	49.76	5.57
43.96	11.10	53.12	6.73
63.78	13.22	55.46	8.04
68.89	15.38	57.14	9.36
70.04	18.73	63.00	15.09
76.51	25.81	70.04	18.27
79.39	29.77	71.90	22.42
79.84	34.13	75.10	26.64
80.63	38.56	77.52	30.94
81.07	43.24	78.35	35.42
83.40	52.25	84.78	40.00
88.16	64.53	90.00	60.57
95.57	78.90	93.20	70.29
100.00	100.00	100.00	100.00

C.P.R. EASTERN CANADA

1931 Cumulative Percentage		1954 Cumulative Percentage	
MILES	TRAFFIC	MILES	TRAFFIC
10.85	0.52	7.52	0.16
20.56	1.43	8.05	0.62
36.40	3.74	11.03	1.21
47.68	6.90	20.65	1.81
55.73	10.22	22.23	2.86
63.95	15.16	26.34	3.98
73.22	25.86	27.65	5.62
77.08	37.67	42.17	7.53
100.00	100.00	50.31	11.19
		51.44	15.07
		54.94	19.80
		67.89	24.64
		73.75	30.67
		77.60	39.39
		100.00	100.00

C.P.R. CENTRAL CANADA

1931 Cumulative Percentage		1954 Cumulative Percentage	
MILES	TRAFFIC	MILES	TRAFFIC
4.42	0.06	0.70	0.01
12.66	0.28	6.14	0.10
17.04	0.67	15.57	0.67
24.27	1.15	23.75	1.35
28.05	1.66	24.98	1.89
29.09	2.17	27.16	2.75
31.63	2.72	32.52	3.61
31.93	3.53	41.54	4.54
40.09	4.92	45.63	5.77
43.93	6.31	49.97	7.30
49.43	7.82	51.55	10.60
50.10	10.35	53.87	14.98
50.83	13.24	59.30	19.39
52.19	17.67	61.23	23.98
55.64	24.86	68.57	36.05
61.83	32.95	71.51	43.60
65.20	41.21	76.18	51.16
73.56	50.03	82.65	59.42
94.02	67.17	91.75	72.04
100.00	100.00	100.00	100.00

C.P.R. WESTERN CANADA

1931 Cumulative Percentage		1954 Cumulative Percentage	
MILES	TRAFFIC	MILES	TRAFFIC
5.56	0.10	5.78	0.07
5.92	0.40	6.82	0.43
7.95	1.10	18.04	0.73
19.01	1.51	19.01	1.67
21.82	2.13	29.40	2.72
34.14	3.05	33.94	3.87
49.55	5.25	46.93	4.50
56.26	8.53	56.27	6.19
56.66	10.39	58.04	8.48
62.90	15.39	61.53	10.31
64.02	18.18	65.98	12.30
65.75	21.11	66.47	15.40
75.05	24.22	72.22	19.82
77.62	27.34	73.32	24.63
78.97	32.01	76.04	29.68
84.44	37.77	80.03	36.01
85.56	44.43	81.21	42.55
88.70	56.38	87.59	50.61
95.72	71.11	96.62	82.08
100.00	100.00	100.00	100.00

percentage of the traffic in 1931. In 1954 the situation had not changed materially.

The conclusions to be drawn from this study are:

1. There has been a substantial increase in demand for rail transportation during the period under review. Measuring this demand in gross ton-miles it has amounted to 35 billion on main lines and 1 billion on branch lines.
2. There is a large part of the branch line mileage which, due to the resource base of the area, alternate nearby rail facilities or the substitution of other modes of transport, contributes little to total tonnage moved, and has failed to show significant improvement in this regard in the last thirty years. These branch lines occur in all regions of Canada but the greater mileage occurs in the Western region.
3. In the future, the transportation needs of most areas now served by these lines can best be met by trucks, integrated where necessary with other nearby rail lines.

Future Needs for Rail Transport

Additional requirements for all types of transportation will increase as the country continues to develop. In Canada the increase in economic activity during the next ten to fifteen years is likely to be very considerable providing:

1. That high levels of employment are maintained in Canada and in the industrial countries with which we trade.
2. That no major wars occur during the considered period.
3. That Canada's major exports are not unduly affected by increases in trade barriers.

In considering the effects of an increase in economic activity on rail transport both the industries and the regions that are involved have significance. The railways may reasonably expect to transport the entire increase in the production of certain industries, to share in others, or to receive no benefits from still others, depending upon their competitive position vis-à-vis other forms of transport. Similarly, the railways are likely to obtain a greater share of the traffic, to require more facilities and to make greater profits on long-haul rather than on short-haul movements.

It should also be noted that increases in total economic activity are partly a reflection of increased activity in the service industries. These are not large users of rail transport.

The Commission made no special studies of the economic growth prospects of Canada. The information available from the Royal Commission on Canada's Economic Prospects, modified in some cases by our economic consultants in the light of more recent information, was used to indicate the trends that might be expected. These trends, rather than the precise amount of growth expected, were examined in relation to future rail requirements.

In the agricultural industry, grain for export will decrease in relative importance and may decrease absolutely as compared with the last ten years. Livestock and livestock products will likely show a marked increase and most of this increase will occur in the Prairie Provinces. Other agricultural products will increase in close relation to population increases.

It appears likely that there will be a continuing trend to process foods near production points and ship only the finished products to market. For example, more dressed meat and fewer live animals will require transportation, and similarly more prepared and frozen foods and less raw products will be transported. The extent to which this is done will depend on the relative costs of transportation, technological developments and other factors. On balance it would seem that the railways will become of lesser rather than greater importance in transporting the products of the agricultural industry. They may gain some tonnage of long-haul processed products but gathering and distributing will more and more fall to truck transport. A good example is the meat industry. Truck transport, due to the many advantages it offers to shippers, has largely replaced rail in many areas for transporting live cattle from farm to packing plant. More surprising, it now competes strongly in moving dressed meats over the long haul from the packing plants of Western Canada to the wholesaler and retailer in Central Canada.1/

In the mining industry it seems probable that substantial increases in production will be achieved during the period under review. Canada has abundant mineral resources and world demand can be expected to increase almost constantly. Only excessive costs of production or the creation of trading barriers will prevent this sector of the Canadian economy from expanding at a steady rate. Traditionally, producers of minerals have been users of rail transport and the same should be true in the future. This should result in large tonnage for many existing lines and will inevitably result in the building of substantial mileage of new lines. Providing that realistic

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1/ Truck - Rail Competition in Canada, by D.W. Carr & Associates, to be published in Volume III of this Report.

appraisals are made of tonnage and rates so as to properly reflect estimated costs, these new lines should produce profitable business for the railways.

Economic activity in the forest product industries will continue to increase. In the production of lumber the increase is likely to be moderate. However, the demand for rail transport in this sector may be greater than the increase in production because of the greater interregional movement of this commodity, particularly from British Columbia to Central Canada. The extent of the increased movement by rail will depend upon the ability of the lumber producer to deliver the product at prices competitive with other building materials. The pulp and paper industry should enjoy a marked and continuous growth. This should occur in all sections of Canada, but the relative increase will be particularly noticeable in the Atlantic Provinces and in Western Canada. Rail transportation should share in this expansion but water and truck competition will limit the tonnage that the railways can hope to acquire.

Manufacturing will likely increase at a greater rate than population growth. It would appear that under the existing economic climate in Canada the tendency towards a variation in growth between regions will continue and unless government policies are introduced to favour decentralization, a large share of the new manufacturing plants will probably locate along the St. Lawrence Seaway with the possibility of a lesser concentration along the West Coast. This increase in production of the manufacturing industry will require additional transportation in the movement of necessary raw materials as well as the finished product, but these movements will be highly competitive, with water and truck transport each getting a large portion. It seems unlikely that the rail share will increase over what

it presently enjoys and may even suffer a decline.[1]

Because of the concentration of manufacturing and to a lesser extent mining and pulp and paper production in Ontario and Quebec, it can be expected that a substantial part of the increased economic activity will occur in these Provinces. To a large extent British Columbia will share in the increased activity. While growth will occur in the Prairie and Atlantic Provinces, this will likely be relatively less as compared with the rest of Canada. Since the railways' chief advantages are in long-haul, heavy-loading commodities, this pattern of economic growth will probably result in them having a smaller percentage of the total traffic even though their tonnage will increase in absolute terms.

Technological Changes

No one can foresee what technological changes will occur in the future. All one can do is observe what has happened in recent times and the direction in which changes are occurring.

Introduction of diesel locomotives and improved signal systems has markedly increased the efficiency of high-density, main-line hauls but has not noticeably improved gathering and distributing on low-density branch lines. In the future the "automated" train is a probability. This is now technically possible but the cost of equipping a line for this type of operation is very considerable. Certainly such developments are only possible on the high-density lines.

Similarly, the use of piggyback, and more recently containers, again favour the main-line haul by rail and the gathering and distributing

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1/ Ibid.

by truck. The improvement in trucks and roads has made this integrated mode of transport a very efficient method of retailing transportation. These improvements are likely to continue at an accelerated rate.

The evidence available points to continued improvement of rail efficiency on high-density operations and little improvement on low-density lines. In this area of gathering and distributing it is evident that transportation needs can best be met by truck transport.

Summary

Despite a marked increase in population and a great increase in economic activity in Canada during the last thirty years, the branch lines of Canadian railways are not hauling appreciably more goods now than they were at the beginning of this period. The increase in economic activity that may be expected for the future is not likely to change the situation. For the most part, the demand will be for main-line rather than branch-line hauling. Branches when required will usually be for specific industries having to move large tonnages that require little terminal handling. Insofar as it can be seen, increases in transportation efficiency will be most noticeable on high-density movements and there is no evidence to indicate that this increase in efficiency can be carried over to low-density line operations.

The Mechanics of Rationalizing Railway Plant

The purpose of this section is to present an administrative plan for implementing the recommendation made in Volume I on rationalizing railway plant. This recommendation was "that, under the administration of the

Board of Transport Commissioners for Canada, an annual grant of $13 million be made available to the railways to provide compensation for losses actually incurred in the operation of lines which the railways are prepared to abandon, but which shall be continued for a period of time to be determined by the Board".

The purpose of the recommendation is to encourage the railways to pursue a course of plant rationalization and to lift from the shippers the burden which they presently must carry because of the continued existence of basically uneconomic miles of track.

Most, but not all, light-density branch lines are uneconomic and place a burden on shippers. The exceptions are those that are profitable because of the traffic that they feed to the system, those that have potential profitability, and those that cause losses but are needed for operational purposes.

The remainder, those that are part of the system and which cause losses, are a burden on shippers. These should be discontinued or the burden should be removed in some other way. The railway has the detailed information to show whether specific rail lines are uneconomic, are potentially profitable, or are justified by the system needs.

Before abandonment of trackage is allowed, sufficient time must be given for the adjustment of the shipping pattern and of investment along the line. The time required can only be determined by a study of the individual case.

The immediate need is to release the railways and railway shippers generally from the burden of uneconomic lines. The long-run need is to adjust the railway plant in accordance with traffic demands.

The following conditions are suggested as a guide to accomplishing both short-run and long-run aims.

1. The programme requires acknowledgement by the railways, and by public and administrative authorities, that railway rationalization is necessary and desirable in the interests of efficient transportation. In the free enterprise environment it cannot be expected that the costs of transportation shall normally be borne by others than the users. Where insufficient use is made of any service, it must, by market criteria, disappear.

2. Recognition by the railways and general public that investment was undertaken and tied to railway service in good faith, in part because in the Canadian environment railway lines were traditionally regarded as permanent installations. Change is necessarily painful but is the price of a dynamic economy and efficient operation. Society can soften the impact of change by slowing it - even where it is overdue.

3. Graduating the process of change calls for an assessment of the time necessary to effect it. The assessment is properly made through the process of a public hearing.

4. Where it is evident that substantial abandonment must take place the over-all timing and progress of rationalization should be made known to those affected. As a general condition such substantial abandonment should

not occur less than five years from the date of application. Exceptions may occur when it can be shown that shipping and investment tied to rail have already been abandoned. Where a number of lines in a district are candidates for abandonment they should be thinned out in stages to give opportunity for re-assessment of the remaining lines at each stage.

5. A Branch Line Rationalization Fund shall be set up, from which the Board of Transport Commissioners will be authorized to pay annually losses actually incurred on uneconomic branch lines. The subsidies paid in any one year shall not exceed $13 million which will be the annual allotment to the Fund from the consolidated revenues of Canada.

   The Fund will be established for a period of fifteen years. As the two systems get nearer and nearer to operating only paying portions of lines the total subsidy will tend to disappear.

6. The Board will have discretion to apportion the Fund to branch lines between the two railway systems. It will not necessarily be equally divided. As the abandonment date is reached and the subsidy thus expires the set sum involved in that line will become available for application to subsequent candidates for abandonment.

7. Holding the total to a specified sum will help to keep the speed of abandonment reasonable, make the railways choose their worst lines first and allow the National

Treasury to budget with some accuracy. The Board will authorize payment from the Fund annually and pro-rate it up to the permissive rate of abandonment upon annual proof of loss.

These conditions can be fulfilled by the following suggested procedure:

1. Upon acceptance by the Parliament of Canada of a policy permitting compensation for losses on branch lines pending abandonment, the Board of Transport Commissioners should indicate to the railway companies the period in which applications for abandonment will be received, after which no further applications will be considered until the Board so directs.1/

2. In conformity with such procedures as the Board may establish a railway company shall apply to the Board for leave to abandon a line, supporting the application inter alia with a statement showing the system net loss for which the line is responsible. After verification of this amount, the Board shall authorize full payment of the loss out of the Branch Line Rationalization Fund in all cases where abandonment is not allowed within three months of date on which application for abandonment is made. This payment shall continue in respect of a line until the date of abandonment ordered on the

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1/ This does not prevent applications for abandonment for which no compensation is to be received. See p. 144 of this chapter.

basis of annually proven losses. Once the limit of the fund is reached in any year payments in respect of other lines shall be made as funds are released and shall commence from that date, not retroactively.

3. Payments made on behalf of losses incurred shall be published annually and posted in all stations on the lines so affected by the railways and published in the local newspapers by the Board.

4. At an appropriate time the Board shall on its own motion or on the request of shippers using the line make a full announcement in all communities concerned of the dates the public hearings will be held to determine the effective date of abandonment. It is recommended that sufficient time be allowed for the parties concerned to file statements with the Board on their position, and for the Board to request additional information respecting the nature and condition of investment to be affected by abandonment. Normally, considerable time will elapse between the date of application and the effective date of abandonment. But this should not delay the date of hearing and the decision since adjustment of investment will take time.

5. Following the hearing in each case the Board will either:

   (a) set and publicize the date of abandonment to all parties and communities concerned.

The factors to be considered in fixing a date of abandonment should include the condition of the line, the effect on investment tied to rail, the alternative services available and such other matters as affect a reasonably and orderly transition to other transportation facilities and such other matters as in the judgement of the Board are pertinent.

or (b) IN EXCEPTIONAL CIRCUMSTANCES, order continuation of the line indefinitely. These exceptional circumstances would arise only when, in the Board's view, no reasonable alternative transportation is then available nor could be made available in the foreseeable future with the result that abandoning the line would subject a substantial number of people to undue hardship. Should the Board find such action necessary, it will, prior to making a public announcement, report the decision fully, with all supporting evidence to the Minister of Transport who shall have the responsibility of confirming the decision or returning the case to the Board for review. This measure is intended to keep this type of decision in a most exceptional category in order that

> it shall not become a means of perpetuating uneconomic lines. The Board shall review all such lines at least every five years to see whether or not conditions have altered so that a date of abandonment may be set and act accordingly.

The intention of the rationalization scheme is that once a line is presented for abandonment it shall remain in service at no burden to shippers and no profit to the railway until and only until the date of abandonment announced by the Board. If experience has shown the railway to have erred and the line is to be retained for a further period, it remains as a purely business venture, and all investments by the railway and the non-rail community exist by purely commercial principles. The nation has then no further transportation obligation in the revived line. No future assistance will be allowed. It may subsequently be abandoned at any time by application to the Board.

The Commission wishes to emphasize that nothing in the procedure outlined for the abandonment of unprofitable lines should in any way inhibit railways from seeking to abandon profitable parts of their system should they desire to do so. It may well be that the detailed net revenue position could be improved by this means where essentially duplicate facilities exist. In these circumstances the railway concerned would apply to the Board with supporting evidence for the desired change. If affected shippers contest the application, the Board must rule on the basis of criteria similar to those used for other abandonments.

Provision of New Rail Facilities

As has been indicated previously, Canada will continue to require new rail lines. The expected economic developments, particularly in mineral and forest products, will require the transportation of large tonnages at low cost. Rail transport will play a vital role in these developments. Such developments will be of great benefit to Canada and should at the same time improve the financial position of the railways.

Parliament should assure itself that any proposal for a new line is economically sound before approving it. The Commission notes that this has in recent years been the policy that Parliament has followed. We heartily approve this procedure. This is not to say that Parliament should not under certain circumstances authorize construction of lines for developmental purposes when the immediate revenue cannot be expected to meet all costs. Under these circumstances, the Government should be prepared to meet the deficit from public funds and not place the burden on other shippers. We have earlier recommended that the burden of existing uneconomic lines be removed from the shipper. Consequently, we cannot do otherwise than state that new lines should not become a burden. However it is unlikely that the building of any substantial number of developmental lines will be required in the future. In general it may well be that the provision of road or air transport as the initial transport in new areas is the best procedure to follow.

The Commission has no need to make specific recommendations on building new rail facilities. Each such facility will require the approval of Parliament and at that time Parliament will have an opportunity to assure itself that the scheme is economically sound.

Duplication of Plant and Services

Some witnesses appearing before us believed that the possibility at least existed of making substantial savings by eliminating duplications and by generally greater co-operation between the two major railways. The main argument of the proponents of railway nationalization is that substantial savings could be made by the unification of the two systems.

That wasteful competition, duplication and lack of co-operation is a major fault of Canadian railways is not a new accusation. The Duff Commission rightly deplored the conditions that it found in 1930. The invasion of territory by competing branch lines and the "red thread of extravagance" that ran through the operations were said by that Commission to be a major reason for the financial difficulties of the railways. These conditions, superimposed on the overbuilding of main lines in an earlier era, were being brought to the attention of the nation with new force at a time of serious depression. These matters are still of great concern to the general public of Canada and for that reason a brief review of events since the time of the Duff Commission may be of interest.

As a result of the recommendations of the Duff Commission, Parliament passed the Canadian National-Canadian Pacific Act.[1/] In a sentence, this Act exhorts the railways to eliminate wasteful competition and unnecessary duplication of plants and services. An arbitration mechanism was provided to settle issues that could not be agreed upon by the two railways.

1/ Chapt. 39, George V, 1932-33.

Initially, progress was made. Many passenger trains in the Toronto-Ottawa-Montreal area were pooled and some agreements on the abandonment of unnecessary branch lines were arrived at and carried out. However, the savings were much smaller than anticipated and the financial difficulties of the railways continued. The workings of the CN-CP Act were examined by a Senate Committee "appointed to enquire into and report upon the best measures of relieving the country from the extremely serious railway condition and financial burden consequent thereto".[1/] The Committee heard extensive evidence including that of the then president of the CPR, Sir Edward Beatty, and his plan for unification or amalgamation of the two railway systems. In its Report of May, 1939, the Committee rejected Beatty's plan of unification and stated that under a policy of forced co-operation, annual savings of 10 to 15 million dollars might be effected. They strongly recommended that a more serious attempt should be made by the railways to give effect to the letter and spirit of the CN-CP Act. The Committee concluded that it was not advisable to modify the terms of the Act until its possibilities were more thoroughly ascertained.

During the war, the enforcement of the CN-CP Act took second place to other far more urgent tasks.

The subject was raised in the first post-war general rate case by counsel for the Province of Saskatchewan. It was argued that the railways should be required to show that they had carried out all co-operative measures, plans and arrangements possible to effect economies, as directed by the Act before any increase in freight rates was allowed. The Board

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1/ Senate Committee on Railways, 1938 and 1939, King's Printer, Ottawa.

ruled that the CN-CP Act does not confer upon the Board any duty or authority to require the railways to study and undertake co-operative measures with a view to effecting economies, or to review and investigate what measures the railways have taken or might have taken under the Act. The Board said that this is not a matter which would seem to invite any special inquiry on their part.[1/]

The Turgeon Commission[2/] heard extensive evidence regarding the CN-CP Act. Among the conclusions it arrived at were the following:

1. The Act was passed to effect economies in railway operations during the depression and to improve railway revenues. Its primary purpose was not to lower rates.
2. At the time of enactment, economic conditions and the tactics of the two railways fully justified the legislation.
3. The results achieved under the Act have been twofold:
   (a) economies have resulted which exceeded $1 million a year in the 1930's;
   (b) the railways have been deterred from damaging and wasteful competition.
4. The possibilities of making further economies are restricted by the growth which has taken place in the volume of traffic but the importance of preventing extravagant competition remains.

1/ Twenty-one per cent case 1948 (Vol. 38J.O.R.R. No. IA). This was confirmed in the 8 per cent interim increase case 1949 (Vol. 39J.O.R.R. 13A).

2/ Report of the Royal Commission on Transportation, 1951, Ottawa, King's Printer.

5. Under present conditions, shippers have a direct interest in the economies in railway operation which they did not have in the 1930's. At that time it was not possible to increase rates, whereas in later years an attempt was made to pass higher operating costs on to the shippers by means of increased rates.

6. The proposal that the Board, in revenue cases, should require the railways to show that they had neglected no possible economies under the Act seems unworkable.

7. The Act has served a useful purpose.

The Turgeon Commission recommended that the Act be continued but be amended so as to provide that the annual report submitted to Parliament by the Directors of the CNR should contain a separate section giving the results achieved and the plans being studied during the current year.

Although this recommendation has technically been carried out, it is not readily apparent that it has contributed significantly toward accelerating the activities of the railways under the Act. Moreover, the recommendation of the Turgeon Commission in 1951, that a joint programme must be undertaken by the two railways to achieve added operating economies, does not appear to have had very notable results. Evidence presented to us by the railways stated that since 1950 there have been no programmes completed under the terms of this Act.

To say that no programmes have been completed under the terms of the Act is not, however, to say that no progress has been made toward the achievement of economies through co-operative measures. Several joint switching and trackage arrangements have been established in various parts of Canada. A joint committee of the car departments of the two railways

has set up joint specifications for nine separate types of railway cars. In the communication field, joint microwave systems, telex networks, facsimile systems and jointly operated branch offices have been established. Considerable attention has been given by the joint committee to the problem of passenger services but as yet concrete results are few. A similar situation prevails with regard to the possible elimination of uneconomic branch lines.

It is apparent that during the last ten years at least, whatever co-operation the railways have felt desirable in their operations, they have been able to carry out without the benefit of this legislation. Nor has labour had any benefit from the Act.

It is the recommendation of this Commission that the CN-CP Act should be repealed. To the extent that the problems it was designed to deal with still exist, they must be tackled in another way. Where research and operational co-operation is mutually advantageous in facing competition it is strongly to be encouraged but it is our conclusion that the impact of new technology and the arrival of effective competition calls for the primary efforts of each railway to be concentrated within its own organization to effect economies.

As mentioned earlier, allegations of duplication and wasteful competition were made to this Commission. We have not considered making a detailed study of the amount of duplication that now exists nor any estimate of savings that might be made by its elimination. Setting out the details of the nature and extent of wasteful duplication, would not alter the basic consideration - that responsibility for taking action remains with the railways. This has been demonstrated from the time the

Duff Commission reported. Railway management must eliminate wasteful investment or bear the penalty.

The Commission is of the opinion that the greater part of the problem will be met by the implementation of its recommendations respecting the elimination of unprofitable passenger services and branch lines.

APPENDIX A

Some Considerations of the Impact of Abandonment on Investment Tied to Rail Transport

Along most rail lines in Canada there are factories, warehouses, mills and other structures whose operations have been geared to rail transportation for the receiving or shipping of the goods they handle. The fact that some of these lines have become uneconomic from the railway company's position does not mean that they may not still be vital to the existence of the rail-tied investment. When it is found necessary to abandon the trackage a considerable hardship may be imposed upon the owners of such property. The situation receives its grim irony from the fact that the unprofitable nature of the rail line has likely developed through no fault of this investment.

Where alternate forms of transport are readily available, no loss or inconvenience results but where no other transport is available relocation or the abandonment of the investment is necessary. To a considerable extent the impact can be lessened by allowing time for adjustment, but in spite of this, in some cases, serious loss and inconvenience may still result.

The types and amounts of investment so affected cannot be known and will not be discovered until abandonment procedure begins. But general knowledge can serve to illustrate the type of business which will be most affected, and the greater incidence of the businesses affected in one part of the nation over another does not make it any less a national problem.

The pattern of historical development and the location of the particular resources in Canada has created one major industry whose activities

are essentially tied to rail movement. Grain-handling facilities exist on all lines in the Prairie Provinces. As grain cannot normally be economically moved from one country elevator to another or from a country to an export terminal by truck the loss of a rail line results in the loss of the grain facilities associated with it. In most cases, only salvage value remains as these facilities cannot be moved to new locations.

From the standpoint of the entire grain industry more is involved than the abandonment of existing facilities. The grain must still be handled, and as a result additional facilities will have to be built on adjacent lines. The loss of existing facilities plus the necessity of providing new ones may place an undue strain on the finances of many grain-handling companies.

In the grain-handling business another problem (unrelated to transportation) has arisen. The rising costs that have been experienced in recent years have made the operation of a small country grain elevator very expensive. There is a need to replace the small houses with larger ones. Our information[1/] shows that:

1. Maintenance per thousand bushels for elevators of a capacity of 75,000 bushels or over, is 68 per cent less than the costs for elevators of under 40,000 bushel capacity.
2. Operating costs per thousand bushels of capacity are reduced by approximately one-half in the larger elevators as compared with those under 40,000 bushels of capacity.

1/ The information used in this Appendix was derived from an extensive study of grain-handling facilities undertaken for the Commission by the grain-handling organizations themselves. Almost complete data were obtained for about 55 per cent of the total grain-handling capacity, not including terminal elevators. For the remaining capacity the information was less complete, but the statistics were sufficiently comparable to give support to the averages derived.

3. Replacement costs of larger capacity elevators are approximately 39 per cent less per thousand bushel capacity than for the smaller elevators.

4. In addition to the reduction in direct cost, it seems reasonable to expect that those costs which are of a corporate administrative nature and not directly allocatable to individual elevators and locations would decrease with the reduction in the number of elevators. We are unable to say what this reduction might be but it is not likely that it will be nearly as great as the reductions evidenced above.

The situation which will face the grain industry, particularly in Western Canada, by a programme of rail-line abandonment was quickly obvious to us in our investigations. Moreover, although our Terms of Reference are not so broad that we have responsibilities to recommend policies for individual industries, the results of our studies concerning the impact of abandonment on this industry led us to certain conclusions, which are offered in this Appendix, to ease the transition period in rail transportation. We wish to emphasize that we have used the grain-handling industry as an example only. What is presented for one industry may well be accepted for any that fitted the similar situation anywhere in Canada.

The question of whether or not a large-scale effort to consolidate grain-handling facilities is desirable at this time was not studied by the Commission. However, where adjustments are forced upon the industry by rail abandonments, it would seem highly appropriate to replace elevators with the larger, more economical elevators now being developed.

The use of tax incentives to produce, hold, or change the desired pattern of investment has come into wide use in recent years. These devices have been used in practically every country in the world in one form or another. Canada has at different times made use of various forms of incentives, among the most widely known of which are:

1. Exemptions applicable to mining companies such as a three year exemption from income tax on profits commencing with the beginning of commercial production and liberal allowances regarding the deductibility of developmental expenditures.
2. Additional or accelerated allowances for defence production on certain classes of assets where such allowance is approved by the Minister of Defence Production.
3. Capital cost allowances increased by virtue of the Canadian Vessel Construction Assistance Act 1952 to 33 1/3 per cent of cost on a straight line basis from 15 per cent on a declining balance basis.
4. The Coal Production Assistance Act increasing capital cost allowance to 30 per cent plus the additional deduction of amounts repaid on a loan made to a coal producer for the purpose of carrying out the project as determined and approved by the Dominion Coal Board.
5. Amendments to the income tax regulations in 1961[1/] provided for accelerated depreciation, apportioned over the first

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1/ P.C. 1961-326, March 3, 1961.

three years at the option of the taxpayer, in respect to investment expenditures incurred to assist:

(a) New industries in areas where there is a substantial degree of continuous unemployment.

(b) The development of new products from processing operations not hitherto carried out in Canada.

(c) The production of new types of goods.

The foregoing are a selection of a number of statutes designed to stimulate investment or improve the position of an industry through the use of tax incentives, or both. These statutes provide an illustration of how the Income Tax Act can be used effectively to give the stimulus needed in certain industries without generally disrupting the provisions and purposes of the Act.

In the light of the foregoing the following suggestions are submitted for consideration as a means of giving incentives to a particular example of rail-tied investment in order to bring about changes in the pattern of their present and future investment necessitated by rail branch line abandonments. A company with investment tied to rail might when the rail line is abandoned be offered one or more of the following concessions:

1. Increased depreciation rates on new country elevators which are a consolidation of existing facilities and which have a handling and storage capacity over a fixed minimum number of bushels to be determined by negotiations between the grain-handling companies and the delegated administrative authority referred to below.

2. Removal of present requirements regarding a reduction (by the amount of the recaptured depreciation on elevators

sold) in the assets pool, provided the cash received is invested within a limited period of time in new country elevators having a capacity in excess of the minimum number of bushels.

3. Allowing the cost of country elevator facilities abandoned or the loss on facilities sold to be written off as soon as possible with no restrictions on the carry forward of such loss.

4. Permitting an investment allowance, calculated as a per cent of cost, as an expense in the year of acquisition or construction of the asset which would not be subject to recapture on disposal of the facilities, provided such facilities were held for a reasonable length of time and are a consolidation of existing storage capacity. This would be an alternative to 1. above.

An agency such as the Board of Grain Commissioners or such other body as the Government may see fit, could be made responsible for the planning, administration and control of the programme designed to consolidate the existing grain storage and handling capacity to provide a more economic and practical system in conjunction with the possible changes in over-all rail transportation network that this Commission has recommended. A most important task of the designated agency would be the control and prevention of over-capacity that might possibly result from adoption of a system of incentives to change the extant patterns of investment.

The above suggestions have been made with particular regard to the grain-handling industry. Any policy adopted to give assistance to

this industry could be applied with modifications to other industries affected in the same way by rail plant rationalization. The over-all increase in efficiency, both rail and non-rail, which a relocation policy would assist, will enhance the growth of real production in the nation. Proper tax incentives do not, in the long run, impoverish the national treasury.

CHAPTER 6

THE NATIONAL TRANSPORTATION POLICY AND EFFECTIVE REGULATION

The National Transportation Policy in the competitive environment calls for the performance of two functions by government. The first is the regulatory function, now being carried out in Canada by a growing number of agencies made necessary by the emergence of new forms of transportation. The second function is positive, or promotional, having to do with policies pertaining to public investment and co-ordination between modes in the interests of developing adequate and efficient transportation services. The performance of both functions is necessary to the successful achievement of National Transportation Policy objectives.

Considering first the regulation of transport, it is apparent that the emergence of competition is changing the nature of the regulatory function. The trend towards emphasis on costs of movement is evident with the growth of competition. The older rate structure with primary emphasis on "value of service" is becoming more and more subordinate in all modes as a basis of making rates. For a number of years such rates will probably continue to be a reference point, a bench mark from which to work in establishing rates of movements of particular commodities between particular points. But the practical search for profitable traffic will cast each rate so established into the balance, to be measured by the costs associated with performance of the service, and the similar costs of real or potential competitors.

More and more rates will appear which do not offer a price for a given qualified service on a "take it or leave it" basis. The recognition that all modes have a degree of flexibility in the services they can offer to a given movement will bring about a range of prices tied to levels of service, measured, at least relatively, in terms of the additional costs of extra service. Recognizing this, and the range of service each mode of transport can efficiently perform, rates will be offered which leave to the shipper a choice of low cost, low service transport, or higher cost, higher service movement.

Public policy, as embodied in the National Transportation Policy, cannot lag behind the changes that are occurring. Insofar as the public and the carriers themselves require decisions and control from policy-making and regulatory authorities, they require that these decisions be rational and be made from knowledge and perception at least as sharp as any to be found in the transportation industry, and with a perspective which is wider than the self interest of any individual firm. If the organization of regulatory bodies, and the tools made available, prevent perceptive leadership in knowledge, or inhibit regulation from keeping abreast, the regulatory agencies fall into the grave danger of being subject to the industry they are expected to regulate, and of becoming the citadel of the status quo.

Naturally, the actions of these regulatory agencies affect the positive or promotional side of transport policy. In spite of careful attempts to remain free of responsibility for any part of industry location and resource allocation, the very act of making a decision has its repercussions on other modes of transport and beyond the transport industry. The various agencies are not to be condemned for this

inevitable effect upon policy. Because of the high degree of specialization needed in each agency to comprehend the facts and understand the problems and the trends of technological and institutional change, these agencies will, perforce, have to continue to meet the problems associated with the various segments of transportation in relative isolation. It is enough to expect each agency to meet the pressing current regulatory responsibilities over the whole field of operations, standards, entry controls, rate regulation and the multifarious other problems of which only a specialized agency can even be made aware, without requiring them at the same time to be cognizant of the effects of their orders on every other segment of transportation.

Regulatory boards and agencies cannot and should not attempt to fulfil the positive or promotional aspects of transportation policy. The specific powers assigned to them by their respective Acts become, quite properly, the bounds of their responsibilities. Including in those Acts any responsibility for policy initiation is fraught with difficulty and with the danger of conflict. Under the press of daily regulation, changes in regulation, the hearing of complaints and the implementation of their orders, any conscious assessment of the indirect impact of their work upon other forms of transport is bound to receive scant attention.

Over the past thirty years, in Canada and in other countries, there have been many recommendations for the centralizing of regulation in transport. Insofar as the "negative" or strictly regulatory function is concerned, we are convinced it would accomplish very little. Such a central authority would have to be so large that the division of labour necessary would follow the lines of agencies already in existence. In

Canada the division of constitutional responsibility for highway transport makes central regulation more complex.

Transportation Advisory Council

Turning now to the positive or promotional role of the Government in transportation policy we find that there exists nowhere below the Cabinet level in Canada any organization or advisory body sufficiently broadly based to undertake the task of continually developing goals for National Transportation Policy or a broad outline of measures to achieve them. The significance of this deficiency in the changing transportation environment has been examined in Chapter 2 and subsequent chapters of this volume.

To cover this gap, to create this structure for positive policy in transportation as a whole, we recommend the creation of a national Transportation Advisory Council. Freed of regulatory responsibility and able to judge and assess the impact and effect of the decisions of all transport regulatory agencies, and empowered to confer and consult with all interested parties (the regulating and the regulated) at all levels of government, this Council can recommend broad policy through the Minister of Transport.

There is particular need of such a body in those aspects of transportation where our responsibilities have directed us. The reality of competition, and the degree to which public investment is responsible for it, encourages us to recommend strongly that explicit recognition be given to the dual nature and purpose of public responsibility in transportation. We have recommended in Volume I considerable public action

to rectify the legacies of national policy where we have found them to be inequitable upon one mode of transport. Repairing that deficiency in policy will not permanently settle the problems of a dynamic industry. Unco-ordinated public investment, without clear-cut policy objectives and without some unifying research group constantly assessing the effects of regulation on National Transportation Policy and to recommend necessary changes in policy and regulatory legislation, leaves open the possibility and probability that changing circumstances will create future misallocations of resources in transportation, and consequently in the whole economy.

The national Transportation Advisory Council, properly constructed and free of departmental administration and responsibilities, will be in a position to study the current disposition and future needs of public investment in transportation facilities, to consult with all levels of government respecting their intentions in the light of constitutional responsibilities for investment in transportation facilities, to receive the representations of interested groups, to recommend upon priorities for public investment, to test the allocation of investment funds needed in the light of the pattern of user charges, and to make recommendations on the adequacy of user charges and the effects of taxation to the Federal Government in order that costs may be borne on a rational and equitable scale throughout the country for all modes of carriage.

Such a body, composed of persons knowledgeable in transportation and investment, finds its public justification on two counts. The first is that investment patterns and the life of investment made in the various modes of transport are dissimilar between the modes of transport and in

various climatic regions of the country. The second justification for the body is the constitutional dichotomy in responsibilities for transportation in Canada and the changes in these responsibilities that new technology introduces. Provincial governments each have equal constitutional responsibilities to provide highways but the conditions under which they must build them, and the fiscal capacities from which the investment must be extracted, are very different. On the other hand, in addition to substantial control of railways and pipelines, the Federal Government has accepted responsibility for navigational and terminal facilities to a greater or lesser degree for both air and water transport, as well as some highway assistance. Yet there is little evidence of any large measure of co-ordination in the decisions respecting public investment in the various modes of transport.

The nature of the task of this Transportation Advisory Council would be, in the first instance, to make a short-term historical assessment of investment in all modes of transport and attempt to make a clear-cut appraisal of the objectives and disposition of the investment and, in the second instance, to keep current a body of fact available to all levels of government respecting that investment which is being undertaken across the nation including the extent to which user charges are offsetting the real social and economic costs. Finally, the experience and judgement of the Council would be called forward in the submission of policy recommendations for investment and appropriate user charges at all levels of public control in the various modes of transport associated with the use of the facilities. Since this is in construction a federal agency responsible to the appropriate Minister, the disposition of federal monies unilaterally or in co-ordination with provincial governments,

can be advised upon in such a way that a positive approach to a national policy of public transportation investment and appropriate user charges can be evolved.

But the functions of the proposed Transportation Advisory Council should go beyond the investment sphere. Being a representative non-regulatory body of a continuing nature it can play a role for which there has always been a need in Canada: a forum for the discussion of transportation problems. Such cannot properly be considered by a regulatory body which has judicial duties. In the past, problems and suggestions have either lacked a suitable forum or they have had to be dealt with - once they had become sufficiently numerous and pressing - by the appointment of Royal Commissions.

During the next few years it is probable that substantial changes will take place in the transportation industry and particularly in the rate structure. As is evident from our Report, these changes will require considerable re-thinking of time-hallowed concepts. It would be too much to ask that this mental adaptation to the new world in transportation can be accomplished by a complete reliance on regulatory procedures. Nor is it entirely satisfactory to continue the traditional method of waiting until general dissatisfaction with conditions makes it imperative to undertake a special inquiry.

While much can be accomplished by such periodic special inquiries, they have inherent limitations. Our own investigations have demonstrated to us the wisdom of providing a continuing opportunity for review. We received many suggestions which have been most useful to us in making our recommendations. But we also received many complaints on which it was impossible for us to comment in this Report. Due to the

nature of a Royal Commission inquiry, evidence had to be concluded at a definite point in time and there is little opportunity now for a continuing process of discussion and evaluation.

In our opinion, the Transportation Advisory Council could provide this opportunity on such a continuing basis and with much less sense of the extraordinary and also less formality than unavoidably attend an investigation conducted by Royal Commission. We are convinced that this type of discussion will prove to be of benefit to shippers, the transportation industry and those responsible for making recommendations on governmental policy.

Organization and Structure

The organization and structure of the Council cannot be spelled out by this Report in all the necessary details. Our conclusions have forced upon us the necessity of the existence of such a body; they have not indicated to us its singular composition.

The nature of its tasks appears to recommend that it be composed of persons vitally interested in the achievement of efficiency in transportation, chosen not so much with a view to giving representation to individual industries or geographical regions as to bringing the informed layman's mind to bear on a field which so often tends to become overgrown with the tangle of technical preconceptions.

The Council should be safeguarded from those institutional rigidities inherent in any human organization which, without specific measures to offset them, may give rise to vested interests in policies brought into being because of its own recommendations. The appointments to the Council should permit the services of the Members to be rendered

on a part-time basis. Appointments, in the first instance, for varying terms will ensure a gradual succession of personnel. So composed, we confidently anticipate a Council able to adopt new attitudes and approaches to keep its awareness of changing conditions in line with the objectives of the National Transportation Policy. Adequately supported by the whole range of information and knowledge which liaison, experience and good research can provide, a body of laymen interested in the problems of a dynamic transportation system, and appreciative of the role transportation is expected to play in Canadian life, can do much to chart a course for policy and advise upon its incidence.

The structure of the research and administrative establishment to aid and assist the Council in its work should be such that the Council is free to use the research facilities of federal and provincial regulatory and administrative agencies, the resources of industry, and the services of professional research. In addition, the structure of the Council should ensure that it is sufficiently independent so research work necessary for policy considerations may be conducted under the more direct surveillance of the Members. This may mean that the Council's own research staff and facilities may not be large, but it would be necessary that there be some professional and technical assistance for consideration of day-to-day problems that arise and for drawing together the longer-run appraisals.

In addition to the research facilities it will be necessary that there be an adequately staffed secretariat. The close relationship of this Council to government at all levels, to industry and the interested public, will prove to be an important ingredient in the process of policy assessment and in recommendations for change. Furthermore, there will

be important research documentation and cataloguing necessary in conjunction with the recommendations we shall make later in this chapter[1] respecting co-ordination and integration of transportation research in the nation. This implies that both the secretarial and research staffs of the Council shall work in co-operation with the federal Department of Transport and the counterparts in provincial governmental structures.

The general terms of reference under which the Council shall operate should not be construed to mean that it be equipped or prepared to perform research, administrative, or operational functions of, or for, other agencies of government. Each of these regulatory or administrative or operational agencies functions under statutory authority in specific areas and must be encouraged to continue to do so with full responsibility. But forces beyond those enclosed by statutory responsibility may seek to utilize the Council in ways which will prove deleterious to its purposes, to other agencies, and to achieving the objectives of National Transportation Policy. Thus it will be necessary that the Transport Act, or other statutory vehicles, carrying the terms of reference of the Council, shall set out the objectives of National Transportation Policy in clear terms and charge the Council with specific responsibilities in that regard. As experience is gained, and as conditions change, the Council should be permitted to recommend to the Minister of Transport changes in its own terms of reference, having regard to the regulatory, administrative, and operational responsibilities of the relevant Departments and Boards. The Council should make an annual public report of its activities to the Minister of Transport, and such other interim report as may be required by him.

1/ Page 175.

In large measure, if the objectives of National Transportation Policy are to be achieved, there must be major reassessments made of the role of the specialized regulatory, administrative and operational agencies. Therefore, since one of the chief means of attaining the objectives of National Transportation Policy is the formation of the Transportation Advisory Council, we recommend that the Council shall recommend to the Minister, from time to time, such redefinitions of powers and responsibilities for transportation administration and regulation as appear consistent with the attainment of the objectives of the National Transportation Policy for all agencies falling within the responsibilities of the federal authority.

Transportation Statistics

Regulatory agencies and policy advisory groups wherever found, are helpless without the necessary facts and figures upon which to make assessments. The usefulness and applicability of the wide range of the currently produced data on various aspects of transport and the suitability of each series we prefer to leave to the professional judgement of competent statisticians. However, we do feel compelled to make some general comments and conclusions respecting these essential statistical tools.

It is apparent that transportation data falls into three categories. The first is the data collected for publication. The second is the data concerning transportation costs and relevant traffic information needed by regulatory bodies. The third is the material necessary for management use, which is only indirectly of concern to the public

authorities. To treat these three categories of data, there are two general rules which should govern their collection and processing.

One general rule is that all transportation data which are to be made public should be published under the authority of the Dominion Bureau of Statistics, which shall bear responsibility for it. We are guided in making this recommendation by the principle that accuracy, relevance, innovation, objectivity, comparability and competence are furthered when the work is the responsibility of statisticians whose purpose is the production of the data, not their use.

The other general rule which should guide, but not limit, the gathering of the first two types of data is that they should be adapted insofar as possible to the series needed for management purposes. Such consideration will appreciably encourage the co-operation of transportation companies and cut their real costs of data collection.

Some statistical series become outdated with technological change. There are many different measures of output and efficiency in the transport industry and such statistics are easily misused. Constant review of suitability, and an explanation of uses and limitations of statistics of output and of technical and economic efficiency, could most usefully be included in the text of statistical periodicals containing the data. For these reasons we recommend that the whole broad scope of public statistics on transportation now being produced by any federal agency shall be subject to scrutiny by a Transportation Statistics Committee headed by the Dominion Statistician or his appointee, with a view to developing an adequate and integrated programme of transportation statistics. Representation on the Committee should be confined to one member from each of the regulatory agencies dealing with any aspect of

transportation, with the power to call on and consult with representatives of other governmental or commercial organizations on particular matters. The Committee should make interim and progress reports to the Minister of Transport, the chairman or chiefs of all regulatory agencies and boards, and the Transportation Advisory Council, together with recommendations for change.

As a point of departure for the Transportation Statistics Committee we offer some specific recommendations as a result of our consideration of the special study on transport statistics which appears in the third volume of the Report,[1/] and is commended for detailed study.

We recommend, first, that a Canadian Industrial Freight Traffic Survey be inaugurated. The necessary frequency of the Survey is a matter for determination by statisticians in the light of interim sampling and special surveys. This technique commends itself to us as being the best method of determining freight transportation patterns and changes in patterns as inter-modal transportation grows. Furthermore, it circumvents many of the practical problems associated with gathering information from numerous small firms engaged in trucking and, possibly, air and water transport. Comparability and continuity would be facilitated. The public information resulting would be invaluable to carriers, shipper associations, regulatory bodies and the national Transportation Advisory Council.

Pending the establishment of other gathering procedures, the Waybill Analysis now conducted by the Board of Transport Commissioners

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1/ Review of Federal Transportation Statistics, by D. Eldon, to be published in Volume III of this Report.

will need to be continued. It may prove to have justification along with other procedures. In the interim before any final decision can be taken, it is apparent that the Waybill Analysis needs to be enlarged. We are unable to say how large a sample should be used as a basis for the Analysis, but it appears obvious from the advice we have received that a universal one per cent sample is inadequate where the sample yields an absolute carload figure too small to give statistical confidence. It may well be that varying percentages depending upon the region or the inter-regional movements involved can be used. Furthermore the use of individual commodity surveys, such as the railways are familiar with, may be incorporated to supplement, or complement, the Waybill Analysis.

The greatest shortcomings of the present Waybill Analysis are that it covers only one mode of transport, the railways, and the regional breakdown no longer accurately reflects the regional structure of the railways. Changes to correct these may or may not be easy but are well worth prompt consideration by the recommended Transportation Statistics Committee.

It is possible that the rapidity of change taking place in passenger travel may make special surveys the only practical means of measuring change. Passenger travel information is, moreover, of less use in regulatory work, but of great importance in planning highway and airport investment. Suitable area surveys at the necessary intervals should not prove unduly onerous or expensive and, when supplemented by information already being gathered by provinces, or travel and carrier associations, should be sufficient. However, as a first step, consider-able improvement could be effected by co-ordinating and consolidating all the current passenger statistics for assessment of their utility.

There are several other proposals upon which we do not feel specific recommendations can be made without further consideration. These we commend to the Transportation Statistics Committee, as they are found in the special study published in Volume III. Included among them are considerations of data on certain specialized functions of transport which because they are almost an integral part of the industry's output may require special treatment. Pipeline transport is one, and the movement of milk, household furnishings, automobiles, livestock, and the activities of freight forwarders are others. Warehousing or storage may also logically be part of the transportation function in certain instances. For any, or all of these, or others, the publication of special statistical series may provide important knowledge of the transport function in the economy, and be usefully embraced in a comprehensive coverage of transportation statistics.

We recommend that the Committee give consideration to the advisability of composing a statistical series of Indexes of Freight Rates. Pricing of transport service is extremely important, and this is one of the few fields where no comprehensive price statistics exist. Once the Canadian Industrial Freight Traffic Survey exists, the material for constructing Indexes of Freight Rates will be available.

A deficiency in statistical collection which is particularly noticeable concerns the important dimension of speed of service. This, in the competitive era, is of extreme importance to shippers and a factor influencing the price they are willing to pay for service. Suitable series to integrate this aspect of transport by introducing the time-distance factor would be a most useful addition to knowledge for carriers, regulatory agencies and the shipping public.

Finally, amongst these special categories commended for study to the Transportation Statistics Committee, we strongly urge the creation of series showing the size and nature of public grants to transportation. Clear differentiation needs to be made to separate those payments which are subsidies to forms of transportation from those payments made to industries to assist them to move goods.

Considerable information is now available on subsidies to railways and railway shippers. Statistics of direct and indirect subsidies by governments to other forms of transport should be published. Sufficient information should be developed on traffic flows of commercial trucks and private motor vehicles and passengers to permit better studies of the extent to which different types of highway traffic either are subsidized or pay their share of road costs through taxes and fees to government. Also, it would be valuable to develop statistics showing the extent to which publicly provided services utilized by all other modes of transport are subsidized.

Since a subsidized carrier has an advantage in competition with other carriers, there is a cost in terms of efficiency when transportation subsidies encourage traffic to move through channels it would not otherwise use. In view of the importance of handling traffic wherever possible by the most efficient means, the public should know the extent of subsidies to different media of transport and to specific companies. The importance of this knowledge for National Transportation Policy objectives is evident. It is vital to the work of the national Transportation Advisory Council, which should be consulted in setting up the necessary statistical series on transportation subsidies.

As a result of the extra work load that the Transportation Section of the Dominion Bureau of Statistics must assume, it will be necessary to see that adequate staff and equipment are made available to discharge its responsibilities efficiently.

Publication of Studies

From time to time, the raw data collected and processed by the Dominion Bureau of Statistics or regulatory agencies will be used in special transportation studies. Much useful information is, even now, available through studies of this nature, and every effort to encourage such work will be adequately repaid in increased understanding. Many of these studies are excellent in quality and could, with little modification, be useful additions to knowledge of transport for the interested public. It is recommended that the national Transportation Advisory Council shall be the repository of copies of all of these, done by whatever public agency, with a view to publication. Centralizing the studies, the Council can determine the nature of transportation research or research respecting transport, and perform a useful function for itself and the concerned public by co-ordination and consultation respecting proposed projects. The Council, thereby, becomes a research clearing-house, a knowledgeable guide to research sources. It will contribute to its own primary aim by drawing upon the considerable but fragmented research now being conducted in many government departments, trade associations, universities and other research establishments, and by encouragement and advice on needed studies.

Regulatory Agencies and Cost Data Analysis

Under the regulatory requirements of a transportation environment characterized by both satisfactory competition and significant monopoly, regulatory agencies will of necessity direct their efforts more toward ascertainment of costs of movement. In line with advancing techniques of cost analysis being developed in the various segments of the industry the requisite skills must be developed to make rapid and confident verification of costs available in the regulatory process. For railways in particular the Board of Transport Commissioners will be called upon to arbitrate in the process of branch line contraction. In this procedure accurate assessment of losses arising from the operation of branch lines will become a heavy responsibility. This assessment again has to deal with costs, and a whole body of cost criteria will need to be established as a framework within which branch line losses can be calculated. This function, plus that of establishing cost criteria for maximum and minimum rate control as recommended in this Report, makes it essential that the Board of Transport Commissioners have adequate cost analysis facilities. Therefore, we recommend that additional staff and facilities be made available to the Board of Transport Commissioners to enable it to create an adequate costing section to meet the enlarged tasks which face the Board in the future.

The object of these recommendations is to attempt to facilitate the work of the Board, which is bound to take on new aspects under the impact of the competitive environment. It is our conviction that, as railway-highway competition grows in intensity, the work of the Board of Transport Commissioners will change, and the efficient performance of the

whole transportation function in Canada will be affected by the degree to which the Board is given authority to meet the changes by developing the statistics, the staff and the standards they find to be necessary.

Regulatory Agencies and Enabling Legislation

A dynamic economy requires a certain degree of initiative and freedom for those agencies which bear regulatory responsibilities. The necessary freedom and initiative can only be sustained by careful periodic review of the statutes giving the terms of reference within which regulatory boards must work, and which delegate the necessary authority to them.

The evidence we have heard, the studies we have conducted and the analysis we have made all confirm the presence of a dynamic transportation environment. Greater flexibility must attend its regulation, and clear-cut powers and responsibilities must continue to guide the particular transportation regulatory agencies.

The Acts which cover those areas of transportation where our investigations lay are chiefly the Railway Act and the Transport Act. Both of these deal almost entirely with aspects of railway regulation. Both will require careful and extensive revision in the light of changing circumstances and particularly in the light of policy changes undertaken to adjust to the loss of the monopoly position of railways in overland transportation. Both Acts may still be necessary to cover the wide scope of railway regulation in Canada but the mould in which they are now cast will hardly fit the circumstances of the National Transportation Policy as set out in this Report.

Therefore we recommend, upon adoption in principle of the new policy, that these Acts, and such others as may be relevant, shall be subjected to thorough scrutiny by a committee of representatives of the regulatory agencies concerned, the Department of Transport and the Department of Justice. The committee shall work under the guidance of a memorandum from the Governor in Council which shall specify the components of the National Transportation Policy necessary to meet the rapidly changing circumstances in Canadian transportation.

PART II

NATIONAL POLICY AND TRANSPORTATION

CHAPTER 7

TRANSPORTATION IN NATIONAL POLICY

National Transportation Policy is that particular component of the total National Policy which is concerned with the effective use of transportation resources in Canada. Its primary function is to ensure that the transport system provides the comprehensive service which is economically adequate for the transportation needs of the country as a whole. In the first volume of our Report we expressed the general view that the attainment of this kind of a transportation system required the implementation of a national transportation policy which would open to each of the various modes the opportunity to fill its appropriate role within the new competitive environment; we have also put forward a number of specific proposals which, we believe, are necessary to achieve this end.

We recognize that this approach to the problem - that the principal concern of national transportation policy today should be with ways and means of achieving the most efficient transport system to serve the needs of the economy - may be a departure from the traditional view. Historically, the transportation system in Canada was used so extensively as an instrument for the pursuit of broad national policy objectives that the character of the system as a system tended to become a matter of secondary concern. As a result, national transportation policy has often been a great deal more preoccupied with the question of how effectively the transport system was functioning as an instrument to fulfil national policy objectives, than with the question of how well it was functioning as an economic enterprise. There

were, of course, good reasons in the past why this was so. It is our view, however, that there are now equally good reasons why it should no longer be so.

This conclusion, a central theme of this Report, does not disregard the use of transportation as an instrument of national policy. Rather it conveys that, for transportation as an instrument of national policy to be most salutary for Canada in the future, its adaptation to the exigencies of the new competitive environment will warrant more consideration than may have seemed necessary in the past.

The implications of this are examined in the remaining chapters of this Report. First, to provide a background, we review the development of national policy in this context. We then take up several regional and industry problems which, because public policy has traditionally attempted to solve them by transportation means, have recommended themselves to us as important examples illustrative of the adaptations that may be necessary to maximize the coincidence of national policy with national transportation policy.

Transportation as an Instrument of National Policy

The primary objective of national policy in Canada has always been to preserve and enhance the political and economic welfare of the Canadian people. While many and varied means have been used in the pursuit of this objective - a circumstance which reflects the number and diversity of the obstacles which have been encountered through time - experience has proven the use of the means of transport to be of singular importance to its attainment. In particular, the development of suitable transportation facilities has been instrumental in overcoming such formidable obstacles to national

development as those associated with great distance and rugged terrain, sparse population, scattered resource location, dependence on export markets and, most significant of all, the strong political and economic attraction exerted by the United States of America.

It was the essential importance of transportation in the early Canadian environment which made it inevitable that efforts should be made by government authorities to mould the system in the interests of broad national policy objectives. As a consequence, public concern with transportation issues has been a traditional feature of the Canadian scene and government action has played an important part in determining the nature of the transport facilities to be provided, their location, and the scope of the services to be performed. Furthermore, the high degree of risk associated with developing virtually uninhabited territory, the magnitude of the works involved, and a chronic shortage of private capital has made the provision of large-scale public assistance necessary in order to forge, as and when required, the transportation links which national policy deemed imperative. Thus, a large measure of government subsidization, regulation and even operation of transport has been a continuing feature of this country's national policy - a fact of Canadian life that is reflected in a heavy public burden of transportation costs which, until World War II, averaged about one-third of the Federal Budget. In the following paragraphs, we will examine some of the more significant examples of the pervasive influence which national policy has had on the evolution of Canada's transportation system.

It is a matter of historical record that the abundance of natural waterways in North America assisted greatly in the early explorations of the interior of the continent. It was to be expected, therefore, that following this period of discovery and with the establishment of permanent settlements

in what is now the eastern part of Canada and the United States, transportation by water would become the basis of the primary system of communication and trade which developed in that area. In the Canadian colonies, attempts to improve conditions of navigation in the natural waterways, particularly on the main artery provided by the Great Lakes - St. Lawrence system, began as soon as settlement moved inland. Some of these pioneer efforts in canal building and other aids to navigation demonstrated great initiative and involved considerable expense, both on the part of public and private enterprise, but the financial resources of the colonies were not sufficient to embark upon works of the necessary magnitude to successfully overcome the many impediments to shipping which existed on the St. Lawrence River. However, with the union of the provinces of Upper and Lower Canada in 1841 the financial base required for such undertakings came into being and an active public building policy was put into operation that, within ten years, resulted in the completion of a series of canals on the St. Lawrence which provided a minimum nine-foot channel from Montreal to Kingston. Navigation further inland was improved in 1845 with the construction of the Welland Canal system of nine-foot locks linking Lake Ontario and Lake Erie. Finally in 1855, an American canal built at Sault Ste. Marie gave access to Lake Superior and a system of transportation became established which enabled medium-sized ships of that day to obtain 2,300 miles of passage from the Atlantic Ocean through to the head of the lakes. By 1895 the construction of a canal north of the border at Sault Ste. Marie was completed, fulfilling the Dominion Government's desire for an all-Canadian water route.

Confederation of the four provinces in 1867 made possible the construction of additional large-scale and expensive public works which were designed to further improve water transportation facilities on the Great Lakes -

St. Lawrence system. Deepening of the entire chain of connecting canals to a minimum of fourteen feet was accomplished by the end of the century, a task which involved the outlay of some $100 million over a period of thirty years on the part of the Federal Government. Initially, an attempt was made to recover some of these expenditures through the levying of tolls but this policy was suspended in 1903.

Undoubtedly, during this early period of the nation's growth the government's policy of substantial financial contributions for improvement of the means of transportation by water from the Atlantic to the Lakehead made an important and necessary contribution to Canada's political and economic unity. It was, however, soon recognized that water transport could only provide a limited solution to the nation's over-all transportation problems and, in the last half of the nineteenth century, public attention turned increasingly towards a new mode - the railway - as the principal transportation instrument for the achievement of national policy objectives.

The development of suitable means of carriage overland by rail was of particularly great importance to countries such as Canada where climatic conditions rendered even the most elaborate system of water transportation virtually useless during the winter months. Public authorities, therefore, were prepared from an early date to offer assistance to private interests in the construction of railway lines - with a view, of course, to adapting them, where necessary, to the requirements of national policy. In the 1850's the construction of the Grand Trunk Railway network connecting Upper and Lower Canada, although essentially a private venture, was assisted in no small degree both by government-guaranteed railway bonds and by public subsidies amounting to about one-third of the cost of construction. One of the principal objectives of the Grand Trunk Railway, like that of the canal

system, was to provide a means whereby the resource wealth of the vast North American hinterland could be induced to flow through the provinces of Upper and Lower Canada rather than be directed below the border through the United States. Although it, too, failed in large part to achieve this national purpose, it nevertheless did help to offset what would otherwise have been an irresistible pull southwards, and thus enabled Canada to obtain a reasonably appropriate share of the rapidly expanding east-west movement of trade and commerce.

After the mid-nineteenth century, with the growing enthusiasm for political union of those territories comprising British North America, the planning and construction of railways began to assume a dominant role in public policy. The building of the Intercolonial Railway at government expense became a condition of entry to Confederation for the Maritime Provinces and national policy was further reflected in the circuitous, all-Canadian route, well to the north of the United States border, which was followed by the line. To round out the union in the face of growing United States interest in the Western Territories required a promise by the government to see that a railway to the Pacific would be constructed - designed not only to link British Columbia with the Confederation but also to make possible the settlement and development of the Prairies. The policies of the Federal Government, employing the techniques of land grants and outright financial aid, were ultimately successful in encouraging private railway interests to participate in "the race to the Pacific" and with the completion of the Canadian Pacific Railway less than twenty years after Confederation the initial objective of national transportation policy - an all-Canadian, all-weather route from the Atlantic to the Pacific - had been achieved. Notwithstanding the heavy burden of debt which was thereby

placed upon the nation's economy, it is very doubtful if, without the successful execution of the Federal Government's transportation policies relating to Confederation, a sufficiently firm foundation would have been established to permit the development of a viable Canadian union.

The very obvious contribution which had been made to Canada's political and economic welfare by the first transcontinental rail connection emboldened government and private enterprise alike to think in terms of additional railway links between east and west. Among other considerations on the part of government was, of course, the belief that competition to the Canadian Pacific would help to lower and equalize rail rates throughout the nation. Provincial Governments, as well as the Federal, soon became heavily involved in the railway boom which swept the country in the early years of the twentieth century. High hopes raised by general prosperity and the economic expansion engendered by the settlement of the West were responsible for the construction of two more privately-owned transcontinental lines, the Canadian Northern and Grand Trunk Pacific Systems, and by 1914 Canada had more miles of railway per capita than any country in the world. The amount of public and private borrowing involved in the execution of these undertakings was, of course, immense for a country in such an early stage of development but it was rationalized at the time by the widely held belief that the growth of the country's economy would be sufficiently rapid to cope with any future problem of railway debt. Events, however, proved this optimism to be excessive and within a few years it was apparent that a serious situation existed with respect to excess railway capacity. Bankruptcy and liquidation of private railway companies became a familiar occurrence during and immediately following World War I and between 1918 and 1923 the Federal Government,

in order to protect the country's credit and maintain vital services to a national structure which had become heavily dependent upon railway transportation, was obliged to take over the Canadian Northern and Grand Trunk Systems along with other bankrupt lines and merge them into the publicly-owned Canadian National Railways. Since that time, therefore, it has been a direct responsibility of the Federal Government in the interests of national policy to assume the very large financial obligations, both public and private, which were associated with the construction and maintenance of this particular railway system.

Participation by public authorities in the actual building of Canada's railway system was only one aspect of the National Policy as it pertained to rail transportation. Governmental influence was also pervasive in the development of the freight rate structure, particularly with respect to the movement of traffic in the Maritimes and on the Prairies. Rates on the government-owned Intercolonial line serving the Atlantic area were kept at an artificially low level prior to World War I in order to fulfil certain Confederation pledges which were intended to give Maritimes' producers more favourable access to the markets of Central Canada; and, as a result, the chronic deficits which were incurred on the line's operations became accepted as obligations to be met by the Federal Government. For a period of time during and after World War I the rate advantages enjoyed by Maritime shippers became less significant, primarily as a result of wartime-generated general rate increases which affected Maritime movements more adversely than those in the rest of Canada. It was not until the passage of the Maritime Freight Rates Act in 1927 that the national policy of providing a lower-than-normal rate structure for this area was re-established and put on a statutory basis.

In the West, the prime example of national policy bringing itself to bear on the railway freight rate structure is to be found in the Crowsnest Pass Agreement of 1897. Under this Agreement the Canadian Pacific Railway Company obtained substantial governmental financial and land grant assistance in building a rail line through the Crowsnest Pass and the rich mining area of southern British Columbia - a development link which both the Federal Government and the railway company were anxious to obtain as rapidly as possible in order to forestall penetration of the area by United States lines. As a quid pro quo for this assistance, the Canadian Pacific Railway Company agreed to reduce freight rates on western grain and flour moving east for export via the Lakehead by 3 cents per 100 pounds and, in addition, to lower by 10 per cent or more the rates on a long list of settlers' household effects and building supplies being shipped to the West from Eastern Canada - a reduction in rates which was desired by the Government in order to give additional stimulus to settlement of the West and to ensure the development of a prairie economy based on grain production. Thus, the Crowsnest Pass Agreement between the Canadian Pacific Railway Company and the Federal Government became a key component of national policy relating to Western Canada and in 1925 it was, with certain modifications, translated into the present statutory form which gives to Parliament the sole responsibility for setting the level of rates on grain and grain products moving to export positions.

After passage of the Railway Act of 1903 the newly-established Board of Railway Commissioners became an important vehicle for influencing the railway freight rate structure in the interests of national policy objectives. Decisions of the Board in a number of key rate cases which came before it during the first quarter of the twentieth century had the

effect of ameliorating in significant degree the disparity in rate levels between Eastern and Western Canada which had developed in the previous period. They did not, however, entirely succeed in providing the equivalent of the natural advantage which the presence of a system of transportation by water in Central Canada has always given to shippers in that area. Thus, in a variety of ways and with a reasonable degree of success the Federal Government, through the use of both statutory and regulatory ratemaking powers, sought to influence the character of the railway system so as to help overcome obstacles to national unity and promote the welfare of the country as a whole.

Complementing Federal Government policies concerning water and rail transportation has been the public assistance given to the development of Canadian harbour facilities. Dependence on export trade and the desire to establish and maintain an east-west axis of transportation has necessitated large financial contributions by the Federal Government to the building of port facilities at principal export outlets on the Atlantic and Pacific, the St. Lawrence River and the Great Lakes. National policy as it pertains to harbour operations has been carried out by the National Harbours Board since 1936, and the facilities under its control now represent a capital investment of over $350 million. In addition to these facilities, heavy federal contributions have been made to virtually all other ports in Canada.

The advent of pipelines as an important means of transport in Canada provides a particularly clear example of how the transportation system continues to be used as an instrument of national policy objectives. During 1956, in a situation where private enterprise was finding it exceedingly difficult to obtain sufficient funds to finance that part of the

Trans-Canada gas pipeline which was planned to cross the sparsely populated areas of northern Ontario, the Federal Government in conjunction with the Ontario Provincial Government agreed to put up the capital necessary to ensure that an all-Canadian line would be built.

Probably in no other field of activity involving transportation, other than canal building, has national policy been such a determining factor as in the development of Canada's air transport facilities. The airplane, of course, offers a particularly appropriate solution to such traditional Canadian problems as distance, terrain and resource location. However, while private enterprise, beginning with the era of the "Bush Pilot", has certainly made a contribution to Canada's fast growing air transport system, the role of independent airlines has been virtually confined to a "feeder function" with main-line operations between principal Canadian cities retained as an almost complete monopoly of the publicly-owned Trans-Canada Airlines since it was set up by Act of Parliament in 1937. Participation by the Federal Government has also been a very large factor in the construction of terminal airports and the provision of air-way navigation and safety systems. Thus, although the evolution of Canada's air transport system is by no means complete, it would appear that a national policy backed by public funds will continue to exercise the dominant influence in determining its future character.

The part played in the growth of Canada's road and highway system by public policy is considerably more complex than in the case of the other modes of transport discussed above. Although in the early days of Canadian development both municipal and provincial governments contributed to building of water and rail facilities, the policies which govern the operations of these means of transport have since Confederation

come almost entirely under the control of the Federal Government. The development of these two media has, therefore, been under the influence of policies which are national in scope for many years, and a similar national orientation has prevailed with respect to the more recent growth of air transport and pipelines. Road and highway transportation, on the other hand, has developed in response to a rather different set of circumstances. Under the terms of the British North America Act, jurisdiction over intra-provincial movements was given to the Provincial Governments and in the case of highway transport the consequence has been that public assistance towards the expansion of the country's road system has traditionally been on a provincial rather than a national basis and, inevitably, has tended to reflect provincial rather than national interests. It has, therefore, been within an essentially provincial framework that the motor transport industry in Canada has had to develop.1/

National policies, designed in part to alter this situation, have made their appearance only in recent years in the form of federal assistance to highway building under the Trans-Canada Highway Act of 1949 and the "Roads to Resources" programme which was introduced in 1958. The financial contributions from the Federal Government to these programmes have been substantial. In connection with the building of the Trans-Canada Highway they amounted to over $300 million by early 1960 and a Federal outlay of $75 million is anticipated over the next few years to assist in building resource roads in the ten provinces. However, since neither of these

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1/ The implications of this phenomenon in terms of road-rail competition have been examined at some length in Part I of this volume, and in the special study Truck-Rail Competition in Canada, by D.W. Carr & Associates, to be published in Volume III of this Report.

Federal policies has yet been carried to completion, it is not possible to judge the degree to which they will introduce broader considerations of national concern into the operations of a highway transportation system which developed initially in response to provincial interests.

This brief resumé of the history of governmental participation in the evolution of Canada's transport system serves to indicate the extent to which public policy has used the transportation system as an instrument for promoting the political and economic unity of Canada; it points up also the key role which transportation generally has played in the nation's development. It is, however, the very importance of this transport function and the massive amounts of public assistance to the system that have been involved in its exercise which has tended to obscure the fact that private incentives have also been an extremely important influence on the growth of Canada's transport structure. We must, if we are to obtain an adequate understanding of the complexities of transportation policy in Canada, recognize the fact that the transportation system which has become established in this country is essentially dualistic in nature - reflecting both its function as an instrument of national policy and as a vehicle of private venture operating along the lines of commercial principles. The existence of this situation has meant that national transportation policy in Canada has traditionally had to serve two masters - the dictates of public necessity and the requirements of commercial enterprise. Since the objectives of the former are not necessarily consistent with those of the latter - they are, in fact, often in conflict - the successful execution of transport policy in Canada has never been a simple task. To cope with this dichotomy in the transportation system the Federal Government has customarily attempted, insofar as possible, to minimize the degree of conflict between public and

private interests. In other words, it has attempted to effect policies which fulfil broad national objectives while, at the same time, creating the kind of climate which encourages, or at least does not interfere to any significant extent with, efforts by private enterprise to develop a financially sound and efficient transport system which is responsive to market forces.

It would appear that until relatively recent times the Government has been, broadly speaking, successful in carrying out such a policy.1/ One of the main reasons for this success was, we believe, that the transportation environment within which Government policy operated was, although not confined to one mode alone, nonetheless, essentially monopolistic in character. Water transport, by and large, had a role to play in the system as a whole which was intrinsically limited in scope and, as a result, it tended to complement rather than compete with the railway system which developed in conjunction with it; such competition as did exist between the two modes became relatively stabilized at an early stage on the basis of the significant differences in price and service. Thus, within a framework of transportation policy which offered the prospect of reasonable returns on invested capital, private enterprise was encouraged to undertake the development of an integrated transport system along commercial lines - and whenever there appeared to be gaps in this system relative to national policy objectives they were filled by the provision of public assistance which made certain that the kind of transport facilities which were considered necessary to the national

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1/ The overbuilding of railways during the period 1900-1914 resulted from a general mistaken judgement as to the pace at which the Canadian economy was growing and did not reflect a conflict between public and private interests which federal policy was unable to resolve.

welfare became available. Moreover, because water and rail transport in Canada were basically complementary rather than competitive, public assistance could be given to one or the other as required by national policy objectives with little danger of upsetting the balance between them or distorting the development of the system as a whole. Furthermore, obligations placed upon the carriers, particularly the railways, in return for this assistance did not create significant inequities between shippers or regions since in a monopoly environment the costs associated with the performance of these obligations could be spread over the whole system. In short, prior to the advent of a competitive transportation environment, national transportation policy was able to adjust itself with relative ease to the operations of a semi-public, semi-private transport system based on water and rail, with each mode exercising within its own sphere a virtual monopoly and each making its own special contribution to the enhancement of the national welfare.

The successful implementation of such a transportation policy during the years following Confederation made it possible, in large part, to surmount the most formidable of the obstacles which presented themselves to the evolution of Canadian nationhood. National political and economic unity was established on a firm basis, disparities between regional areas caused by distance and terrain were rendered more tolerable, the Canadian economy was able to develop along lines which were close to but distinct from those of the United States, and the resolution of other problems which seemed so overwhelming in the early days of Canadian history was greatly aided through the construction of a national transportation system which effectively incorporated both public and private initiatives. The financial cost to the public measured in absolute terms has certainly

been very large - running into the billions of dollars. Measured, however, in relation to the size of the problems which had to be surmounted, it does not appear to be excessive.

There have, of course, been errors in judgement made in the application of national transportation policy - just as there has been, at times, a lack of clarity concerning the national objectives to which transportation policy was intended to apply. With the benefit of hindsight all these examples of human fallibility have, on occasion, been given a price tag and used as a source of continuing criticism of Canada's transportation system and the policies which affect its operations. There is a danger, however, that an approach to National Transportation Policy which is excessively preoccupied with its financial aspects may tend to overlook the high national objectives which would not otherwise have been attained; it can also result in a lack of understanding of the complex character of Canada's transportation structure and the problems which beset it. It should be quite apparent that as long as the transportation system is required to perform services which do not reflect commercial incentives, financial assistance from the government will be a necessary concomitant of transportation policy. We would not wish, in other words, to encourage the Canadian public to believe that a country such as ours can expect to obtain the kind of transport facilities, designed to fulfil national policy objectives that transcend commercial considerations, without a continuing outlay of public funds of a considerable order of magnitude. At the same time, however, we would point out that the means whereby this outlay may be kept to a minimum by deploying it in the most efficient and economic manner has been one of the chief concerns of this Commission in the framing of its recommendations as to the National Transportation Policy.

Transportation's New Role in National Policy

We have seen in the preceding section how national transportation policy in Canada has had to accommodate itself to a transportation system which is dualistic in nature - in part an instrument of national policy objectives and in part a commercial enterprise directed towards efficiency and economy. We have made a judgement that, under the conditions which prevailed in a monopolistic environment, the Federal Government was able to devise a transportation policy which was generally successful in carrying out this complex task. The thesis of this Report is, however, that substantial adjustments in national transportation policy are now in order if the nation is to attain a policy which is adapted to the present competitive transportation environment. While the reasoning behind this thesis is expressed in various sections of the Report it would appear desirable, at this stage, to put forward a brief recapitulation of it.

The effects upon the transportation system in Canada of the changes from a monopolistic transportation environment to a highly competitive one has been examined in some detail in Volume I. We have concluded that, in general, the country had benefited greatly from the growth in the system's capacity, efficiency and conditions of service which has been associated with the spread of competition. The development of the trucking industry, for example, has provided the kind of flexible transport services which Canada's growing secondary industry required. Pipelines have made possible the transportation in bulk of oil and oil products overland at a cost considerably below that attainable by any other mode. Air transport has furnished the means of moving men and material over great distances at speeds which no other carrier can approach. Thus, because of inherent advantages which

were reflected in price or service, these new modes have established their claim to carry that portion of total traffic to which they were best adapted; and have done so by taking it over within a relatively short space of time from the older forms of carriage such as water and rail. It is important to note, however, that once this initial take-over process, involving a redivision of existing traffic along more economic lines, became well-established, the growth of the newer carriers has tended to reflect their comparative abilities to obtain a share of the increased demand for transportation services which has accompanied Canada's economic development since the end of World War II. The result has been that through the play of competitive market forces the transportation system as a whole has tended to become increasingly complementary and integrated. In other words, within the new competitive environment there has been, broadly speaking, a significant degree of accommodation between the various modes and what appears to be in the process of evolving is an increasingly balanced transportation system which reflects both the economic advantage of the different carriers and the essential transport needs of the nation.

At the same time, however, as we pointed out in Volume I, the railways have not shared to the same extent as other carriers in the evolution of the transportation system which has accompanied the growth of competition and, moreover, not all areas of the country have derived equal benefits from it. One obvious reason why the railways have not kept pace is that changes in technology and in the nature of the demand for transport facilities have given the newer modes of transport a definite economic advantage over the railways in the carriage of certain kinds of traffic. However, in a dynamic free enterprise economy such changes are continually going on in all sectors of the economy. They are, of course, both desirable

and necessary and if a country is to reap the maximum benefit from them they should be encouraged rather than resisted by public policy. Thus, the preservation of obsolete forms of transport, railway or other, by means of public subsidies cannot be justified on economic grounds and is certainly not, in our view, one of the objectives for which this Commission was set up..

On occasion, however, there may exist a situation where obsolescence is more apparent than real and this we found, in some degree, to be the condition of the railway industry today. In our judgement the evidence is clear that the ability of the railways to compete with other modes of transport has been seriously impaired because of the burden of obligations which they acquired as an instrument of national policy during the years of railway monopoly and which other and newer forms of transport do not carry. A detailed examination of this particular situation has led us to the conclusion that national transportation policy can no longer ignore - as it was able to in the past - the consequences for the transportation system of using parts of it as an instrument of national policy. If the competitive relationship between the various modes is allowed to be affected by non-economic considerations the result will be the misallocation of resources and the distortion of the transportation system as a whole. Such effects, wherever and whenever they occur, must, in our view, be neutralized by appropriate public action.

Thus, our recommendation in Volume I that certain payments be made to the railways was directly related to our estimates of the cost of the burden to which their role as an instrument of national policy has subjected them. It is designed to offset that burden during that period of years which will be required for the railways to adjust their operations

to the competitive environment and to take up their proper position in the transportation system as a whole. This financial assistance, though it specifically concerns the railways, has as its ultimate purpose the improvement of the entire transportation structure by helping to ensure that the railways are given a fair and equal opportunity in the transportation market to realize their full potential and to obtain that share of traffic to which, by nature of inherent advantage, they are entitled. Insofar as this is effected, it will improve the financial position of the railways and thus tend to mitigate those regional inequities in the transportation system which have developed as a consequence of the weakened competitive position of the railways. The fact that at this point in time the railways have been singled out as recipients for financial assistance is simply an accident of history; the principle - applicable to all modes - is that in a competitive environment it becomes an obligation of public transportation policy, whenever a carrier is required to act as an instrument of national policy objectives, to reimburse the carrier concerned for the costs associated with that public function in order that a proper competitive balance will be maintained in the transportation market.

Our views as to the direction which national transportation policy should take in the future do not, of course, conclude with this observation concerning the financial aspect of the burden problem. We have, in fact, been very much concerned in this volume with those other elements in the total picture which have distorted the capacity of particular modes to operate in a way that reflects their appropriate economic position in the transportation system. It was, moreover, pointed out in Volume I that in addition to burdens which should be offset there is a need to remove certain advantages which so-called "chosen instruments" of transportation

obtain as a result of the use which is made of them in the pursuance of national policy objectives; advantages which interfere with the achievement of the sort of fair and equal conditions which we have proposed should prevail in the transportation market. Thus, we will recommend, in the context of our examination of special problems involving the use of transportation, that competitive advantages which accrue to one particular mode as a result of its historic involvement in broad national policy considerations must be eliminated, either by making available to all modes the advantages that hitherto have been reserved to the "chosen instrument" or by finding a non-transport means of achieving the same national policy objective.

Implementation of this recommendation together with the other recommendations which we have thus far proposed would provide the basic conditions to enable Canada to move towards the balanced and efficient transportation system needed to meet the nation's transport requirements. Yet beyond this, we recognize that there are special regional and industrial problems in Canada which, although they involve the transportation medium and have thus assumed the status of "transportation problems", may not be fully embraced in the general framework we have put forward for dealing with the underlying difficulties of the transportation structure itself. These special problems are related to public policy. They are examined in the following chapters of the Report.

Conclusion

The essence of the position we have taken with respect to national transportation policy is that it is no longer possible, as it was in the

monopolistic era of transportation, to treat a particular mode of transport in relative isolation from all others. It is, to us, manifest that in the present situation of competitive coexistence the attainment of an efficient and balanced transport system will require that careful attention be paid to the effects of policies relating to one carrier upon all those other carriers which have become an integral part of the system. The transportation structure, in other words, must be looked at in toto. Only a national transportation policy which adopts such an approach would, we believe, be properly equipped in the new competitive environment to meet the present needs and difficulties of Canada's increasingly complex transport system and thereby enable the system to fulfil national policy objectives and at the same time to develop along commercial and market-oriented lines.

The following chapters will attempt to follow out the logic of our conclusions concerning national transportation policy in its relation to certain regional and other problems. The analysis will be directed particularly towards certain major problems which public policy has customarily sought to meet, at least in part, by means of the transportation system. This does not, of course, imply that we will call into question the national policy objectives themselves. They are not as we have made clear above, within our Terms of Reference. We will, however, attempt to assess the implications of the use of transportation as a means of meeting these problems, as well as the efficacy of the transportation instrument as it operates in the context of the particular conditions associated with each of the special problems. In so doing, it is our intention to suggest ways and means whereby transportation may, if necessary, continue to be used as an instrument of national policy without interfering with what we consider should be the prime objective of national transportation policy - that is, the development of an efficient, balanced and fully adequate transport system.

CHAPTER 8

TRANSPORTATION AS AN INSTRUMENT OF NATIONAL POLICY: THREE CASE STUDIES

For national policy reasons the Government of Canada has over the years assisted certain shippers by bearing a portion of their rail transport costs. Three principal and representative plans by which this has been accomplished are known as the Maritime Freight Rates Act, the "Bridge" Subsidy and Feed Freight Assistance.1/

While the objectives of all plans are similar, the methods of achieving the objectives vary. Under the Maritime Freight Rates Act the Government pays a definite percentage of each shipper's rail transport costs within and out of the designated region. In contrast the "bridge" subsidy authorizes a set amount of money to roll back so-called non-competitive rates on rail movements between Central and Western Canada. The Feed Freight Assistance pays a varying part of the cost of moving a specific commodity, feed grain, from the Prairie Provinces to British Columbia and Eastern Canada.

In this chapter each of these plans is examined and assessed in the light of the criteria develcped in the preceding chapters for the consistent operation of a National Transportation Policy when transportation is used as an instrument of national policy.

1/ There are a number of other plans, both federal and provincial for extending assistance to shippers for particular purposes. They are all similar in some form or other to the principle and processes illustrated in the three selected for examination here. The most recent, the Freight Rates Reduction Act, dealt with in Chapter 4, is an extension of the principle introduced by the "bridge" subsidy, and needs no further treatment here.

1. MARITIME FREIGHT RATES ACT

The changes which have occurred in transportation since the passage of the Maritime Freight Rates Act in 1927 illustrate well how a National Policy which uses transportation to achieve certain ends can have those ends endangered. The objectives which were put forward in 1927 for the policy of transportation rate reduction in the selected Maritime territory are now incompletely being achieved because of the growth of competition. Furthermore, the availability of competitive services in transportation is being inhibited by the partiality of treatment in restricting the assistance to movements by rail.

In some detail we examine below the situation respecting the economic needs of the Atlantic Provinces as set out in selected parts of certain submissions. We do so with two purposes in mind. The first is to examine those aspects of the Maritime Freight Rates Act which are at variance with the objectives of National Transportation Policy as set out in this Report, and to make recommendations for correction. The second purpose is to use the case of the Atlantic Region to illustrate the principle which should guide policy in its use of transportation as an instrument to achieve regional and industrial development.

On the first we have specific conclusions to reach and recommendations to make. On the second we are confined by our Terms of Reference to suggesting, not the level and extent of assistance, but methods of employing it which will, insofar as the use of transportation makes possible, come closest to achieving the objectives of national policy for the Region. Since the two purposes are interacting, it is necessary to treat them to some extent together, leaving the separation of them to the end of the analysis.

National Policy in the Maritime Freight Rates Act

The Maritime Freight Rates Act (17 George V, Ch. 44) became effective on July 1, 1927. It was enacted by Parliament following recommendations made in the Report of the Royal Commission on Maritime Claims (the Duncan Commission). The reasons for the legislation were given in the preamble to the Act:

> "WHEREAS the Royal Commission on Maritime Claims by its report, dated September 23rd, 1926, has, in effect, advised that a balanced study of events and pronouncements prior to Confederation, and at its consummation, and of the lower level of rates which prevailed on the Intercolonial system prior to 1912, has in its opinion, confirmed the representations submitted to the Commission on behalf of the Maritime Provinces, namely, that the Intercolonial Railway was designed, among other things, to give to Canada in times of national and imperial need, an outlet and inlet on the Atlantic Ocean, and to afford to Maritime merchants, traders and manufacturers the larger market of the whole Canadian people instead of the restricted market of the Maritimes themselves, also that strategic considerations determined a longer route than was actually necessary, and therefore that to the extent that commercial considerations were subordinated to national, imperial and strategic conditions, the cost of the railway should be borne by the Dominion, and not by the traffic which might pass over the line; And whereas the Commission has, in such report, made certain recommendations respecting transportation and freight rates, for the purpose of removing a burden imposed upon the trade and commerce of such Provinces since 1912, which, the Commission finds, in view of the pronouncements and obligations undertaken at Confederation, it was never intended such commerce should bear; And whereas it is expedient that effect should be given to such recommendations, in so far as it is reasonably possible so to do without disturbing unduly the general rate structure in Canada: Therefore His Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:"

The Act provides two main advantages to shippers in select territory: (1) a 20 per cent reduction of railway freight rates on certain "preferred movements" within the "select territory", and (2) the treatment of traffic moving over the railway car ferries as if it were all-rail traffic.

Select territory now includes New Brunswick, Prince Edward Island, Nova Scotia, Newfoundland, and that portion of Quebec east of Levis and Diamond Junction to the Quebec boundary and south of the St. Lawrence River.

Preferred movements are of four types:

(a) Local traffic, all-rail, between points in select territory; example, Sydney to Newcastle;

(b) Traffic westbound, all-rail, from points in select territory to other points in Canada; example, Moncton to Montreal via Levis; the reduction applies to the Moncton-Levis proportion of the through rate;

(c) Export traffic by rail and sea, from points in select territory through points in that territory, destined overseas; example Fredericton to Liverpool via Saint John, the rate affected is that applicable from Fredericton to Saint John;

(d) Traffic westbound, rail-and-lake and rail-lake-and-rail, from points in select territory to other points in Canada; example, Moncton to Winnipeg, the reduction applies to the Moncton-Levis or Moncton-Diamond Junction proportion of the through rate.

The Act further provides, by way of clarification, that the following are not preferred movements:

(a) Rail traffic to or from the United States;

(b) Rail traffic eastbound into select territory from other points in Canada;

(c) Import traffic from overseas;

(d) Passenger or express movements.

The prescribed rate reductions are incorporated in the freight tariffs published by the railways. The railways are paid from public funds an amount calculated to be the difference between the tariff tolls on all preferred movements and the normal tolls that would have been effective but for the Act.

Since 1957 the rate reduction has been 30 per cent on the select territory portion of outbound shipments to other parts of Canada. This rate has not been incorporated into the Maritime Freight Rates Act, but has been authorized by annual vote of Parliament. The total payment to the railways in recompense for the rate reduction now exceeds $14 million a year.

The Need for Change in the Act

From the submissions made to us it is clear that there is a conviction in the Atlantic Provinces today that the benefits of the Maritime Freight Rates Act are not now as significant as they appear to have been when the Act came into force. It was stated to us that changes which have taken place since 1927 have made it more difficult for producers in the Atlantic Provinces to reach the markets of Central Canada in competition with industries located closer to these markets. According to the Maritimes Transportation Commission: "The changes referred to were principally two in number: (1) the adverse effects of the growth of truck competition on the competitive position of Maritime industry in the central markets, and (2) the horizontal method of applying post-war freight rate increases."1/

1/ Transcript of evidence, Hearings, September 12, 1960, Vol. 83A, p. 34.

This brings the Maritimes Transportation Commission to the conclusion that "The mechanics of the Act are no longer able, in view of the changes which have taken place in transportation, to carry out adequately the purpose of the legislation".1/ Dissatisfaction with the Act is also evident from other submissions emanating from the Atlantic Provinces.

Several proposals were made to us by Atlantic Provinces interests for the revision of the Maritime Freight Rates Act. All of them were designed to extend the benefits of the Statute. While these proposals differed in detail, they were based on the desire of industry in the Atlantic Region to have its distance from the central Canadian markets minimized in terms of freight rates.

The submission made by the Dominion Steel and Coal Corporation Limited proposed a scheme by which the industry concerned would have "not in excess of rate parity" in the Montreal market with its major competitor. The difference between the rate normally charged by the railways and that arrived at after calculation of the "parity rate" would be paid to the carriers by the government in much the same way as the subvention now paid under the Maritime Freight Rates Act. It would be superimposed by special legislation on the present 30 per cent subvention.

The submission points out that the approach taken "is predicated upon the historical purposes behind the Maritime Freight Rates Act".2/

Another proposal based on the historical purposes of the Maritime Freight Rates Act also contemplates the extension of the current subvention rate. Acadia-Atlantic Sugar Refineries Limited recommended that on

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1/ Ibid., p. 66.

2/ Transcript of evidence, Hearings, September 14, 1960, Vol. 85, p. 14745.

movements of sugar outbound from select territory the present subvention rate of 30 per cent be increased to 100 per cent so that, in effect, the part of the rate attributable to the haul within select territory would be covered in full by subsidy. The Company stated that "this may well be a solution of general application to the transportation problem of Maritimes' industry seeking central Canadian markets".1/

It should be noted that both the foregoing proposals for a revision of the Maritime Freight Rates Act were formulated primarily on the needs of the particular industries advancing them, although it was indicated that the solutions recommended might be generally applicable.

The submission made by the Maritimes Transportation Commission, on the other hand, recommends changes which are intended to apply to industry in the Atlantic Region as a whole.

The MTC brief recognizes that no scheme can be devised which would "ensure each Atlantic Provinces producer the same rate on his product to Central Canada as the rate available to his Central Canadian competitor in that market".2/ The brief recognizes also that a formula designed to reach this objective would be impracticable if it were to apply to all industries in the Atlantic Provinces.

According to the Maritimes Transportation Commission, three objectives must be met by any corrective measures:

> "A valid revision of the Maritime Freight Rates Act must meet the following requirements:
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> "(1) It must be able to bridge the rate gap between Maritime and Central Canadian producers in the important market of Central Canada.

1/ Transcript of evidence, Hearings, November 10, 1959, Vol. 4, p. 410.

2/ Transcript of evidence, Hearings, September 12, 1960, Vol. 83A, p. 71.

"(2) It must do this over time and must, therefore, contain a mechanism which will compensate for rate distortions arising (a) from disparities in the intensity of carrier competition in the two territories and (b) from horizontal percentage rate increases.

"(3) It must not deprive Atlantic Provinces shippers of the opportunity of availing themselves of services and rates of carriers other than the railways."1/

The brief then sets out a scheme designed to meet these objectives. The proposal that emerges is, in brief, that the one per cent Waybill Analysis be used as the basis for comparing the charges paid by Maritime shippers with those paid by their competitors, that from these samples a determination be made of the commodities which move regularly both from the Maritime to the Eastern Regions (i.e., Central Canada) and within the Eastern Region, that from each year's Analysis the over-all average freight charge per hundred pounds be established for all such goods shipped from the Maritime Region, that the over-all average freight charge be established similarly for all such goods shipped within the Eastern Region, that calculation be made of the percentage by which the Maritime average charge must be reduced to equal the Eastern average, and that all shipments from the Maritime to the Eastern Region be eligible for a subsidy of this percentage of the charges actually paid. This device is deemed to meet the first two requirements above; the third is to be met by paying the subsidy either to the shipper direct or to all types of for-hire carriers.

It is to be noted that the subvention proposed is to be superimposed on the present subsidy under the Maritime Freight Rates Act: "the proposal is for a new subvention over and above the present subvention under the Maritime Freight Rates Act and the subvention under that Act is not to be affected".2/

1/ Ibid., p. 67.

2/ Transcript of evidence, Summations and Arguments, February 14, 1961, Vol. 2, p. 8.

Analysis of the Need for Change

The general impression which may have been created by submissions to this Commission is that the chief problems of the Atlantic Provinces arise from transportation disadvantages. While transportation is undoubtedly an important factor in the rate of development of a region, it is not necessarily either the only or the most important one. This is recognized by the Atlantic Provinces themselves: "There are, of course, a number of measures which could be taken in addition to transportation as elements of a national policy to stimulate economic development in the Atlantic provinces or any depressed area".1/

The case for assistance advanced by the Atlantic Provinces rests on twin foundations: (1) Undertakings given at the time of Confederation and confirmed by the passage of the Maritime Freight Rates Act and (2) present and future economic need.

The argument that is developed can be highlighted by the following three quotations:

> "In the respectful submission of the Maritimes Transportation Commission, the situation confronting the Atlantic Provinces today is the same as they faced in the 1920's. That latter situation, in the words of the Duncan Commission, was 'one that can only be dealt with in a broad spirit, and one that for the economic welfare of the Maritimes must be met without delay'."2/

> "Historically, therefore, there is ample precedent for a de-emphasis of distance as a factor in rate making on Atlantic Provinces traffic. The Maritime case for a de-emphasis of distance does not, however, rest on historical precedent alone. It is based equally firmly on the recognition that transportation has a significant role to play in raising the economy of the Atlantic Region to the level of the other regions of Canada."3/

1/ Transcript of evidence, Hearings, September 14, 1960, Vol. 85, p. 14673-4.

2/ Transcript of evidence, Hearings, September 12, 1960, Vol. 83A, p. 75.

3/ Ibid., p. 81.

> "It is the respectful submission of the Maritimes Transportation Commission that, just as in the past transportation has been used as an instrument of public policy in the case of the Maritimes, it should again be so used today as an integral part of any measures which must be taken to eliminate the general income differentials between the Atlantic Provinces and other parts of Canada."1/

It will be noted that the last two quotations imply policies for "raising the economy of the Atlantic Region to the level of the other regions of Canada" and to "eliminate the general income differentials between the Atlantic Provinces and other parts of Canada". Such policies, of course, go beyond the undertakings given at Confederation.

Considerations Respecting the Application of the Act

It might well be said that the Maritime Freight Rates Act should be considered as the instrument by which Canada attempts to give effect to certain pronouncements and obligations undertaken at Confederation. Parliament, as the author of the legislation, has taken it upon itself to prescribe the conditions by which this historic right of the Atlantic Provinces shall be met. In the opinion of this Commission, Parliament must remain the sole judge of whether and to what extent the Act continues to achieve its historic purpose.

The Commission feels, however, that it has an obligation to comment on certain features of the Maritime Freight Rates Act which should be taken into account by Parliament in its continuing assessment of the Statute. These features have to do with the impact and effect which the application of the MFRA assistance has on the transportation industry.

1/ Ibid., p. 81.

Restriction of the Act

It is significant to note that virtually all the comments made to us on the Maritime Freight Rates Act related to those provisions of the Act which apply to traffic outbound from the Atlantic Provinces. In fact, the evidence before us is such as to call into question the necessity of continuing to have all intra-Maritime traffic subsidized on the present basis.

While precise figures were not available to us, there is no doubt that a large proportion of the annual subvention under the Act is now being paid in respect of traffic moving entirely within select territory. If it was, indeed, the intent of the Maritime Freight Rates Act "to afford to Maritime merchants, traders and manufacturers the larger market of the whole Canadian people instead of the restricted market of the Maritimes themselves", then that intent is not being assisted to any significant extent by subsidizing all intra-Maritime traffic. In fact, evidence was presented to us which would indicate that the internal payments made under the Act, which are paid on rail movements only, tend to inhibit the full development of alternate modes of carriage in the Atlantic Region.1/ With this contention we are in agreement.

We are convinced that the development of the trucking industry in the Provinces of Nova Scotia, New Brunswick and Prince Edward Island has now, in spite of the handicap, progressed to the point where the withdrawal of the subvention on intra-Maritime shipments will in general bring

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1/ Transcripts of evidence, Hearings, April 29, 1960, Vol. 59, p. 10603-4 and Hearings, September 12, 1960, Vol. 83A, p. 95.

rail rates to a level which is favourable to the encouragement of traffic. The consequent shift of resources from rail to non-rail investment will be in response to demand for that service from shippers.

The Commission is not unmindful of some of the disturbances in shipping patterns which may be created, should Parliament decide to amend the Maritime Freight Rates Act by eliminating the payment of the 20 per cent subvention on shipments solely within select territory. On the whole, however, these disturbances should be more than offset by the stimulus given to competition. This competition will, over time, confer the same or greater benefits than those now given under the Act to shipments within select territory.

There is one exception at the present time. Our studies have shown that there is as yet no really pervasive competition to railway services on traffic within Newfoundland and between Newfoundland and the Maritime Provinces. Should Parliament decide to eliminate the Maritime Freight Rates Act subvention on shipments within select territory, it is strongly recommended that an exception be made on rail traffic within, and to and from Newfoundland and present select territory until such time as competitive services have developed which are comparable to those available to shippers in the remainder of select territory. With this in mind, it is suggested that the continuing payment of the Maritime Freight Rates Act subvention on rail traffic within Newfoundland and between that Province and the remainder of select territory be again reviewed in ten years time.

Extension of the Act

In Volume I[1/] of our Report we have said, "When transportation assistance is introduced as a policy designed to assist a region or an industry it should be implemented so that there is no distortion introduced into the transportation industry itself. ..... Placing upon one mode of transport a benefit because of regional or industry transport policy is to give it an advantage over its competitors not dictated by efficiency, with consequent over-expansion of the favoured mode, and constraint upon the others."

Recommendations have been made to us not only by the non-participating carriers but, indeed, on behalf of the shipping public of the Atlantic Provinces, to have the Maritime Freight Rates Act subventions apply to all types of carriage. There are sound economic reasons to support the proposal and the chief objection seems to be that it would create insuperable administrative difficulties.

There is no doubt that the extension of the Act to cover movements of goods by all modes of transport will increase the administrative burden. But we do not see that the increase is either insuperable or unduly expensive. It appears that much of the difficulty would be overcome if the provisions of the Act were to apply to any properly licensed public common carrier who submits his claims in a specified manner. Problems of certification of claims require only the usual vigilance and spot checking. Violations of the Act should result in the loss of the privilege of participation. If, as we recommend, the provisions of the

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1/ Page 72 to 73.

Act apply only on traffic moving westward out of the select territory the numbers of participants will be tolerable.

The results of continuing to confine participation under the Act to rail carriers, bears serious consequences both for the allocation of resources in transportation in the Atlantic Provinces and for shippers there.1/

The principles stated in Volume I and elaborated throughout Volume II are brought to the test in this instance. It is our conviction that favouring one mode over others will limit the choices open to shippers and keep at least some rates higher than they would be under effective competition. The effect of the present partiality of treatment is to confine some business to the rails at rates higher than would prevail under conditions of equal treatment.

Extension of the Act and the Position of the Railways

The argument may be advanced that extending participation to all carriers will undoubtedly cause additional hardship to the railways. Although this argument is extraneous to the issue we do not deny its validity. Indeed, we must support it, for it is part of our contention that a proportion of the benefit under the present circumstances inevitably accrues to the carrier and not to the shipper. Our position must be that the Maritime Freight Rates Act was not and is not a measure designed to assist the railways. It was inter alia, designed to prevent the railway from imposing the full burden of its high costs on the shippers of the region. The Maritime Freight Rates Act is not a vehicle for railway assistance.

1/ The special situation in which Newfoundland finds itself and which we discuss in Chapter 9 of this volume makes it appropriate to confine, for the time being, participation under the Act to rail carriers of traffic within Newfoundland and between that Province and the remainder of select territory.

APPENDIX A

Special Regional Assistance

In the introduction to this volume of our Report we drew a clear distinction between the objectives of the National Transportation Policy, which we deem to be efficiency and economy in the transportation system, and the objectives of a National Policy which uses transportation to achieve certain ends. We emphasized that the assessment of national policy objectives for economic development, political unity, social welfare or any other purpose is, in our view, a matter which very definitely is not within our Terms of Reference. We stated further that in regard to such objectives we felt our area of responsibility to be confined to making pertinent observations respecting the effects on the National Transportation Policy of national policies making use of transportation.

We also suggested that, properly applied, transportation may be an effective instrument to use for the pursuit of national policy objectives, particularly where great distances are a limiting factor to balanced national growth.

It is within this framework that we approach the economic case of the Atlantic Provinces for transportation assistance.

The Case for Transportation Assistance to the Atlantic Regional Economy

The submissions from the Atlantic Provinces put forth an argument for transportation assistance on the grounds that the economy of the Atlantic

Region operates below levels of other regions of Canada. They contain an invitation to the Federal Government to eliminate general income differentials between them. They propose that transportation be used as an instrument of national policy as an integral part of any measures to this end.

Apart from the evidence on the economy of the Atlantic Provinces which was presented to us in the submission of the Maritimes Transportation Commission, there is a wealth of other analytical material available from which one can draw the conclusion that the economy of these Provinces lags behind that of Canada as a whole. It is feasible, in the light of this conclusion, to use transportation assistance as one of the means of dealing with this lag.

The Atlantic Provinces themselves proposed that such assistance might be given in respect of their economic position and that it should be in the form of a subvention separate from that under the Maritime Freight Rates Act. While disclaiming scientific accuracy, they set out in the submission of the Maritimes Transportation Commission a method by which the level of such special assistance might be determined. We feel that our Terms of Reference do not include the assessment of the propriety of the assistance level proposed. It is, however, clear that such a level <u>can</u> be determined, if it is beneficial to use transportation as an instrument of national policy in the region of the Atlantic Provinces.

In such a case, consideration should be given to designing the special assistance in such a way as to achieve the optimum result. It was represented to us that, "It seems unlikely that the employment which results from the further development of the resource-based industries, from increased activity in construction, or from growth in the service

trades will be sufficient to relieve the pressure of excess labour in primary occupations, including coal mining, and to provide placement for those entering the labour force with increases in population".1/

It was fully suggested in the evidence presented to us "that one of the major factors creating or causing lower levels of income in the region relative to other parts of Canada has been a lack of growth in secondary manufacturing"2/ and "that transportation might be used as a medium for encouraging the movement of manufactured goods from the Atlantic Provinces to the mass markets of Canada". (Emphasis supplied)3/

Should it, therefore, be deemed advisable to give special transportation assistance to the Atlantic Provinces to overcome economic lag, such special assistance might well be designed to assist the movement of the products of secondary industry where it may have the greatest employment generating impact.4/ It should be practical and administratively possible to define secondary industry for this purpose.

There remains the need for us to reiterate the criteria for such special transportation assistance. We can do no better than to refer again to the principle set out as a guide for policy in Volume I of our Report,5/ "When transportation assistance is introduced as a

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1/ Submission to the Royal Commission on Transportation by the Maritimes Transportation Commission, Vol. 2, Appendix IX, p. 11.

2/ Transcript of evidence, Hearings, September 13, 1960, Vol. 84, p. 14546.

3/ Ibid.

4/ It is worth recording here that the recommendations we have made to extend the provisions of the Act to cover movement of goods by all carriers will materially assist the products of secondary industry by encouraging more competitive truck rates.

5/ Page 72 to 73.

policy designed to assist a region or an industry it should be implemented so that there is no distortion introduced into the transportation industry itself. Placing upon one mode a burden because of regional or industry transport policies will force a shifting of the burden to some shipper unprotected by competition. Placing upon one mode of transport a benefit because of regional or industry transport policy is to give it an advantage over its competitors not dictated by efficiency, with consequent over-expansion of the favoured mode, and constraint upon the others".

2. THE "BRIDGE" SUBSIDY

Linking the major resource regions of Canada together with rail transportation has been a fundamental element of national policy. Because of the geography of Canada this has meant the building of some rail lines across extensive areas where topography was rough, population was sparse and resource potentials seemed limited. One of these areas was in the Precambrian region in Ontario lying north of Lakes Huron and Superior. The transcontinental railway lines have provided an essential overland bridge across this region joining Eastern Canada to the Prairies and British Columbia.

Although construction of these main rail lines across northern Ontario in the last half of the nineteenth century opened the extensive mineral resources of Sudbury and other northern areas for development, there was at that time little expectation that the area from Sudbury to the Lakehead would provide enough traffic to support the construction and operation of the eventual three rail lines that traverse this region. Yet anticipations that the traffic passing over this "bridge" between Eastern and Western Canada would eventually justify its construction were apparently inherent in the massive contributions of capital provided by the Federal Government to assist in building the trans-continental rail lines for operation by private firms. This absorption by the Government of a substantial share of the investment costs reduced the revenue requirements of the railway companies and freight rates could accordingly be established at lower levels than might otherwise have been necessary.

While there has been a substantial growth of traffic originating in this "bridge" region it has not increased as much as in the regions it links. In consequence this Northern Ontario region has been regarded as an unproductive area for traffic. In the period following World War II when shippers became concerned with the effects of rising rail freight rates, this factor received considerable emphasis. After examining it a decade ago the Royal Commission on Transportation reported:

> "Various submissions were made to the Commission as to steps which ought to be taken to lessen the burden of freight rates for the Western Provinces whose geographical location necessitates a haul of traffic inwards and outwards over a long stretch of unproductive or only partly productive territory."1/

The railways were faced at that time with additional revenue requirements to meet their rising costs and the nation had established a traditional responsibility for assuming part of the costs ascribable to overcoming long distances in transportation.

The Royal Commission of 1949 to 1951 recommended that "the cost of maintaining that portion of our transcontinental railway system which serves as a link or bridge between East and West be charged upon the general revenues of the country".2/ Such a step was expected to "be particularly effective as a measure of relief in the case of charges on westbound traffic passing over this bridge".3/

This recommendation was approved by the Government and a bill to so amend the Railway Act was introduced in Parliament in 1951. The

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1/ Report of the Royal Commission on Transportation, 1951, Ottawa, King's Printer, p. 253.

2/ Ibid.

3/ Ibid., p. 254.

bill provided, among other things, for an annual payment of $7 million to the transcontinental railways to cover the cost of maintaining the "bridge". The special parliamentary committee on railway legislation which was convened to study the new bill presented a further amendment designed to require the railways to apply the subsidy to the reduction of rates on freight traffic moving in both directions across the "bridge" trackage. The amended amendment became section 468 of the Railway Act.

Subsidy Payments Formula

The provisions of section 468 now determine the application of the "bridge" subsidy. It authorizes the payment to the Canadian Pacific Railway Company of an amount equal to the annual cost of maintaining the trackage between Sudbury and Fort William on its transcontinental line. It authorizes payment to the Canadian National Railways of an amount equal to the annual cost of maintaining trackage corresponding in extent to the trackage between Sudbury and Fort William on the Canadian Pacific Railway. Subsection two of section 468 states that the Board of Transport Commissioners for Canada shall determine the annual cost of maintaining the trackage and shall fix the extent of such trackage in respect of each company. The maximum amount payable in each year was fixed at $7 million. Subsection four provides that the subsidy payments shall be apportioned by the Board between the companies according to the amounts expended by each on the maintenance of its trackage.

Thus the basis on which the $7 million subsidy should be paid and apportioned between the two railway companies was clearly and specifically established, that is, according to the amount spent by each railway

on maintenance of a certain track mileage in the "bridge" area, approximately 551.5 miles on each railway, since that is the mileage between Sudbury and Fort William on the CPR. However, the basis on which the railways should be required to apply the subsidy towards a reduction of freight rates was not established in the Act.

Rate Reduction Formula

Subsection five of section 468 of the Act provides only that the subsidy paid to the railways shall be applied to a reduction in freight rates applying on traffic moving in both directions across the "bridge", in such manner as the Board of Transport Commissioners may direct. On April 16, 1952, the Board of Transport Commissioners issued Circular No. 272 on the "bridge" subsidy, outlining therein the terms and the method of application the Board intended to use. This Circular states, in part:

> "The Board recognized that numerous difficulties might arise in the carrying out of the terms of the Act, and held a hearing to obtain the views of interested parties. The views thus obtained justify the Board proceeding with the administration of the statute on an interim basis pending further study and possibly some later amendments."

Circular No. 272 also listed the types of traffic to which the reduction would not apply. In effect the Board's decision provided that only through traffic moving under class and non-competitive commodity rates would be considered as eligible for the rate reduction.

The formula devised for the reduction of these freight rates was the result of a compromise. The Board of Transport Commissioners recognized that shippers and consignees in Manitoba, the eastern half of Saskatchewan and Western Ontario west of the Lakehead would reap the

greater benefit if the rate reduction, stemming from the subsidy, was on a cents-per-hundredweight basis. On the other hand, shippers west of the above area would reap a greater benefit by using a percentage as the basis for the reduction in the freight rates. To reconcile these, a formula was developed that provided for part of the reduction to be a percentage of the rate and part to be a fixed sum per hundredweight. The following table provides an example of how the formula has been applied, using a representative basic freight rate of $3.00 per hundredweight.1/

TABLE V

REDUCTIONS FROM STANDARD RATE OF $3.00 PER 100 POUNDS

RESULTING FROM THE "BRIDGE" SUBSIDY

Effective date	Per cent of basic rate	Cents per cwt.	Total reduction in cents per cwt. if basic rate is $3.00 per cwt.
May 1, 1952	2.53 (7.6¢)	5.8	13.4
May 1, 1953	3.5 (10.5¢)	9.5	20.0
Nov. 1, 1955	3.5 (10.5¢)	16.5	27.0
Mar. 1, 1956	3.5 (10.5¢)	9.5	20.0
Mar. 1, 1957	3.5 (10.5¢)	7.5	18.0
Mar. 1, 1959	3.5 (10.5¢)	10.5	21.0
Dec. 1, 1959	4.72 (14.2¢)	15.0	29.2

1/ Note that the cents per cwt. reduction had, by 1959, increased more than had the per cent of rate reduction.

The Application of the Subsidy

The total transcontinental trackage operated by the Canadian National Railways in the "bridge" area is 1,010 miles, compared to the 551.5 miles on the Canadian Pacific. As noted above, however, the CNR can receive the subsidy only on trackage corresponding in extent to that of the CPR.

In allocating the $7 million annually, the Board has apportioned the subsidy on a roughly equal basis between the two transcontinental railways. The following table indicates the relationships between maintenance costs and subsidy payments from the time the "bridge" subsidy was instituted.

TABLE VI

COST OF TRACK MAINTENANCE IN THE "BRIDGE" AREA, AND "BRIDGE" SUBSIDY PAYMENTS TO THE CPR AND CNR ANNUALLY, 1952-59

Year	Canadian Pacific			Canadian National		
	Maintenance costs[1]	Subsidy payments[2]	Per cent of cost	Maintenance costs[3]	Subsidy payments[2]	Per cent of cost[4]
	(millions of dollars)			(millions of dollars)		
1952	4.37	2.09	47.8	3.81	2.06	54.1
1953	5.35	3.47	64.9	3.20	3.53	110.3
1954	4.20	3.57	85.0	3.46	3.43	99.1
1955	4.19	3.51	83.8	3.47	3.49	100.6
1956	5.64	3.48	61.7	3.47	3.52	101.4
1957	5.84	3.36	57.5	3.75	3.64	97.1
1958	5.75	3.65	63.5	3.49	3.35	96.0
1959	5.71	3.83	67.1	3.49	3.17	90.8

1/ Calendar years; costs for 551.5 miles Fort William to Sudbury.

2/ Fiscal years.

3/ Costs for mileage between Capreol and Armstrong were used to calculate these equivalent costs for 551.5 miles.

4/ Relates to per cent of calculated maintenance costs of the 551.5 miles of eligible CNR trackage.

Although the CNR has had relatively lower maintenance costs on its equivalent 551.5 miles of eligible trackage, it has received a higher proportion of those costs from the subsidy than has the CPR. at the same time, the CNR received no maintenance subsidy on its additional 458.5 miles of trackage in the "bridge" region.

Application of the Rate Reductions

The traffic eligible for rate reduction under section 468 became the class and non-competitive rate traffic. As we have shown in Chapter 3 (Table I, et seq.) of this volume, from 1954 to 1959 there was a sharp reduction in the volume of traffic moving under these class and non-competitive rates. This reduction in class and non-competitive rate traffic can be attributed partly to the railways losing some of it to competing modes but mainly to the railways shifting such traffic to competitive rates and agreed charges. This has been the case with traffic moving over the "bridge" also. The net result is that the rate reduction pertaining to the $7 million subsidy has been applied to a diminishing volume of traffic and to the shipments of a diminishing number of shippers. This decrease in volume of the traffic eligible for assistance is indicated by the increase in the amount of the rate reduction of some 118 per cent from 1952 to 1959 (Table V).

Considerations Relative to the Subsidy

In its application the "bridge" subsidy must be considered partly as assistance to a particular mode of transport, the railways, and partly as assistance to particular shippers, those who ship goods

under class and non-competitive rates over the "bridge" rail routes. As provided in section 468, the railways gain no direct benefit from the subsidy since they are together required to reduce certain rates sufficient to offset the combined subsidy received. Yet indirectly the two railways may benefit to the extent that these rate reductions enabled them to hold more of the higher-rated "bridge" traffic that the competition of other modes could otherwise have taken from them.

Another feature of the "bridge" subsidy is the difficulty of allocating the burden of rate reduction between the two railways. There is apparently no way of ensuring that the revenue foregone by each railway in rate reductions is commensurate with the amount of subsidy received by each. Information to show whether one railway carried more of the subsidized traffic and thus bore more of the burden of rate reduction was not obtainable but it will be readily appreciated that such could well be the case.

These features of the "bridge" subsidy have been accentuated by the rapid growth of competition in transportation especially during the latter 1950's. The growth of traffic originating in the "bridge" region has also become a factor, in this respect.

Thus, it became evident to us early in our investigations that the effects of this subsidy should be subject to careful consideration relative to National Transportation Policy. As noted in Chapter 1 of this volume, the objective of such Policy is to seek to create an efficient transportation system. We have also set out there the basic elements required to achieve such efficiency - reliance on competition to ensure the allocation of transportation resources to their most productive uses (or, in the absence of competition, such regulation as

will accomplish the same result) and that public assistance to carriers or users of transportation should be allotted impartially. The examination of the effects of the "bridge" subsidy can be most effectively related to these principles.

Considering the first element - reliance on competition - the reduction of rail rates brought about by the subsidy has adversely affected competing carriers and the allocation of resources in the industry. Seaway shipping and other water carriers were placed at a disadvantage, relative to their former position, when the subsidy was introduced.

The subsidy virtually eliminated the competition of United States rail routes for the East-West Canadian traffic which, it is claimed, had been a moderating influence on rates over Canadian rail lines.1/

Trucking between Eastern and Western Canada has advanced rapidly despite the subsidy.2/ But this was due in large part to technological improvements in trucks, better highways and more effective management. These improvements have been substantial enough to enable the trucking industry to compete in spite of the advantages given the rail carrier by the subsidy. Yet there can be little question that the subsidy has inhibited this growth of truck competition.

As far as reductions in rates are concerned, we are convinced from the evidence compiled that such competition in the transportation

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1/ Transcript of evidence, Hearings, September 22, 1960, Vol. 92, p. 15662-3.

2/ Truck-Rail Competition in Canada, by D.W. Carr and Associates, to be published in Volume III of this Report.

industry has been much more effective in reducing rates than the "bridge" subsidy has. As an illustration of this, when trucks began to carry fresh meat from the West to Eastern Canada the rail rate from Winnipeg to Toronto fell from $2.89 a hundredweight ($3.09 without the "bridge" subsidy reduction) to $2.00.1/

The second element in attaining efficiency in transportation is that public assistance to carriers or users of transportation should be allotted impartially. The "bridge" subsidy falls short on many counts with respect to this. If such assistance is desirable it should apply to all commodities and all modes of transport. Yet, as we have seen, it applies only to rail transport. It applies only to the small and diminishing volume of traffic shipped under class and non-competitive rates. The growing volume of traffic moving under competitive rates or agreed charges receives no subsidy benefit. It applies only to the diminishing number of shippers who ship this traffic. In addition, under the legislative requirements implementing the subsidy it seems improbable that an equitable method of applying the subsidy could be devised for the impartial allotment of the subsidy between railways, or for the impartial sharing of rate reductions between railways. In these circumstances, the subsidy is not only administratively difficult to implement but it has become increasingly illogical and unfair.

Another inequitable feature that can be attributed to the subsidy is found in its effects on interregional competition. Public assistance to one group or region should avoid substantial disadvantages for other groups or regions. An illustration of this was found in the effect of the subsidy

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1/ Tariff CTC 685, CFA 103-T.

on the market relationships in the Prairie market. Shippers in British Columbia had found it more difficult to compete with Eastern Canada for the Prairie market as a result of the subsidy. British Columbia shippers contended before us that they too had a vast unproductive region to traverse in moving their products to the Prairies. The "bridge" subsidy it was claimed constituted unjust discrimination against shippers in British Columbia shipping to that territory.1/

Another significant consideration is whether the "bridge" region can still be validly called an unproductive region. The basic justification for the subsidy lay in this concept - that the local traffic was inadequate to support the rail lines in the area, that the burden of support must be borne by the through traffic, and that, this burden being excessively heavy, assistance was necessary. Yet there are many areas in Canada through which transcontinental and other main lines pass where the local traffic is no greater than in this Northern Ontario area.

But whatever its situation may have been when the subsidy was established, we are convinced that the substantial improvement in the productivity of the region since then, no longer justifies its being viewed as an "economic desert". Our investigations have shown that within the "bridge" area itself (Sudbury to the Lakehead and Armstrong) there has been considerable economic development since 1951. The population rose from 138,000 in 1951 to 178,000 in 1956. When the 1961 census figures are available, it is expected that the 225,000 mark will have been passed. Gross value of production of the industries located there has shown

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1/ Transcript of evidence, Hearings, February 23, 1960, Vol. 39, p. 6305 and June 6, 1960, Vol. 76, p. 13469.

marked increases. For instance, the value of its minerals rose from $5.3 million in 1951 to $32.9 million in 1958; its pulp and paper from $103 million to $110 million; its sawmill output from $4.0 million to $11.3 million; its other woods operations from $38.2 million to $40.7 million and its manufacturing from $107.4 million to $123.2 million. With a total value of production of roughly $250 million or more, and substantial further growth in prospect, there can be little warrant for continuing to consider this area as uniquely barren or unproductive.

Finally, the "bridge" subsidy is basically inconsistent and inequitable in its application. It discriminates between railways in the proportions of total track maintenance costs paid. It discriminates, in its related rate reductions, among shippers and commodities, giving assistance to a few rather than impartially to all. It discriminates among modes of transport with resulting misallocation of resources and lessened efficiency. Unless rate reductions on the eligible traffic moving over the "bridge" on each railway happened to be equal in total value, it would also discriminate in the amount of rate reduction load that each railway is called upon to carry.

In spite of these difficulties inherent in its application the Board of Transport Commissioners has made every possible effort to administer this section of the Railway Act in a fair and proper manner. It might be that the subsidy could be applied with fairness either to the cost of maintenance of trackage or to the reduction in freight rates. It cannot be applied equitably to both at the same time under existing provisions. While such difficulties in administering a policy may not, by themselves, warrant its abolition, we are constrained to record that

the Board has been assigned a most difficult task in the administration of the "bridge" subsidy.

In brief, the "bridge" subsidy has adversely affected competing carriers. Yet the evidence indicates that such competition would be more effective in reducing rates than the subsidy has been. The subsidy is not impartial in the assistance given to carriers or to users of transportation. In fact, it is discriminatory and inequitable in its application to both. It may give unfair market advantage to some regions over others. It appears inappropriately applied to a region with production and prospects as great as the Sudbury-Armstrong-Lakehead region when considered in relation to other areas in Canada. It is a most difficult policy to administer in view of the discrimination and unfairness inherent in its application.

In the light of these considerations we recommend that the "bridge" subsidy be abolished.

3. FEED FREIGHT ASSISTANCE

The movement of feed grains and certain other feed products from the Prairie Provinces to Eastern Canada and British Columbia is assisted by the payment of a federal subsidy from the Appropriations Fund. This subsidy is paid to the consignee feed dealers or brokers. To obtain it, these merchants must submit claims certifying that the full benefit of the subsidy has been passed on to the livestock or poultry feeders who buy the grain for feeding. In practice, feed dealers quote such feed prices on the basis of "government subsidy already deducted".

Feed freight assistance began as a wartime measure to aid farmers in procuring Prairie feed grains in greater quantities and to keep down their costs of production so that war needs for meat and poultry products might be met. The Federal Government in January, 1941, agreed to pay one half of the regular freight charge on feed moved to the eastern provinces provided the provincial government concerned paid the remainder of the freight costs. Ontario was the only province to take advantage of this offer, although the Maritime Provinces had been very anxious to have part of the freight costs removed because of the high cost of moving feed grains from the Prairie Provinces to the extreme east of the country.[1/]

1/ Debates, House of Commons Session 1950, Vol. IV, p. 3559.

In the fall of 1941 representations were made to the Federal Department of Agriculture by certain provincial governments in Eastern Canada that feed supplies were insufficient to meet requirements. It was urged that the Federal Government take more action to assist eastern farmers to obtain western feed grains and mill feeds at prices which would permit them to maintain livestock and poultry production. Price controls, which had been instituted in the fall of 1941, were also a factor in limiting their supplies.

On September 25, 1941, the Minister of Agriculture recommended to the Privy Council that he be authorized to pay one-third of the regular freight charges on carload lots or steamship cargoes of western feed grains and mill feeds shipped after September 30, 1941, and distributed as feed before July 1, 1942, under authority of The War Measures Act. To qualify for assistance this feed grain had to be loaded in Port Arthur or Fort William for shipment to destinations in Eastern Canada and it had to be used exclusively as livestock feed in Eastern Canada.

This arrangement, authorized by P.C. 7523 of September 25, 1941, soon proved to be unworkable. Since the amount of the assistance was lowest for water transport, buyers showed a preference for ordering their supplies by rail from the Lakehead in the quantities they required from day to day. A general dislocation of existing trade distribution facilities occurred. The scheme tended to divert the feed grain traffic away from the more economical mode of transport - the lake vessel.

The result was that, on October 16, 1941, the Minister of Agriculture placed another report before the Committee of the Privy Council stating that certain provincial governments had asked for help for their livestock feeders in obtaining western feed grains and mill

feeds at prices which would permit them to maintain production to meet wartime requirements. This second report noted also that the fullest use could not be made of the feed involved when shipped by water to port terminals; that the disposition of such feed was limited insofar as consumers were concerned because the former Order in Council did not apply to mixed car movements nor with uniform equity to local movements and that consequently it dislocated existing trade distribution facilities; and that because of difficulties in administration and accounting in applying the freight assistance policy on a direct "one-third of actual transportation costs" basis, it would be preferable to pay such assistance on a "more uniform and more readily calculated basis".

Accordingly, this report recommended that the Minister of Agriculture be authorized to pay freight assistance on western wheat, oats, barley and rye, on bran, shorts, middlings and on Nos. 1 and 2 feed screenings, transported by rail or boat from Port Arthur, Fort William or Armstrong to destinations in Canada east of there, if distributed as livestock feed for Canadian livestock or poultry before July 1, 1942. The rate of assistance was to be $4.50 per ton when the destination was within the Montreal freight rate zone. The Montreal rate zone then included nearly all of the Province of Ontario east of the Lakehead and up to the Ottawa River, as well as Quebec points slightly east of Montreal. For destinations beyond the Montreal zone the assistance was to be increased to cover also the total additional rail freight charges on a through carlot basis. The Committee of the Privy Council concurred in these new recommendations and they became operative under P.C. 8067 of October 20, 1941. They replaced those of Order in Council P.C. 1941-7523.

The new subsidy plan was better adapted to market and transportation conditions than the former plan of a month earlier. It was easier to administer and less disruptive of established channels for feed grain movements. With modifications from time to time to extend its application or to adapt the assistance to changing conditions, the new scheme as defined in P.C. 1941-8067 has been in effect from that time on.

Yet it should be noted that both the September and October plans provided for the assistance to end by the following June 30, 1942. For a number of years thereafter the subsidy was on a temporary basis, subject to Parliamentary approval each year. Later, however, it became accepted by Parliament as a relatively permanent policy although expenditures are still made out of the Appropriations Fund.

The scope of this freight subsidy plan for feed grains was later extended to include British Columbia and Newfoundland.1/ Its total cost to the Federal Treasury in the 1960-61 fiscal year was almost $20 million, and involved the movement of 2.5 million tons of feeds, distributed by provinces as shown in Table VII.

TABLE VII

FEED FREIGHT ASSISTANCE, YEAR ENDING MARCH 31, 1961

	Volume	Assistance paid
	(tons)	($)
Ontario	1,043,604	4,228,269
Quebec	992,693	7,900,151
New Brunswick	85,528	146,310
Nova Scotia	147,604	2,132,463
Prince Edward Island	28,364	433,866
Newfoundland	19,510	503,805
British Columbia	223,665	1,842,374
Total	2,540,968	19,184,242

1/ See Appendix A, p. 248, for consolidation of Orders in Council covering feed freight assistance as it applied up to May 9, 1960.

Application of the Subsidy

Broadly, the feed freight assistance contributes in varying amounts to equalizing the cost of Prairie feed grains used for livestock and poultry feeding in other areas across Canada. For most of the points in Ontario east of the Lakehead, and for some in Quebec,[1] the subsidy on rail shipments is in general $5.00 a ton, in other words, less than the freight rate from the Lakehead.[2] For British Columbia the subsidy covers the freight rate less $5.00 a ton, in general, for approved feed grain shipments from the Prairies and the Peace River area to mainland British Columbia.

For areas outside of these two zones the subsidy normally covers a larger proportion of the freight charges. Thus for the Maritimes and Newfoundland the subsidy usually covers all of the additional freight charges east of the Montreal zone. Similarly, in British Columbia the full additional coastal water carlot shipping charges are paid for coastal shipments beyond railhead.

This, in broad terms, illustrates how the feed freight assistance is applied. To this general application there are, of course, many exceptions related to alternative water movements, shipments partly by rail and partly by water, particular freight rate conditions, outlying

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1/ This area is defined in the pertinent Order in Council as the Montreal freight rate zone, but the boundaries of this zone are not now precisely determined. In the application of the subsidy this zone now comprises the territory east of the Lakehead in which the freight rate is the same as the rate from the Lakehead to Montreal. This territory in 1961 included points from about Longlac, Ontario, east to Levis, Quebec, but it excluded points like Sherbrooke, Quebec, for example.

2/ Subsidy rates quoted are those in effect in 1960. Some of these have been increased since then.

areas in Northern Ontario and Quebec, and many others. General freight rate changes from time to time have also affected the application of the subsidy and it has been modified several times to adjust for such changes. In May, 1960, for example, the assistance rate on all-water movements of feed grains to the Maritimes was reduced to $11.00 a ton; formerly it had been the same as for rail shipments.

The contribution of the subsidy in relation to total transportation charges on western feed grains moving to Eastern Canada is indicated, for 1960, in Table VIII, for various transportation routes that may be used.

TABLE VIII

FEED FREIGHT ASSISTANCE AS A PERCENTAGE OF FREIGHT CHARGES, 1960

Destination	All-rail routing	Ex-water		All-water routing
		Via	Per cent	
St. John's	82	-	-	-
Halifax 1/	71	Prescott	84	150
Truro 1/	71	Prescott	84	-
Truro	-	Halifax	100	-
Middleton	72	-	-	-
Port Williams	72	-	-	105
Moncton	70	-	-	-
Shediac	-	-	-	145
Pointe du Chêne	-	-	-	145
Rimouski	70	Quebec	106	-
Compton	56	-	-	-
Nicolet	52	-	-	-
Berthierville	46	-	-	-
St. Hyacinthe	47	Montreal	100	-
Montreal	38	-	-	100
Prescott	38	-	-	160
Ottawa	38	Prescott	80	-
Toronto	38	-	-	167
Goderich	38	-	-	260
Stratford	38	Goderich	110	-

1/ In 1961, competitive rates were instituted for these movements and altered these relationships.

In the case of British Columbia, the subsidy on feed shipments contributes about the same proportions. From Calgary to Vancouver, for example, it covered about 62 per cent of the freight charges in 1960.

Effects of Feed Freight Assistance

As could be expected with a subsidy which eventually became fitted, in its application, to a changing structure of transportation and a changing freight rate pattern, numerous inconsistencies of application developed in the feed freight subsidy. Numerous instances of these have shown up in the course of our investigations. Some of them are related to the difficulties of administering a subsidy of this kind in such a way that it will, for example, encourage the lowest cost carriers to be utilized, provide an equitable distribution of assistance among producers and permit prompt adjustments to the rapidly changing transportation environment.1/

Yet while these administrative difficulties are inherent in subsidies of this nature, our concern is primarily with the effects of the subsidy on National Transportation Policy. In this respect the feed freight subsidy, like others that we have noted, has certain features which operate against efficient use of transportation resources. It discriminates, for example, against highway transportation. Only in the case of the Bay Ports and certain Great Lakes points can the subsidy be used to assist the furtherance of grain shipments to consignees by truck.2/ Elsewhere

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1/ In some areas, for example, agreed charges have recently been instituted for part of the haul, thereby disturbing the former pattern of movement and realigning the incidence of the subsidy.

2/ It was also on feed grain shipments from these ports that the railways instituted agreed charges.

the subsidy that might remain after rail or water charges are paid and could be applied to truck haulage, is normally not appropriated. Truck competition for such feed grain haulage is thereby inhibited and transportation resources tend to be diverted from their most productive uses.

Shipments of feed grains to British Columbia move under domestic commodity rates. For many years, until July 1, 1951, the rate on grain for domestic consumption from Calgary to Vancouver was 30 cents per hundredweight. By July 31, 1959, the rate had risen to 70 cents, or 233 per cent above the 1950 rate. This has since been rolled back to 66 cents. Unlike shipments to Eastern Canada, these feed grain shipments to British Columbia do not benefit from Crowsnest Pass grain rates applicable to certain domestic shipments. It would appear that the increases in the feed grain freight rates to the West Coast have been supported by the existence of the feed freight subsidy and especially by the particular terms of its application. The regulations provide that the feed must move overland by rail and over routes in Canada all the way. There is no subsidy if trucks are used; nor can the threat of lower cost routings through the United States be used to moderate the freight rates. The subsidy makes the feed grain movement captive to the rails over land. On the other hand, because the shipper pays only a flat $5.00 per ton (basis Calgary origin) no matter how high the freight rates go, there have been no complaints of the rates being unjust or unreasonable. In these circumstances, the subsidy has tended, as the rates increased, to become more of a subsidy to a particular mode rather than to the livestock feeder.

It is significant also for the use of transportation resources that the effect of the subsidy has been to encourage the haulage of raw materials rather than the more finished products. In this respect the

effects of the subsidy are extensive. Some examples to illustrate this have been compiled in Table IX, Comparison of Shipping Charges (Appendix A, p. 251). These point to the tendency of the subsidy to encourage shipments of feed grain rather than dressed meat or, in some cases, livestock. The examples shown are made as comparable as possible by having the freight costs apply respectively to the amount of grain required to produce 100 pounds of gain in live animals; 100 pounds of live animal; and the carcass equivalent of 100 pounds of live animal.1/

This indicates, for instance, that when the freight charges for moving 100 pounds of live cattle from Moose Jaw to Montreal are $2.20, for moving 51 pounds of beef carcass (equivalent to 100 pounds live) are $1.80, and for moving 500 pounds of feed (enough to produce 100 pounds gain in live cattle) are $2.25 without feed freight assistance but only $1.00 with the subsidy, then evidently the subsidy tends to make it preferable to transport the feed rather than the beef or the livestock.

Examination of the data in Table IX (p. 251) also indicates that, considering only the transportation factor, the feed freight assistance has been instrumental in making it cheaper to ship feed grain to Nova Scotia rather than to transport pork or beef or livestock there from the Prairie Provinces. It has made it preferable to ship feed for cattle to the Montreal area rather than ship the beef or livestock. It has made it preferable to ship feed for cattle to the Stratford area rather than to ship beef. It has made it less costly to produce pork, eggs and poultry products in the Vancouver area than to ship them from

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1/ For example, eastbound freight rates for meat are based on the rate for live animals to Winnipeg (for slaughter) and the carcass equivalent from Winnipeg to eastern destination.

Calgary. In all of these instances it would have been more favourable, under current rates, to ship the livestock products from the Prairies to the consuming areas concerned, in the absence of the feed freight subsidy.

In the case of pork, with or without the feed freight assistance it would have cost less to feed western grain in the Montreal area than to ship the hogs or pork from the Prairies. In this instance, the feed freight assistance has no effect as far as location of production is concerned. A similar situation would prevail with respect to hogs in the Stratford area. It would also have been preferable even without the subsidy to ship the western grain from Yorkton to Stratford rather than live cattle ($1.95 for feed versus $2.10 for cattle). To illustrate the changing pattern of freight rates, the relation may be noted between the cost of shipping meat (pork $1.75, beef $1.55) and the cost of shipping livestock ($2.10). The inauguration of refrigerated truck service from Alberta to Eastern Canada in 1959 brought the freight rates on meat down well below the rate for livestock.

In addition to these distortions injected into the movements and transportation cost relationships of these raw feed materials and final meat products, there is also to be considered the distortion of relationships among various feed inputs. For instance, when feed barley sells for $44.00 per ton at the Lakehead and the freight charges to Montreal bring the price to approximately $49.25, the feed subsidy on transportation would reduce the Montreal price to $44.25 per ton. In these circumstances, United States corn could probably be purchased at $46.50 per ton, duty paid Montreal. Thus to the extent that barley and corn are substitutes for each other in feed rations, the feed freight assistance tends either to keep out United States corn or to keep the

price of barley up, or both. On the other hand, it seems to us that the subsidy has stabilized the supplies of feed grain for livestock feeders and may thereby have reduced somewhat the price uncertainty faced by these farmers. Yet while there has been a tendency for feed grain prices to fluctuate somewhat less than prices of the concentrates and other additives now included in feed mixes,[1/] grain is one of the least costly ingredients of a commercial ration. As a result, the subsidy benefit when spread through the cost of the complete feeds, many of them relatively high in cost, is diluted in its significance to the feeder.

These effects of the subsidy in minimizing the risk of short supplies and reducing and stabilizing prices of feed grain have probably enabled eastern Canadian and British Columbia feeders to develop and plan their future programmes better. Because of this, at least in part, feeders have come to rely on western grains, even to the point of switching considerable acreages previously devoted to local production of feed grains to grasses for pasture and ensilage. Yet, while the reduction of risk is highly important in any enterprise, in this case it may well have been gained as effectively by using the annual $20 million subsidy in the construction of grain storage warehouses strategically located in the feeding areas, where dependable supplies could be maintained as required.

Consideration of the effects of the feed grain subsidy would not be complete without an examination of the notable changes and trends in the production of livestock and feed grain crops in those regions where

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1/ The grain cost is in the neighbourhood of $45.00 to $50.00 per ton while the complete commercial rations sell at about $80.00 per ton. But grain comprises more than 50 per cent of most feed mixes, and runs to 80 or 90 per cent or more for important volumes.

the subsidy has application. These changes are set out in tables and summaries relating to the various regions in Appendix A, Data Pertinent to the Study of Feed Freight Assistance, page 253. We are convinced that the subsidy has contributed substantially to many of these changes.

Considerations Relative to the Subsidy

It has not been possible in this brief assessment to examine all of the extensive implications of the feed grain subsidy for transportation and resource allocation in Canada. But it is apparent from our investigations that this should be the subject of much more, and continuing, study to remedy and prevent its adverse effects on transportation efficiency and to relate the burgeoning effects of this policy to its objectives.

The subsidy, being tied primarily to rail, has inhibited the movement of feed grains by lower cost water carriers. With a few exceptions, the subsidy has prevented the growth of rate competition by trucks in the movement of feed grains. It has largely eliminated the moderating effect on rail freight rates of the competition of United States railways. It has stimulated the movement of raw materials (feed grains) at the expense of weight-losing finished products (dressed meat and livestock). All of these adversely affect the efficiency of the use of transportation in Canada and the allocation of transportation resources. It may be noted, however, that the growth of competition by long-haul trucking has offset some of these adverse effects. As a result of improvements in refrigerated trucking, better roads and sturdier vehicles, the costs of dressed meat transport have been reduced. In

spite of the feed freight assistance it is becoming more and more advantageous to raise and slaughter livestock in Western Canada and ship the dressed meat to Eastern consuming areas than to ship the Prairie feed grains for livestock feeding in the East.

The subsidy has not been, and seems unlikely to be, successful in eliminating the long-standing shortage of farm animal protein in the Maritime Provinces. Per capita meat output there is now less than when the policy was introduced. But the production of poultry products in the Maritimes has expanded greatly and this can be attributed, in part at least, to the subsidy benefits. On the other hand, in Eastern Canada production of feed grains has declined sharply since 1941 and this can also be related partly to the subsidy. At the same time, feed freight assistance has widened the market for Prairie feed grains.

Overall it would appear that the subsidy discriminates in favour of the livestock and poultry producers in Eastern Canada and the feed grain producers in Western Canada. Conversely it discriminates against the livestock and poultry producers of Western Canada and the feed grain growers in Eastern Canada. In evidence presented before us, the Ontario Federation of Agriculture stated that the feed freight assistance is effective in keeping Ontario-grown corn out of the Eastern Canada market east of Montreal and that prices have been artificially depressed.1/ The Federation asked for treatment of Ontario grains similar to that received by Western grains. In this respect, we cannot accept the principle that a new subsidy should be instituted in order to offset the effects of an old one.

1/ Transcript of evidence, Hearings, March 15, 1960, Vol. 43, p. 7398.

The economic environment has altered greatly since the feed grain subsidy was first inaugurated. It is significant that with the extensive mixing of high-cost concentrates, antibiotics, vitamins, etc., in feeding rations, which has developed in recent years, the relative contribution of the subsidy to the farmer-feeder's costs has been greatly diluted. The benefits to the farmers have been reduced also by the shifts in the incidence of the subsidy over time - part going to transporters in higher rates, part to dealers in higher prices and so on. The location of the comparative advantage in livestock and feed grain production has also shifted markedly since 1941 as a result of the mechanization of agriculture and other technological improvements in the industry. Markets for animal protein products have also changed, with export markets much less significant and domestic markets more highly concentrated in Central Canada.

These major changes in the environment of agriculture, transportation and other aspects of the economy warrant a reconsideration of the objectives of the subsidy and of its effects. Its World War II objectives, to ensure an adequate supply of meat and poultry products for wartime needs, no longer apply. Moreover, the reasons for continuing the policy since that time have not been clearly defined and the limits of its application have consequently been uncertain. Without such clearly defined application its administration has become correspondingly difficult and, in many cases, based on temporary expedients.

Our recommendations with respect to feed freight assistance are made on the basis of the above considerations.

1. The subsidy should not be restricted to rail and water carriage.

2. The assistance rate should not be higher than the freight rate available from the least-cost carrier, no matter which mode of transport nor which routing is actually used.

3. The assistance rates on shipments to British Columbia should be based on the same formula as that used for Eastern Canada.

4. The Federal Government should make a detailed re-assessment of the feed freight assistance policy in order to determine whether or not in its present form it is still benefiting Canadian agriculture to the greatest possible extent, or whether assistance could be more effectively applied to, for example, additional storage capacity in the feeding areas or some other form of aid.

APPENDIX A

Regulations Respecting the Payment of Freight

Assistance on Western Grains and Millfeeds

Shipped Into Eastern Canada and British Columbia 1/

Eastern Canada

1. The Minister of Agriculture is authorized to pay freight assistance on:

(a) Western wheat, oats, barley, rye, wheat bran, wheat shorts, wheat middlings, No. 1 Feed Screenings and No. 2 Feed Screenings, shipped or transported by rail or boat from Fort Churchill, Manitoba, Port Arthur, Fort William or Armstrong, Ontario to destinations in Canada east thereof and distributed for use exclusively as feed in Canada for Canadian livestock or poultry:

(b) wheat bran, wheat shorts and wheat middlings milled in Western Canada, or milled in Eastern Canada from Western wheat shipped or transported from Fort Churchill, Manitoba, Port Arthur, Fort William or Armstrong, Ontario to port elevators or flour mills in Canada east thereof when such bran, shorts or middlings are distributed from the manufacturing mill for use exclusively as feed in Canada for Canadian livestock or poultry:

2. (1) The payment of freight assistance authorized pursuant to section 1 shall be as follows:-

(a) on all rail shipments to destinations in Northern Ontario the payment shall be the actual carlot rail freight charges but not exceeding $5.00 per ton:

(b) on all shipments to destinations in Ontario, except Northern Ontario, the payment shall be $5.00 per ton:

(c) on all shipments to destinations in Quebec and Newfoundland, and on shipments by rail from Western Canada, Ontario or Quebec, to destinations in New Brunswick, Nova Scotia and Prince Edward Island, the payment shall be:-

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1/ As authorized by Order in Council P.C. 1958-1628, dated the 27th day of November 1958 and effective the 1st day of December 1958, as amended by Order in Council P.C. 1959-61, dated the 22nd day of January 1959, effective that day, as amended by Order in Council P.C. 1959-984 dated the 30th day of July 1959 and effective August 1st, 1959, as amended by Order in Council P.C. 1960-564 dated the 29th day of April, effective May 9th, 1960, as amended by Order in Council P.C. 1960-596, dated the 3rd day of May 1960, and effective May 9th, 1960.

(i) where the destination is within the Montreal freight rate zone - $5.00 per ton;

(ii) where the destination is beyond the Montreal freight rate zone and has a through carlot rail freight rate from Fort William, or a combination rate at time of shipment composed of the rate from Fort William to the Montreal freight rate zone plus the lowest local rate from a point in the Montreal freight rate zone to destination, less than 96 cents per hundredweight - $5.00 per ton plus the per ton charges calculated in accordance with subsection (2);

(iii) where the destination is on the lines of the Quebec Central Railway Company, with the exception of Daaquam and Lac Frontière - $5.00 per ton plus the per ton charges calculated in accordance with subsection (2);

(iv) for other destinations - $7.00 per ton plus the per ton charges calculated in accordance with subsection (2);

(d) on all shipments by boat from Ontario or Quebec to destinations in New Brunswick, Nova Scotia or Prince Edward Island, the payment shall be $11.00 per ton.

(2) The per ton charges referred to in paragraph (c) of subsection 1 shall be based on the lower of the following:-

(a) the remainder of the through carlot rail freight rate from Fort William to destination in excess of the through carlot freight rate to the Montreal freight rate zone; or

(b) the lowest local carlot freight rate from a point in the Montreal freight rate zone to destination.

British Columbia

3. The Minister of Agriculture is authorized to pay freight assistance on:

(a) Western wheat, oats, barley, rye, corn, No. 1 Feed Screenings and No. 2 Feed Screenings, wheat bran, wheat shorts and wheat middlings, shipped from points of origin in the Provinces of Alberta, Saskatchewan, Manitoba and that part of British Columbia known as the Peace River District, to destinations in British Columbia and distributed for use exclusively as feed in British Columbia for Canadian livestock or poultry;

(b) wheat bran, wheat shorts and wheat middlings milled in British Columbia from Western wheat, shipped from points of origin as designated in paragraph (a), and distributed as designated in paragraph (a):

4. The payment of freight assistance authorized pursuant to section 3 shall be as follows:-

(a) on rail shipments, $5.00 per ton less than the lowest of the carlot short line rail freight charges through Canada from Calgary, Edmonton or the point of origin.

(b) on combined rail and coastal water shipments, the freight assistance designated in paragraph (a) plus the coastal water carlot shipping charges, provided that if the final destination is served by rail the freight assistance shall be based on the through rail rate.

5. On all grains and feeds shipped and distributed in accordance with the provisions of this Order, evidence satisfactory to the Minister must be produced to show that the sale price to consumers of such products has been reduced by and takes into account the payment of freight assistance as herein prescribed.

Comparison of Shipping Charges

TABLE IX

COMPARISON OF SHIPPING CHARGES ON FEED GRAIN, LIVESTOCK, MEAT AND EGGS[1/]

Area and routing		Feed, without assistance (for 100 lb. gain, live)	Hogs live	Cattle live	Meat live equivalent	Feed, with assistance (for 100 lb. gain, live)
		(in dollars per 100 lb. live equivalent)				
Yorkton-Truro (Feed, via Lakehead and Prescott)	hogs	4.38	2.41		2.45	1.28
	cattle	5.48		2.41	2.10	1.60
Moose Jaw-Montreal (Feed, lake from Fort William)	hogs	1.80	2.20		2.10	0.80
	cattle	2.25		2.20	1.80	1.00
Yorkton-Stratford (Feed via Goderich)	hogs	1.65	2.10		1.75	0.65
	cattle	1.95		2.10	1.55	0.70
Calgary-Vancouver	hogs	2.65	1.25		1.15	1.00
	cattle	3.30		1.25	0.95	1.25
Eggs:			Eggs:			
Calgary-Vancouver (30 doz.)		1.00	0.87			0.35

1/ The data used in the calculations for Table IX were those applicable in early 1960. The feed-gain and other conversion rates for livestock and poultry and the applicable freight rates used in these calculations are as follows:

Conversion Rates

400 lb. feed grain required to produce 100 lb. gain in live hogs
500 lb. feed grain required to produce 100 lb. gain in live cattle
150 lb. feed grain required to produce 30 doz. eggs

62.5 lb. pork carcass is equivalent to 100 lb. live hog
51 lb. beef carcass is equivalent to 100 lb. live cattle

Freight Rates

FEED:	Moose Jaw to Lakehead	20 cents per 100 lb.
	Yorkton to Lakehead	19 cents per 100 lb.
	Lakehead to Prescott	16½ cents per 100 lb.
	Prescott to Truro	74 cents per 100 lb.
	Lakehead to Montreal	25 cents per 100 lb.
	Lakehead to Goderich	10 cents per 100 lb.
	Calgary to Vancouver	66 cents per 100 lb.
HOGS AND CATTLE:	Moose Jaw to Winnipeg	70 cents per 100 lb.
	Yorkton to Winnipeg	50 cents per 100 lb.
	Moose Jaw to Montreal	$2.20 per 100 lb.
	Yorkton to Truro	$2.41 per 100 lb.
	Yorkton to Stratford	$2.10 per 100 lb.
	Calgary to Vancouver	$1.25 per 100 lb.
MEAT:	Winnipeg to Truro	$3.09 per 100 lb.
	Winnipeg to Montreal	$2.22 per 100 lb.
	Winnipeg to Stratford	$2.00 per 100 lb.
EGGS:	Calgary to Vancouver	87 cents per 30 doz.

Data Pertinent to the Study of Feed Freight Assistance

The Maritimes

In the Maritime Provinces there has long been a deficiency in the quantity of animal protein foods, other than seafoods, produced relative to the quantity consumed. But it is evident from the developments there during the two decades since feed freight assistance began that this condition has not been remedied. Table X (p. 254) shows that while human population of the Maritimes has increased by more than 25 per cent from 1941 to 1960, grain-consuming animal units (a measure of meat production) have fallen by more than 16 per cent. At the same time, the acreage of feed grain crops has fallen by almost 32 per cent, indicating increasing dependence on western feed grains and the benefits of the subsidy. On the other hand, the Maritime poultry industry has thrived under the feed grain assistance policy.

TABLE X

DATA PERTINENT TO THE STUDY OF FEED FREIGHT ASSISTANCE TO THE MARITIME PROVINCES

Year	Population	G.C.A.U.[1]	Farm Output						Acreage[2] in feed grains	Western feed rec'd	Freight subsidy
			Cattle-calves	Hogs	Sheep	Milk	Eggs	Poultry meat			
	thousand	thousand	thousand head			million pounds	million dozen	million pounds	thousand acres	thousand tons	thousand dollars
1940	1,116	829	-	-	-	1,017	-	-	540	-	-
1941	1,130	806	208	277	120	1,040	16.9	10.8	472	37	289
1942	1,145	859	194	296	110	1,114	19.2	13.0	468	231	1,825
1943	1,160	875	162	306	117	1,124	22.4	13.2	482	351	2,769
1944	1,163	917	172	341	140	1,120	26.3	15.1	463	338	2,667
1945	1,178	865	210	292	133	1,137	26.8	14.7	450	350	2,759
1946	1,180	827	208	241	129	1,099	25.0	16.5	418	409	3,223
1947	1,197	836	207	252	112	1,080	26.1	18.5	433	394	3,096
1948	1,216	760	170	286	104	1,076	24.3	13.7	418	332	3,020
1949	1,231	778	150	258	90	1,093	22.0	16.0	420	222	2,501
1950	1,246	761	178	317	84	1,053	21.6	13.5	426	244	2,670
1951	1,257	765	150	309	72	1,047	23.0	14.7	446	248	2,823
1952	1,279	762	126	338	73	1,024	26.5	18.1	408	267	3,192
1953	1,297	721	151	253	76	1,095	28.6	19.2	406	231	2,965
1954	1,314	752	154	254	80	1,132	32.2	22.5	399	234	3,009
1955	1,330	723	152	233	81	1,124	31.4	18.0	371	251	3,238
1956	1,349	718	164	218	82	1,120	33.9	16.0	350	247	3,180
1957	1,366	693	184	199	84	1,097	32.5	17.0	328	225	3,155
1958	1,387	683	180	221	82	1,102	32.6	20.2	334	235	3,375
1959	1,408	706	157	277	81	1,101	35.5	18.8	337	-	-
1960	1,426	673	146	277	81	1,063	35.7	19.8	326	-	-

1/ Grain-consuming animal units on farms at June 1

2/ Oats, barley, mixed grains.

Quebec

Quebec farmers normally use slightly less volume of subsidized Prairie feed grains than Ontario but because of their greater distance from the source, more subsidy (about 40 to 45 per cent of the total) is paid on shipments to Quebec (Table VII, p. 236).

In Quebec, feed grain acreage has dropped 21 per cent since the subsidy began (Table XI, p. 256). At the same time, grain-consuming animal units have increased over 10 per cent. Yet this is far short of the increase in consumer population - over 53 per cent from 1941 to 1960.

No doubt the feed freight assistance has also contributed to the notable increase in milk output per cow in Quebec. Milk production increased almost 54 per cent from 1941 to 1960 with virtually no increase in the number of milk cows. Expansion of poultry, eggs and hog production has also been substantial.

TABLE XI

DATA PERTINENT TO THE STUDY OF FEED FREIGHT ASSISTANCE TO THE PROVINCE OF QUEBEC

Year	Population	G.C.A.U.[1]	Farm Output						Acreage[2] in feed grains	Western feed rec'd	Freight subsidy
			Cattle-calves	Hogs	Sheep	Milk	Eggs	Poultry meat			
	thousand	million	thousand head			billion pounds	million dozen	million pounds	million acres	thousand tons	thousand dollars
1940	3,278	3.0	-	-	-	3.9	-	-	2.0	-	-
1941	3,332	2.9	776	1,202	204	4.1	39	30	1.9	135	721
1942	3,390	2.9	897	1,135	220	4.4	43	34	1.9	724	3,852
1943	3,457	3.0	672	1,252	228	4.5	45	33	1.9	1,038	5,523
1944	3,500	3.2	729	1,376	233	4.6	57	43	1.9	1,114	5,927
1945	3,560	3.0	905	1,220	312	4.8	59	42	1.8	1,149	6,118
1946	3,629	2.9	780	1,045	291	4.6	53	38	1.6	1,320	7,025
1947	3,710	3.1	734	1,240	263	4.6	61	46	1.6	1,375	7,315
1948	3,788	2.8	833	1,290	265	4.5	59	38	1.6	1,145	7,055
1949	3,882	2.9	803	1,217	199	4.5	55	46	1.7	967	6,591
1950	3,969	2.8	827	1,429	178	4.4	50	44	1.7	920	6,845
1951	4,056	3.0	749	1,499	154	4.5	49	47	1.7	917	7,191
1952	4,174	3.2	605	1,923	141	4.8	55	69	1.6	1,040	8,407
1953	4,269	2.9	700	1,341	175	5.1	55	71	1.6	859	7,395
1954	4,388	3.0	768	1,281	173	5.3	63	68	1.6	1,002	8,289
1955	4,517	3.0	802	1,441	165	5.6	61	68	1.5	1,034	7,345
1956	4,628	3.0	810	1,430	162	5.7	60	71	1.5	1,074	7,530
1957	4,758	3.1	887	1,286	161	5.9	64	76	1.5	935	7,425
1958	4,884	3.2	906	1,464	163	6.1	59	82	1.5	1,142	9,127
1959	4,999	3.4	815	1,892	147	6.0	64	96	1.5	1,194	10,165
1960	5,106	3.2	832	1,760	136	6.2	60	106	1.5	-	-

1/ Grain-consuming animal units on farms at June 1.

2/ Oats, barley, mixed grains.

Ontario

For Ontario, a greatly increased human population from 1941 to 1960 has not been matched by increases in livestock output. Cattle and calves have increased only slightly. Hogs show no significant change. Sheep are sharply down (Table XII, p. 258). Production of milk, eggs and poultry meat has increased substantially, however. Acreages sown to oats, barley and mixed grains have decreased relative to 1941 when the feed freight assistance programme began. But the acreage in corn has increased from 250,000 acres in 1941 to 480,000 acres in 1959.[1/] At the same time yield per acre of corn has increased so that total production has gone up remarkably. In 1941 the corn yield totalled 11,500,000 bushels, and in 1958 it was 29,600,000 bushels. This indicates that corn in Ontario has been at less disadvantage than other feed grains relative to subsidized feed grains from the Prairies.

British Columbia

In the West Coast Province, livestock and poultry feeding is largely concentrated in the lower Fraser Valley. Unlike Eastern Canada, competing uses for the limited supply of agricultural land there, make the production of feed grains in the consuming area an uneconomic enterprise. As indicated above (Table IX, p. 251) the most economical way of getting animal protein foods, other than perhaps milk, to the coastal cities of British Columbia is to ship these products in from the feed grain producing areas rather than move the feed.

1/ Corn acreage rose to 565,000 acres in 1955.

TABLE XII

DATA PERTINENT TO THE STUDY OF FEED FREIGHT ASSISTANCE TO THE PROVINCE OF ONTARIO

Year	Population	G.C.A.U.[1]	Farm Output						Acreage[2] in feed grains	Western feed rec'd	Freight subsidy
			Cattle-calves	Hogs	Sheep	Milk	Eggs	Poultry meat			
	thousand	million	thousand head			billion pounds	million dozen	million pounds	million acres	thousand tons	thousand dollars
1940	3,747	5.3	-	-	-	5.4	-	-	3.7	-	-
1941	3,788	5.2	1,044	3,068	321	5.5	96	88	3.5	170	764
1942	3,884	5.2	999	3,025	313	5.8	107	95	3.4	738	3,319
1943	3,915	5.2	979	2,746	331	5.6	120	101	2.6	1,448	6,518
1944	3,963	5.2	962	2,963	345	5.5	126	103	2.9	1,303	5,862
1945	4,000	5.1	1,100	2,557	391	5.7	139	106	2.6	1,376	6,191
1946	4,093	5.0	1,064	2,365	334	5.4	133	107	2.7	1,498	6,739
1947	4,176	5.3	954	2,860	310	5.5	154	112	2.1	1,655	7,446
1948	4,275	4.7	1,133	2,657	308	5.2	141	98	2.8	1,246	6,446
1949	4,378	4.8	1,046	2,742	234	5.3	116	129	3.1	996	5,420
1950	4,471	4.6	1,000	2,906	202	5.1	120	123	3.0	835	4,785
1951	4,598	4.7	910	2,668	176	5.0	115	153	3.0	762	4,374
1952	4,788	4.6	901	2,700	176	5.2	139	167	3.1	905	5,152
1953	4,941	4.5	1,072	2,290	198	5.4	145	147	2.9	826	4,693
1954	5,115	4.6	1,150	2,060	202	5.5	157	155	2.9	846	4,785
1955	5,266	4.6	1,212	2,210	207	5.6	155	151	2.8	827	3,810
1956	5,405	4.7	1,240	2,425	202	5.6	163	169	2.5	1,130	5,087
1957	5,622	4.9	1,233	2,375	178	5.7	186	170	2.5	1,017	5,003
1958	5,803	5.3	1,254	2,470	186	6.0	193	194	2.6	1,101	5,506
1959	5,952	5.5	1,127	3,299	180	6.2	197	211	2.7	-	-
1960	6,089		1,148	3,060	186	6.2	-	-	-	-	-

1/ Grain-consuming animal units on farms at June 1.

2/ Oats, barley and mixed grains. See p.257 for note on corn production.

CHAPTER 9

TRANSPORTATION AND NATIONAL DEVELOPMENT

We have already pointed out in some detail the role that transportation has played in developing various parts of Canada. By means of massive public assistance in capital structures, by grants and other devices, government, often in partnership with private enterprise, has assured the provision of transportation facilities in areas where the potential volume of traffic was at that time insufficient to warrant the provision of facilities by ordinary commercial criteria. The results fully justified the means. It is true that in some cases more facilities were provided than the economy of the area could eventually support, but these were the results of over-optimism rather than a departure from principle.

There remain vast areas of Canada in which development is slight or completely lacking. If these areas are to develop they will require additional transportation facilities and the provision of these should, in proven resource locations and at appropriate times, stimulate settlement and economic activity just as they did in what are now more mature sections of the country.

This development is proceeding. The provision of air fields, navigational aids, weather information, roads to resources, harbour improvements and railways to new mines, are but some of the efforts of government to assist in providing transportation facilities in such areas. These efforts are in the judgement of the Commission soundly based from the standpoint of providing efficient transportation. The progressive use

of transportation modes - the use of planes for reconnaissance in areas with development potential and for exploration of waterways where these are available, then the building of roads to facilitate the proving of mineral deposits and the exploitation and protection of forest resources, and finally, where tonnages warrant, the building of railways - seems to us to be a sensible sequence for transportation development in Canada to follow.

Two areas may be used to illustrate the role of transportation in resource development in Canada. The first of these is the Island of Newfoundland. This oldest settled part of Canada has special problems not faced by any other province. Being an island situated some distance from the mainland imposes special transportation burdens on its trade. Its population, traditionally dependent on the fisheries and sea transport, has been shifting rapidly from some 1,500 outports (in 1945), widely scattered around its 6,000 miles of coastline to the larger industrial centres. Its future development pattern appears clearly directed toward the forest, mineral and service industries of the interior. Its lack of adequate inland transportation has seriously retarded resource development.1/

The second area consists of the northern parts of the existing provinces, particularly the Canadian Shield area, the Yukon and the Northwest Territories. Like Newfoundland, they are presently underdeveloped and have a similar resource base. While they have the advantage of land connection with mainland Canadian markets, they are far from the markets where most of their products must be sold and for the most part have harsher climatic conditions that add to the difficulties of development.

1/ See Report of the Newfoundland Royal Commission on Agriculture, St. John's, Queen's Printer, 1956, especially p. 324-330.

All of these regions have a development potential. The rate of development will depend on such economic factors as the demand for their resources, and on governmental policies having to do with establishing sovereignty, national defence and the desire to stimulate the over-all economy of the nation.

In the development of these areas transportation will play a major role and will require further substantial national financial assistance if development is to be accentuated. The use of transportation in assisting national development in these areas should be governed by the experience gained in the past, modified by the particular circumstances that exist in the present or that may be expected to exist in the future.

Excessive facilities, that even an expanded economy could not be expected to support, should not be provided. Planning must walk the narrow plank between undue optimism on the growth rate and the pessimism that leads to stagnation.

Any plan for transportation facilities in new areas should strive to achieve the greatest possible flexibility so that changes in transportation technology or in the economy being served can be accommodated with the least possible loss of capital. For example, the present technological superiority of the pipeline for moving oil may, under arctic conditions, be superseded by the cargo submarine. Similarly, an economy based on forest products may, in time, become an economy based on agriculture or vice versa. Flexibility is maintained by keeping fixed capital in facilities to a minimum. In general such a policy favours air and road transport more than rail and pipeline.

While the desire to maintain flexibility is one criterion determining the mode of transport, it is not the only one. The nature of the resource

base is also important. Mineral products tend to be concentrated in specific areas (a mineral or an oil field) producing heavy tonnages that frequently must be moved long distances. Forest products on the other hand are gathered from extensive regions with low tonnages per unit area.

We have expressed the view that in the more settled parts of Canada the most efficient transportation system can be obtained by competition between and within the different modes. In the newer areas it is still possible, and in many cases desirable, to restrict competition. The lack of volume of production, the uncertainties of the developmental patterns of the area and the large capital requirements usually make restricted competition the most efficient mechanism. With this restriction of competition must go regulation to ensure that privileges are not abused.

The use of restricted competition also enables government to designate chosen instruments for implementing national policy. Grants in aid, the provision of capital structures and rate or operating subsidies, or both, to particular modes or individual carriers do no violence to economic principles in such an environment. Whether and to what extent such government action is taken depends on national policy objectives and not on national transportation policy.

In using transportation to develop unsettled areas railways will not play the dominant role that they did in earlier times. Nevertheless they will have a role to play. When rail lines are constructed, as we have pointed out in Chapter 5, the costs must either be borne by the traffic generated or by government subsidy. They should not be a burden on other shippers.

In connection with the use of railways in developmental areas it has been suggested to us that low "developmental" rates be put in by the

railways to stimulate and secure the traffic with the expectation that increasing the volume of goods transported will improve the economy generally and thus the railways' financial position. Taking into account the type and extent of public assistance relevant to the movement, and setting the proper minimum rate on that base, it becomes a matter of negotiation between the shipper and the railway as to whether or not such rates are implemented. If rates are below minimum legal levels they put a burden on other shippers or depress the railways' competitive position. Furthermore, railway management must always retain the right to judge the effect of any rate level on its overall financial position. It may be that in certain cases the traffic will not move even at minimum rate levels. If it is thought to be in the provincial or national interest that this traffic be moved then the shortfall in revenues should be made up by the government concerned.

As noted above, Newfoundland is one of the areas in Canada that requires further development and where transportation is being used and might be used more in developing the economy of the Province. It is in this setting that the Commission has examined the special problems of the Island from the standpoint both of existing transportation systems and what might be done by transportation to stimulate the economy.

Special Problems of Newfoundland

The Commission has examined the transportation problems of the island portion of Newfoundland with great interest. Because of its geographical position and stage of economic development, it has peculiar transportation needs unlike the other settled parts of Canada.

The transportation facilities of the Island have been vastly

improved since Confederation. The provision of ferry service, the renovation of the railroad and the construction of roads and highways has, no doubt, favourably affected the economy of the Province. However, the rail-ferry-rail route from mainland Canada has proved to be a very expensive method of moving goods. Furthermore, despite the progress that has been made, the lack of adequate inland transportation continues to result in inadequate resource development and costly and unsatisfactory distribution of supplies.

These are the problems examined in this section.

Existing Transportation Facilities

The transportation facilities in Newfoundland can be put into three broad categories. They are: facilities for exporting the products of the Island, facilities for importing goods from mainland Canada and finally the gathering and distributing of goods within the Province.

The exporting of goods need not concern this Report. Most of the products now produced and those likely to be produced in the next decade are destined for the markets of the world and present no problems that are within our Terms of Reference. Indeed, the many fine harbours and the closeness of the Province to world shipping lanes constitute an important economic advantage to this part of Canada that should enable it to compete successfully in markets of the world.

The importation of goods is unfortunately another matter. Because of its small population which discourages manufacturing and the scarcity of good agricultural land, Newfoundland must import a high percentage of its requirements of consumer goods, tools of production and food required for its people. Before Confederation, much of these goods were purchased in Great Britain and the United States and brought to Newfoundland by ships.

When union with Canada was established the trading pattern changed to some extent because the Island then became subject to Canadian tariff laws. At the present time, it has been estimated that roughly 90 per cent of Newfoundland's imports come from mainland Canada.

A substantial portion of the goods continues to arrive on ships from Halifax and Central Canada. We made no special inquiries into this movement. Shipping companies informed us that they have great difficulty in meeting the rail rates because of the heavy subsidies given to the rail-ferry-rail route. The Commission did not inquire as to the reasons for the high costs that appear to be involved as compared with shipping in other countries. Undoubtedly, this is due to many factors and probably some of them are beyond the ability of the shipowners to deal with.

At the time of union, the Federal Government agreed to maintain an all-year transportation link between North Sydney and Port aux Basques. Apart from the physical facilities involved, this also required the publishing of through-rail rates from the mainland to points on the Newfoundland railway as though there was a continuous rail haul.

The physical facilities for the Cabot Strait ferry were provided by the Federal Government at a high capital cost. The operating deficit of this ferry, amounting at present to over $5 million yearly, is also borne by the Federal Government.

The narrow gauge Newfoundland railway was taken over and made, in effect, a part of the Canadian National Railway system. Approximately $66 million was spent in renovating the road, providing diesel locomotives and other improvements. The operating deficit, which has been running approximately $6 million a year, has been taken into the overall system operations.

A typical movement of goods may proceed from Montreal by rail to North Sydney, a distance of approximately 1,000 miles. There the freight is unloaded and placed in containers for shipment across the Strait by ferry to Port-aux-Basques. At this point the containers are emptied and the freight put on the box cars of the Newfoundland railway to be delivered to points in the Province. Most of it goes to St. John's, 547 rail miles, because roughly two-thirds of the people in the Province live in that region. Thus a shipment of goods from Montreal must be handled four times, must travel over 1,500 miles by rail and 108 by water to reach St. John's. This is an exceedingly costly operation in itself without taking into account the pilferage and damage to which such an operation may be subject. This movement is largely a one-way movement and the lack of back hauls further increases the cost of the operation.

In addition to water and rail routes, a small but growing volume of high-valued goods particularly subject to damage are being carried to the Island by air freight.

Land transportation within the Island is limited. The narrow gauge railway between Port aux Basques and St. John's together with a few short branch lines and the Trans-Canada Highway now nearing completion and paralleling the railway throughout its length plus a beginning of a system of roads and highways are the only facilities. As a result of the lack of inland transportation the population tends still to concentrate on the shore line where water transportation is available. Distribution of goods to the coastal settlements is now carried out largely by the coastal steamers of Canadian National Railways. In spite of the limited service, unsatisfactory by modern standards, this is a very costly operation resulting in deficits of the order of $3 million yearly.

Transportation Policy for Newfoundland

The situation in Newfoundland is a special case distinct from the rest of Canada. Because of the lower level of the economy as compared with the rest of Canada and because of its geography, transportation costs are high[1/] and the people concerned cannot yet assume the full cost of moving goods from the mainland to the Island. Furthermore the total tonnage of goods to be moved is relatively small thus making it difficult to achieve the economies of scale which can be achieved in other areas. Under these circumstances, the objectives of transportation policy should be, in the short run, to develop, mainly by organization, the lowest cost transportation possible, so that, in the long run, a system can be developed that would enable the people concerned to pay the total cost involved. This is in contrast to the rest of Canada where we believe that low-cost transportation can best be achieved by competition. The situation in Newfoundland is such that it may prove necessary in the short run to limit competition, to favour by subsidization or special treatment one mode against another and to do other things that would be totally unacceptable in other parts of Canada.

There seems to be little hope of substantially reducing cost on the rail-ferry-rail route. It is inevitably a high-cost operation. However, some economies might be made. For example, the use of containers either from point of origin or some distributing centre such as Moncton holds promise,

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1/ In this section the term "costs" refers to the costs to the receiver. It includes rates charged by the transportation company, storage, inventory and any other costs involved in getting goods from the supplier until they reach the consumer. Thus for high-valued goods, transportation costs might be lowest if daily delivery by high-rate air transport was used. On the other hand, for low-valued goods, the cost might be lowest if low-rated water transport was used along with bulk storage.

especially if it were co-ordinated with a ferry to St. John's, Argentia or Baie d'Espoir and a highway network within the Province. This approach appears to have greater promise than provision of a rail-car ferry and we accordingly recommend that everything possible be done to expedite the early experimental use of this modern technique.

As mentioned earlier, demand for transport from the mainland to the Island will increase. Since it is doubtful that the rail-ferry-rail route can ever become self-supporting, it is recommended that further capital expenditures on this route should be scrutinized most carefully before being authorized. Every effort should be made to find alternative, less costly means of transport.

The alternative modes are by water and by air. More shipments by water should be possible. Water carriers, with little subsidy, now compete vigorously for much of the traffic. They should be encouraged in every way possible.

For example, substantial shipments of feed grain are transported from the Lakehead to Newfoundland. At the present time these shipments comprise from 18,000 to 19,000 tons annually. It can be expected that the volume will increase in the future.

The Federal Government assists this movement by paying a freight subsidy of $5.00 per ton plus the cost difference between rail charges Lakehead to Montreal (currently 66 cents per cwt.) and Lakehead to Newfoundland destination (e.g., currently $1.72 per cwt. to St. John's). The assistance now ranges from $19.20 per ton to $28.20 per ton depending on the destination. Most of the feed grain goes to the St. John's area and this point receives the highest rate of subsidy. The buyer in St. John's, therefore, pays only $6.20 a ton for transportation if the grain moves all-rail from

the Lakehead (less if it moves part way by water), since the total rail freight is $34.40 per ton.[1/] Wheat can be shipped from the Lakehead to Halifax by water for about $6.50 a ton and to Liverpool, England, for about $10.35. There are no all-water rates to St. John's but they would be somewhat less than $10.00 a ton on bulk movements. But such bulk movements of grain to Newfoundland ports would require storage facilities - probably space for as much as one million bushels. Under such an arrangement the Federal Treasury could limit its assistance to the total cost of all water transportation (a reduction from $28.20 to about $10.00 a ton) and the buyer would still have an additional $6.20 per ton, approximately, which could be used to pay his storage and local haulage. Such bulk movements of grain would also release space on ferries for other commodities not susceptible to bulk movements.

Within this transportation context, the Commission strongly urges that immediate consideration be given to the construction of bulk grain storage facilities in Newfoundland with federal assistance.

While feed grain may be a somewhat exceptional case, there seems no doubt that there are other important products which appropriate government action could divert with advantage to water transport. Every effort should be made to discover areas where such economies could be made and, by appropriate changes in the administration of governmental policies or by other means, encourage their adoption.

Air transport also has possibilities for many valuable and perishable commodities. Newfoundland is well supplied with air terminal facilities

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1/ Routing via lake vessel to Montreal and then by rail to St. John's would cost about $32.00.

and a substantial movement of goods by air already occurs. Increases in efficiency are occurring rapidly in this mode of transport and can be expected to continue. Evidence brought before us has led us to believe that a promising approach lies in the use of cargo planes flying from the Montreal-Toronto area to the Island. Another possible route is from Maritime mainland points to Newfoundland airports. On this route smaller planes could be used. Full loads would be essential, if low rates are to be obtained. These would tend to be assured if the airline operators were encouraged to enter into agreed charges with the shippers. A service of this nature might require that the carrier have a franchise for routes to the Island together with the necessary safeguards this implies. Air freight would require a measure of assistance to keep rates reasonable. It is probable that at least part of this could be recaptured from the subsidies now going to surface transport. But the greatest gain would accrue to private business in savings in time, loss and damage on perishable, fragile and valuable commodities shipped. Every encouragement and assistance should be given to any firm willing and able to offer such a service.

If traffic is re-routed by water or air, it would tend to reduce the extra costs of handling in ferry transhipments but might at the same time increase the losses on the Newfoundland section of the Canadian National Railways. For the present, there is probably only a small gain when we consider current traffic volumes. However, these volumes will increase and, unless alternate routes are used, present ferry facilities will have to be increased, with very heavy capital costs and with larger and larger operating deficits to be financed by government. It is to avoid this problem that the Commission urges consideration and action on the greater use of alternative modes.

In summary the movement of goods from mainland Canada to Newfoundland will have to be subsidized for the foreseeable future. Because of this, the Government should use its broad powers to see that insofar as possible all goods are moved at the lowest possible cost. Assistance, encouragement and incentives should be given all modes that promise by innovation and technical change to improve service and lower costs. This will hasten the day when the shippers and receivers can assume the full cost of their transportation requirements.

The Use of Transportation to Stimulate the Economy

No part of Canada has prospered until it had good transportation facilities. The history of Canada is replete with examples of massive public spending on transport facilities such as canals, railways and more recently highways and airports. Indeed the dollar value of such public investment continues to rise. There is no question that the economy of Newfoundland cannot develop at a satisfactory pace without more transportation facilities. The paucity of inland transportation is delaying the utilization of resources and, in effect, confining the population to the coastal areas.

At the present time the needs for inland transportation cannot be economically met by additional railway lines. The relatively short hauls and low tonnages make this type of transport uneconomical and particularly unsuitable for linking up the rather small communities. It is more likely that, with the development of other modes, some of the present railway lines can eventually be discontinued. On the other hand the development of mineral resources may require new railway facilities. The need for such should be judged on the ability of the available tonnage to pay the costs involved, the same as in other parts of Canada.

The present transportation needs can best be met by a system of roads and highways throughout the Island. These should be planned in consultation with the potential users, especially users of forest products, and designed not only to link up existing settlements but also to open up the country so that the resources can be utilized. User charges should be levied which in many cases might meet most of the cost involved.

Such a system of roads would greatly lower the cost of distributing consumer goods and would be especially valuable in handling containers arriving by ship, rail or air. It would also allow for the phasing out of the coastal steamers operating at the considerable loss of nearly $3 million a year.

A highway network of the size necessary is beyond the present resources of Canadians in Newfoundland. The situation calls for assistance by the Federal Government and there are enough precedents for such a programme. Public works to stimulate the economy of a province or an area have been a continuing part of national policy in Canada. For example, assistance in constructing power plants and irrigation systems as well as transportation facilities in all parts of Canada can be cited. What canals and locks did for the economy of the Central Provinces, what the transcontinental railways did for the Prairies, highways can do for Newfoundland.

We are convinced that such a programme is in the national interest. It would stimulate the economy of the Island with attendant benefits to the rest of Canada. All this could be accomplished in a short time with a relatively modest outlay of public funds.

PART III

NATIONAL TRANSPORTATION POLICY

CHAPTER 10

EPILOGUE

The Terms of Reference delineating the problems committed to this Commission proved to be far broader than we at first supposed. What appeared, at first definition, to be problems relating to railway transportation quickly involved us in an examination of the wide range of relationships concerning transportation in Canada. To discharge our specific responsibilities we were forced to undertake an examination of national transportation policy to test its historic role as a significant ingredient of national policy in the light of present circumstances. It is only within that broad context that we were able to devise an approach which led on to recommendations concerning the role for public policy in transportation today.

The conspectus of our conclusions is that most of the ills which beset transportation in Canada, particularly railway transportation - and the allegations of inequities which result - are caused by the failure of public and private attitudes to adjust to the realities of competition. The investigations we made and the inquiries we conducted, have consistently supported this conclusion. In the light of this, and in discharge of the important general and specific responsibilities laid upon us, we have set out the elements and objectives of a National Transportation Policy which we believe will achieve for the nation the benefits of efficient transportation services adequate for the promotion of industry and the development of resources. Further, recognizing the obligations

of the nation for active promotion of economic development, we have set out what appear to us to be sound first principles for the use of transportation to this end under present circumstances.

The nature of the transportation industry, in the light of the role we believe it must play in Canadian economic development, affirms our conviction that there are benefits to be derived for the nation by the extension of competitive forces in transportation. Furthermore, we are convinced that the benefits of competition to the nation are substantially secure under the incentive of profit maximization and that this incentive can be made to work satisfactorily under a system of mixed private and public ownership, so long as publicly-owned transportation companies are instructed, permitted, and regulated to work under the criteria of normal business practices.

In order to secure the benefits of competitive prices and services for the shipping public and to spread them throughout every stratum of the economy, partiality of public treatment to transportation must be eliminated to the end that resources in transportation shall be efficiently allocated. This involves two major aspects of policy. First, the burdens being borne by any mode, because of law and public policy, must be offset by adequate recompense. It becomes a simple axiom of policy that, where the public obliges services to be continued beyond the commercial demand for them, the public shall pay. To do otherwise is to distort the true competitive competence of that mode.

Conversely, if public policy confers benefits upon any mode beyond the remuneration necessary for the performance of services, that mode is supported to a degree which misallocates resources in its favour. Public policy must ensure that it does not, through inadequate charges

for capital funds or for use of public facilities, inequitably favour any mode, or firm, over others. National Transportation Policy must seek to achieve a position of economic neutrality wherever competition prevails. Under conditions of essential neutrality there is no apparent reason why each mode of transport cannot compete on the basis of technological adaptability and managerial skill. So long as policy neutrality is preserved, new methods and modes of transport will be encouraged on the basis of their competitive ability and old modes will pass from the scene on the basis of competitive disability. Public policy should assiduously strive to be responsible for neither, except in those deliberate instances where, in the absence of satisfactory competition, developmental policies require it.

Looking beyond the present insofar as our vision takes us, there seems to be a commercially tenable position in the transportation complex for the railway as a mode of transport. Subject to that regulatory control which is the right of the public to expect in cases of significant monopoly, and subject to the legal restraints which must coexist with large aggregations of economic power, it is our conviction that the railway companies in Canada can find their rail operations a useful and profitable segment of their business. The movement of goods in trains over steel rails is still immensely economical under many types of circumstance. It appears to us that the railway as a mode of transport has before it a long and vigorous life if the companies are permitted to shed unremunerative plant and services and allowed by freer ratemaking to enter markets and price services in accord with the economic realities of railway operation. With this advantage we do not see why railway companies cannot find their railway operations profitable in free competition with other modes. However, such prospects are not possible so long as the remnants of obligations,

placed upon rail operations by the national policies of a day when the railway offered the only practical means of overland transport, are not lifted. Embracing the limited controls on monopoly power specified throughout this Report, public policy must recognize that railway rates and services cannot now be determined and cannot now be controlled by considerations other than those set by commercial and competitive necessity. To legislate rates and ratemaking conditions freely into existence is to betray an attitude which is anachronistic under modern competitive conditions. It simply is not possible to ignore commercial principles in legislation and expect those same commercial principles to provide adequate rail revenues.

To achieve a workable neutrality in policy we have recommended generally and specifically without attempting to suggest that transportation problems can forever be resolved by any finite recommendations. Constant care, study and consideration must be given to keep pace with the dynamic nature of the transportation complex to maintain fair and impartial tax and regulatory policies between the modes of transport, and to carry out a constant evaluation of the effects of public assistance and user charges upon each mode. Without such constant care, misallocations and inequities will certainly arise and these will fall upon both shippers and carriers in the wake of the dynamic changes occurring in transportation.

Public policy is not the only factor which has a bearing either upon the efficiency of transportation as a whole, or on any particular segment of it. Even with the most assiduous attention to the principles of policy neutrality, the safe and healthy survival of any mode depends upon two other factors about which public policy can do very little.

These factors are, first, the pace of technological change, and second, the attitudes and abilities of management and labour to adapt in the face of increasing competition.

The pace and direction of technology cannot be predicted with accuracy. Its effects upon organization and structure of any mode may be profound and rapid, and the relative importance of the mode may shift in a few years. The continuation of any mode of carriage will depend upon the persistence with which technological adaptation is sought and brought into operation. A relative decline in the speed of innovation in any mode may encumber it with a competitive disadvantage which no amount of rationalization can offset. Public policy does not have a responsibility to compensate for technological disadvantage.

Equally important is the other factor, managerial and labour attitudes towards adaptation and change. Both management and labour must recognize that attitudes of rigidity will introduce inefficiency which will put the means of their livelihood at a competitive disadvantage to others. Inefficiency which results from unwillingness or inability to change can be as damaging to prosperous and healthy competition as technological lag or inequitable public policy.

In short, the survival of any mode of transport, as with any productive process, can be threatened by the inequities created by any or all of three factors. In a dynamic economy, rigid public policy, rigidities against technological change, or rigid attitudes within the business organization, are each capable of rendering the mode unable to survive. The consequences of such rigidities, should they affect the railways in Canada, would be profound indeed. The importance of them as national institutions, and the instrumental part they play in the commerce of the

nation may justify attempts to preserve the railway as a mode of carriage even if bad public policy, injudicious private attitudes, or the misfortune to be outpaced technologically renders them commercially unable to justify the investment made in them.

Should any one of these three factors in future force railway management to the conclusion that rail operations can no longer maintain a desirable commercial position in competition with extant or future modes of transport, it would be indefensible for the state to force management to continue operations. Taking into account all the other available transportation services necessary to provide for defence and civil emergencies, the nation must decide whether it is necessary to preserve a standby railway system. Considering the traditional place of railways in the nation it is difficult to imagine Canada without them, but the rapidity with which new techniques emerge may in time change this view. In any event, a most serious and careful evaluation must be given to the evidence before a decision is made. The Transportation Advisory Council will have a grave responsibility in advising the Government of Canada in the light of experience and the then current transportation situation.

If, in such circumstances, the nation should then decide that a system of railways is essential to Canadian national existence, the decision must be implemented by taking over from commercial management only those parts of the then existing railway systems which are deemed necessary for national purposes. Rigorous and accurate assessment will be necessary to include only those parts of the systems which are demonstrably vital to the national purpose. No attempt should be made to take over all of the rail systems that may then exist. They are apt to

be more widespread than is necessary for non-commercial national purposes. Great pressure will have to be resisted in the interests of accepting only as much obligation for national railways as is necessary and the quality of political leadership will be tested in that day.

Having decided the necessary extent of the rail system to be preserved, there are a number of associated decisions which would then have to be made. In the first place it should be taken as axiomatic that the nation would not attempt to run a commercial rail transportation business after the best business leadership had been unable to do so. This means that the nation would not take over complete transportation companies, but only an essential skeletal rail system. In no event should any investment other than strictly rail-related investment be absorbed. Since only part of the rail system would be necessary for national purposes, only that part of the system ought to be the object of recompense to the companies concerned. Since the mode would have then demonstrated its commercial inferiority there would be no need for the nation to recompense owners, or continue to bear a national debt, on the basis of the original investment. The National Treasury should not be the medium for permitting management and shareholders to escape the consequences of investment which has proven to be commercially unprofitable, since the nation, with a neutral National Transportation Policy, bears no responsibility for failure. Under these conditions, then, the rail system would become a national instrument for national purposes, in the same way that the armed forces or the post office are national instruments. Its capacity to fulfil an economic function would no longer be its primary purpose; its ability to do so would be incidental.

As an instrument of national policy the rail system would need to be given a new rationale for its operation. Obviously, under the sequence of these possible events, its rationale cannot be profit maximization. To attempt to force the nationalized rail system to operate by profit seeking criteria when it has clearly been shown unable to compete, would lead only to further declines in traffic, with consequent mounting deficits on its account. A rationale which seeks to price services by normal profit maximizing principles in the face of demonstrable commercial inferiority would neither move much traffic nor minimize the financial burden which the public treasury would then have to bear.

The rationale which would seem logical under those circumstances would be composed of two parts. First, the burden to the nation of the decision to maintain a nationalized rail system should approximate the fixed costs of its existence. What these shall be, and what shall be included in them, can only be determined in the face of such circumstances as might prevail at the time.

The second component of the rationale would be that the nationalized rail system should be utilized fully in the movement of goods so long as the burden of cost to the public treasury is not increased. Possessed of the bare essentials of a national rail system, and shorn of all other investments of every kind, the rail authority in charge of operations should be instructed to price services so that rates are set on the incremental, or additional, costs associated with the movement of any given traffic. Pricing under this principle would meet all the associated variable costs leaving the fixed costs to be borne as overhead by the nation. This would be the national price of rail preservation.

The advantage of this type of incremental pricing can only be seen in the perspective of the situation that forced management to abandon the railway as a commercial institution. If this situation should ever come about it will be because other modes will have proven sufficiently more flexible in service and price to outpace the railway as a competitive mode. By that time railway companies, seeing the trend, may be expected to have transferred investment in large part to other modes, which they should be free to operate in open competition. Modes powerful enough to displace the railway in competition can have no complaint if the pricing policy by rail holds or regains certain traffics. This is part of the political decision involved in accepting the railway as a national institution.

The opportunities for using incremental pricing policies on the nationalized rail system would hold certain compensations in stimulating development of industry and resources in the nation. Such pricing policies, extended to piggyback and container services, as to all traffic, would enhance the integration of the various modes, and leave to the other carriers a wide and profitable range within which to operate in reaching into all corners of the nation to provide all the necessary specialized services that modern industry increasingly demands. Into these fields the national system should not penetrate. Its economic purpose should be to provide low cost trunk line-haul transportation at incremental costs as a service to the shippers and to other carriers, while, at the same time maintaining a national rail system for whatever pertinent national reasons supported the decision to preserve it.

It was postulated at the outset of this section that we cannot and do not set out to forecast this trend of events in transportation,

nor to predict the demise of any mode as a commercial enterprise. In our opinion, only the failure of public policy to bear equitably upon all modes, or the attitudes of management and labour, or technological imbalance will ever cause this sequence of events to occur. Of the three possibilities, the one most surely to force events towards the situation which has been hypothecated is the inequitable incidence of public policy. It is in this area, not in the other two, where our responsibility lies, and where the direction of our investigations lay. It is our unanimous conclusion that no amount of flexibility and adaptability on the part of labour and management, and no amount of technological innovation and new capital investment can be effective in providing rail services as a rational part of the total transportation industry so long as public policy is inequitable. The need for rectification is immediate and continuing. To enable commercial principles to operate where competition is possible, the burdens imposed upon railways by law and public policy attuned to a monopolistic period must be lifted. For the future, continued assessment of the impact of public investment and regulation on all modes must be provided. Where competitive elements cannot operate due to the need for national development or due to the limited extent of the market, specific and definite investment and regulatory procedures are called for, in keeping with the principles of public utility regulation.

In our view complete nationalization of any mode of transport in Canada is not the best way to attain efficiency of services and optimum allocation of resources in transportation without the complete abandonment, so far as it is concerned, of the principles of profit maximization and dependence upon the market choices of shippers. It

becomes consistent to replace these criteria with others only if, and when, any mode is demonstrably unable to survive in competition and that mode is deemed essential for national purposes. Then, and only then, should the nation adopt non-commercial criteria to enable the mode to serve the needs of commercial carriers and shippers to the fullest extent consistent with minimizing the national burden of the fixed charges associated with the decision to preserve the mode. Those fixed charges, then, become analogous to other types of public investment in transportation being supplied to various modes. Like these other types of public investment, its place in the scheme of developmental investment would need to be subject to rigid, continuing scrutiny to have it conform to its proper role in the National Transportation Policy.

ALL OF WHICH WE RESPECTFULLY SUBMIT FOR YOUR EXCELLENCY'S CONSIDERATION

Chairman

F.W. Anderson
Secretary and Director of Research

Reservations and Observations

by Herbert Anscomb

I wish to refer to some of the conclusions arrived at by my colleagues in Part II of this volume with which I disagree.

There may well be some question of doubt whether under our Terms of Reference we should have dealt with some of the problems covered in our Report. It was found, however, to be quite impossible to deal with a subject of such magnitude as the railway problem without, willingly or not, going into some measure of economics in order to arrive at our conclusions.

In Chapter VII it is pointed out that government has historically provided from public funds certain transportation facilities to assist in the development of the nation and that assistance has been given to certain shippers and regions in paying part of their transportation costs. It may well be said that it is, perhaps, a legitimate function of government to provide transportation facilities especially if it appears that by so doing there is a reasonable chance of recovering in due time the advances so made. Certainly such facilities should not be provided from the public purse (government) if private enterprise is willing to provide them. Subject to that qualification, I take the view that there is no justification for government assisting individuals, industries or regions by paying part of their transportation costs. Transportation cost in many cases is a production cost the same as materials and labour and in many cases the government by assuming any part of such costs assists in the misallocation of the economic resources of the nation. Furthermore, the use of subsidies can and does result in administration difficulties and, consequently, increased costs

(see CNR brief on cost to them of administering Subsidy Policies, Transcript of Evidence, Hearings, Vol. 111, p. 18511). This has arisen when in point of fact only one mode of carrier - the railways - were involved. If, as our Report suggests, these subsidies are to be paid to any mode of carriage the shipper may choose, it is simple to realize that these difficulties and costs will be further aggravated.

I now refer to specific problems namely the "bridge" subsidy, feed freight assistance and the Maritime Freight Rates Act.

Our Report recommends the repeal of the "bridge" subsidy. With that recommendation I heartily agree but hasten to add that in my opinion the same logic should have been applied with the feed freight assistance and the Maritime Freight Rates Act.

The Feed Grain Assistance programme was born of the war and was then undoubtedly justified. It may well have been justified for some time in the post-war period when Canada had commitments to the British Government for livestock and poultry products. Since that time, as I see it, there has been nothing to justify its continuance. Livestock and poultry production is relatively prosperous and certainly Canadians are not suffering from any shortage of supplies or paying exorbitant prices. As an example the cheap feed made available to farmers has had some effect on increasing dairy production which, in some cases, is already too high. We are faced with a situation where a department of the Federal Government is paying public funds to provide cheap feed to produce a product (butter) that normal markets cannot absorb. The result of this action requires additional heavy financing to purchase surplus butter and milk powder to keep the commercial market from collapsing. Such a procedure does not make economic sense. There is no doubt that such a freight assistance policy is beneficial to certain

growers and consumers of feed grain and that the expenditure of public funds of such a magnitude ($19 million, 1960) would be beneficial to any group fortunate enough to secure them. Many industries would, in like manner, benefit if the public purse was used to pay their freight on raw materials moving to their plants but that would certainly not justify such action. I, therefore, am forced to the conclusion that this subsidy, like the "bridge" subsidy, should be abolished.

I will now deal with the Maritime Freight Rates Act. May I just state here that no matter what reasons were advanced for the assistance provided over a long period by the passage of this legislation - the most important point is that it has not brought prosperity to the Maritimes; neither, in my judgement, will it do so even if allowed to stand as it is or is extended in any form. It can be stated, I assume, without serious contradiction, that the industries in the Maritimes (Atlantic Provinces) that are soundly based due to availability of raw materials, lower labour costs, or other real economic advantages have prospered but those dependent mainly on a transportation subsidy have either not prospered or have not ever come into existence because of it.

The present situation in which under the Act a 20 per cent reduction of freight rates is given on certain "preferred movements" within the "select territory" cannot, in my view, possibly be justified. While no figures were actually available to the Commission as to the exact cost of this part of the subsidy, it was assumed to be between 45 and 50 per cent of the whole ($14 million). Under no stretch of imagination could that method assist in the development of the Maritime Provinces and I agree with my colleagues in their suggestion of its repeal. I apply the same reasoning to the Province of Newfoundland in which case, however, my colleagues support a continuation

of the present policy for a further period of 10 years with a further review at the end of that time.

Since 1957 the reduction applied on outbound shipments has been at a rate of 30 per cent in order to assist the industrial life of the Atlantic Provinces to have that advantage in reaching the so-called Central Provinces (Ontario and Quebec). This, in my judgement, is unwarranted. Requests made to the Commission invariably asked that this rate be increased, indeed, in some cases to 100 per cent. In other words to place them in a position to compete with like industries in those Central Provinces on their own ground. In effect it means that the industrial life of Ontario and Quebec together with the rest of Canada would be called upon to pay a large percentage of the freight of their competitors in their own home market. Surely if such is to be the case why should not the same principle be applied to the two Western Provinces of British Columbia and Alberta - situated as they are at a greater distance than the Maritimes from the central markets - who have built and are building an industrial life which on the same ground could well ask to be allowed to invade the central areas on the same terms.

Let there be no misunderstanding and I desire to make it clear, abundantly clear, that I regret as does every Canadian that there are sections of the nation that have not prospered as well as others for many and varied reasons and all would gladly support any programme designed to help, provided assurance could be given that such policies would remove the cause of their difficulties, but I am convinced that tinkering with an amount of assistance given to pay transportation charges will solve nothing and history to date has proved that to be so; to do this can only be a detriment to other sections of the country and will provide no real or effective relief to the recipients.

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Submissions received at public hearings

Industrial and Trade Bureau of Greater Quebec, Inc.

Thetford Mines Chamber of Commerce

Quebec Lumber Manafacturers' Association

Clarke Steamship Company Limited and Associated Companies

The Government of the Province of New Brunswick

The Saint John Board of Trade

The Record Store & Furnace Company Limited,
Enamel and Heating Products Limited,
The Enterprise Foundry Company, Limited

Connor Bros. Limited, Canners & Packers,
Brunswick Brand Sea Foods

Maritime Lumber Bureau

Fredericton Board of Trade

The City of Fredericton

Acadia-Atlantic Sugar Refineries Limited and
Atlantic Sugar Refineries Limited

T. McAvity & Sons, Limited

The New Brunswick Potato Shippers' Association
The New Brunswick Potato Marketing Board

New Brunswick Seed Growers' Co-operative Ltd.

The Saint John Local Employment Committee

Peat Moss Industry

The Government of the Province of Prince Edward Island

The Charlottetown Board of Trade

The Summerside Board of Trade

Canadian Trucking Associations, Inc., Charlottetown, P.E.I.

The Government of the Province of Nova Scotia

Weymouth Industries Limited

Annapolis Valley Canners Ltd., Canada Foods Limited,
M.W. Graves & Co. Limited, Scotia Gold Co-Operative Ltd.

The Cape Breton Island Industrial Development Council

Canadian Trucking Associations, Inc., Sackville, N.B.

Nova Scotia Fish Packers Assoc.

Avon Valley Greenhouses Ltd.

H. Loomer Greenhouses Limited

The New Industries Committee, Sydney City Council

Nova Scotia Boatbuilders Association

The Government of the Province of Newfoundland

Longshoremen's Protective Union of St. John's, Nfld.

Blue Peter Steamships Limited, Bowring Brothers Limited,
Fishery Products Limited, Furness, Withy & Company, Limited,
Harvey Steamships Limited, A. Harvey & Company Limited,
Longshoremen's Protective Union, Murray Agencies & Transport
Company Limited, Newfoundland Great Lakes Company Limited

Joint Submission of Canadian National Railways and
of Canadian Pacific Railway Company

Canadian National Railways

Canadian Pacific Railway Company

The Government of the Province of Manitoba

City of St. James

Manitoba Federation of Agriculture

Manitoba Farmers' Union

The Brandon Chamber of Commerce and City of Brandon

Manitoba Pool Elevators

The Manitoba Beet Growers Association Incorporated

Winnipeg Chamber of Commerce

The Government of the Province of Saskatchewan

The Saskatoon Board of Trade and the City of Saskatoon

The Canadian Co-operative Implements Limited

Hudson Bay Route Association

Saskatchewan Timber Board

Regina Chamber of Commerce

Saskatchewan Farmers' Union

Great West Coal Company, Limited,
Old Mac Coal Limited, Western Dominion
Coal Mines Limited and Manitoba and
Saskatchewan Coal Company (Limited)

The Government of the Province of Alberta

The Farmers' Union of Alberta

Lethbridge Chamber of Commerce

Alberta Wheat Pool

Victoria Chamber of Commerce

The Government of the Province of British Columbia

The Vancouver Board of Trade

British Columbia Lumber Manufacturers Association,
Plywood Manufacturers Association of British Columbia and
Consolidated Red Cedar Shingle Association of British Columbia

B.C. Tree Fruits Ltd.

Surrey Co-Operative Association

Cariboo-P.G.E. Lumber Manufacturers' Association

Malcolm F. Green

The Government of the Province of Ontario

The St. Catharines and District Chamber of Commerce

The Southwestern Ontario Associated Chambers of Commerce

The Toronto Harbour Commissioners

Ontario Federation of Agriculture

Board of Trade of Metropolitan Toronto

Hamilton Chamber of Commerce

Canadian Electrical Manufacturers Association

Canadian Transport Tariff Bureau

The Hot Coal Company

Canadian Metal and Mining Association

The Live Stock Industry of the Province of Ontario

The Government of the Province of Quebec

Chamber of Commerce of the Gaspé Region

The Regional Chambers of Commerce of the Saguenay - Lake St. John Districts

Chamber of Commerce of Lake Etchemin

The Economic Orientation Council of the Lower St. Lawrence

Trucking Association of Quebec, Inc.

Canadian Lumbermen's Association

Interior Lumber Manufacturers' Association

Canadian Granite Industries Association

The Canadian Horticultural Council and
The Canadian Fruit Wholesalers' Association

The Canadian Industrial Traffic League

The Canadian Manufacturers' Association

The Transportation Committee of the Kamouraska, Témiscouata-Rivière-du-Loup Counties (Que.), Northern New-Brunswick and Northern Maine (U.S.A.) Regions and The Chamber of Commerce of Rivière-du-Loup (P.Q.)

Canadian Federation of Agriculture

Canada and Dominion Sugar Company Limited

The Industrial and Trade Bureau of Greater Quebec, Inc.

Canadian Trucking Associations Inc.

N.R. Wilson, Mayor, Port Arthur, Ontario

D.M. Fisher, M.P., Port Arthur, Ontario

H. Badanai, M.P., Fort William, Ontario

Northwestern Ontario Development Association

Joint Transportation Committee, Fort William - Port Arthur Chambers of Commerce

Western Quebec Forestry Association Inc.

The Quebec Lumber Manufacturers' Association

United Grain Growers Limited

Maritimes Transportation Commission

Dominion Steel and Coal Corporation, Limited

Alberta Wheat Pool, Manitoba Pool Elevators, Saskatchewan Wheat Pool and United Grain Growers

Joint Submission by the Provinces of Manitoba and Alberta

Saskatchewan Wheat Pool

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Saskatchewan Forage Crop Growers' Co-Op Marketing Association Limited

Northern Wood Preservers Limited

International Railway Unions

Osbawa and District Labour Council

Canada Steamship Lines Limited

The Canadian Conference of Teamsters

Legrade Incorporated

Georgian Bay Development Association

The Grand Manan Board of Trade

The Edmonton Chamber of Commerce

Canadian Brotherhood of Railway,
Transport and General Workers