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**Re-inventing and Rationalizing the
Freight Transportation Policy Role of Government**

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INTRODUCTION

Several developments and a variety of factors have made redundant much of the traditional freight transportation policy role of Canadian governments. In its place, needs have emerged for differing and more comprehensive approaches to transportation policy development which more fully recognize the role of transportation policy as part of broader government approaches to meeting economic and social objectives.

Globalization of trade, the continentalization of logistics management, and the restructuring of most goods producing industries have had a profound effect on the nature and standards of freight transportation service demand. Concurrent changes in transportation regulation have served to intensify competition in the transportation sector and expose carriers much more directly to market forces. With the exception of safety issues, government's role as a regulator of transportation has diminished, while its role as a facilitator is achieving greater prominence.

* The views expressed are those of the author and not necessarily those of the Ministry, nor of his colleagues, whose constructive criticism is gratefully acknowledged.

Traditional transportation policy analysis and development processes, directed by officials working within established government structures and with the usual data sources, have been oriented towards dealing with industries subject to economic regulation. Administrators have found themselves ill equipped to respond to recent "cries for help" from the transportation industry, or to respond to social and environmental concerns as they gain a higher profile on the public policy agenda. Furthermore, the need to cope has arisen at a time of diminishing public resources, so that the natural response of adding capacity to the policy analysis and development process has not been an option.

This paper will discuss the effects these broad changes are having on the transportation policy analysis and development role within government, and it will identify some of the responses necessary to accommodate them, as well as the mechanisms and data necessary to provide sound and practical policy advice. The author draws on experience with the Research Directorate of the National Transportation Act Review Commission (NTARC) and with the Ministry of Transportation, Ontario.

Traditional Freight Transportation Policy Role

Traditionally, governments have approached freight transportation policy from a modal and carrier perspective and orientation. While, in both the U.S. and Canada, the legislative intent has gradually taken a broader approach and one that acknowledges the role of market forces and the needs of shippers, much of government's policy making and regulatory structure has been focused on monitoring and controlling carrier behaviour in the marketplace.

In Canada, the National Transportation Act of 1967 (NTA1967) made massive strides in acknowledging the role of competition between modes and it relaxed rate regulation of the carriers. Indeed, this Act, founded on the McPherson Commission Report, acknowledged the options then available to shippers, and it was an appropriate reflection of the marketplace of the time. The federal government did however, through its regulatory body, continue to monitor railway rates and administer process for rate filing. In trucking, the failure to proclaim Part III of NTA1967, resulted in several provinces continuing stringent regulatory regimes regarding carrier pricing and most of them to control market entry very tightly. The interpretation of "public necessity and convenience" entry tests by regulators tended to focus on the interest of existing licensed carriers, rather than that of users. Further, that approach tended to colour policy analysis of governments as well. Little consideration was given to the consequent effects of trucking regulation on other modes, or on the growth of private trucking during the 1970's and 1980's.

Another key characteristic in this period was a continuing focus within Canadian governments on specific modes. Regulators and policy departments functioned on strict modal lines with little if any dialogue between them. Regulatory and policy initiatives were seldom the product of multi-modal analysis, but were developed and implemented as a result of the perceived situation in a specific mode. Contrary or competing needs of transportation modes became apparent, if they were noticed at all, only at very senior levels within most government structure.

A further characteristic was an interventionist approach by governments into the role of each mode through deficit producing crown corporations (e.g. Canadian National, Air Canada, Ontario Northland, BC Rail), direct subsidies, and the provision of infrastructure and services without thought to adequate cost recovery. The broader role of transportation in the economy appeared to be reserved for an almost mystical consideration of transportation's role in regional economic development (NTARC Vol II p. 142). Perceived needs were then addressed through one of the above mechanisms, or through the notion that carriers should cross-subsidize the cost of serving unprofitable markets with profits made elsewhere.

Policy analysis and development occurred largely from an introspective, isolationist perspective. The domestic market was viewed in isolation from the U.S. With respect to trucking, individual provinces saw little need for harmony or uniformity with neighbouring jurisdictions. On the contrary, some regulators and bureaucrats appeared to take pride in doing a "better job" of controlling activity than their neighbouring counterparts. In many governments, little consideration was given to the effect of policy decisions in one mode on carriers of competing modes, active in the same markets.

It was considered acceptable to pass on the costs of the regulatory schemes and any resulting inefficiency to the ultimate consumer of transportation service, without regard for any effect that those costs might have on them or the economy at large. Very little attention was focused on this subject, and as long as our economy could absorb such inefficiencies, and our main trading partner embraced a somewhat similar approach to transportation regulation, it was easy to ignore.

Attention was very slowly drawn to this issue in the late 1970's, as the U.S. was obliged to focus on transportation regulation due to the impending financial collapse of its railways, and a parallel examination in Canada prompted by the Regulation Reference initiative of the federal government.

It is remarkable how much our focus in transportation policy considerations has shifted as a result of a dramatically changed business and trading environment. The remainder of this paper will be devoted to discussing those changes and the extent to which governments have kept pace in structuring themselves to address transportation policy and issues relevantly.

Changed Environment

Much has been said about the role of the Canada U.S. Free Trade Agreement and its successor the North American Free Trade Agreement in changing the trading practices and ultimately the goods production and distribution industries in North America. It is the view of this author that those trade agreements served primarily to accelerate trends in trade and goods distribution which had been influencing market behaviour for many years.

The increasing globalization of trade, both in commodities and manufactured goods, is broadly acknowledged. Indeed, there are relatively few Canadian made goods offered to consumers at retail for which one cannot find a competitive product from a U.S. or offshore source. While we have always imported, initially from Europe and the U.S. and expanding to the Pacific rim in the 1960's and 70's, we have never before had such a wide range of trading partners. In addition, our economy has never before been as closely tied to the U.S. both in terms of trade and those business institutions which conduct and facilitate trading activity.

As multi-national corporations have grown, they have increasingly considered North America to be a homogenous market. Canada is now seen by many goods producers to require little more product differentiation than California or New England (Globe & Mail). Similarly, many production facilities in Canada now produce and distribute continent wide. There is nothing particularly original about this. The automotive manufacturers have been doing this for decades under terms of the Canada U.S. Auto Pact. However, the concept has now spread throughout goods producing industry so that even small local manufacturers in niche markets find survival dictating that they expand their trading horizons. That is the key difference. We no longer have local markets, satisfied by local producers. This has had a significant impact on the growth and development of the North American transportation industry. It has been obliged to continentalize in step with its customers.

Also obliged to continentalize has been the practice of logistics management, the successor to distribution and before that traffic management. North American goods producers are steadily centralizing logistics functions at a single continental

location. Centralized planning and control serve to optimize distribution efficiency and facilitate meeting customer requirements and measuring results. Many companies are embracing the practice of outsourcing major portions of their logistics needs to third party operators. This serves to further centralize goods transportation purchasing decisions into the hands of fewer and fewer purchasers, each dealing on a continent wide basis. The probability is that these purchasers will gradually focus on large carriers serving broad geographic areas to meet their transportation needs.

A further consequence of plants dedicated to limited product lines and centralized logistics has been a shift away from regional warehouses carrying full inventories, and a trend toward direct shipment from factory to customer. The new generation of superstores require frequent, efficient replenishment of high volume items (PMS&K 1992). For Canadian distribution this has resulted in more "direct to customer" cross border shipping and a lower incidence of national redistribution from warehouses located in Ontario and Quebec.

Another change has occurred during the past two decades as the nature and mix of freight commodities has changed with shifting demands and industrial practices. While bulk freight continues to dominate many western Canadian freight transportation markets, the volumes of such traffic in eastern Canada have declined as mines have closed, plastics have replaced steel, and remaining traffic is more competitive. In addition, recycling programs have resulted in shifting the origins of raw materials, and they are influencing the selection of plant locations. These trends have resulted in a significant change in the role of rail transportation in eastern Canada. Without the former volume of bulk traffic to share overhead costs, remaining business is at best only marginally profitable.

Service standards and their maintenance have become a driving force in the freight transportation marketplace. Competition is intense and relentless.

One final added dimension to the new transportation marketplace is public concern about a wide range of social issues. Primary among these are safety and environmental concerns. Ministers responsible for transportation receive a steady stream of correspondence from a public concerned about sharing highways with trucks, and the effect on the environment of fuel used to support freight transportation. For some interest groups such issues are central to their *raison d'être*. Their effective use of the press to further raise public awareness creates pressure within governments for prompt analysis and response.

Freight Transportation Policy Response

The National Transportation Act 1987 (NTA1987) acknowledged the need for improved efficiency in freight transportation to support Canadian industry in being competitive in both domestic and foreign markets. Effectively, through opening the freight transportation market to competition, it obliged carriers to become more responsive and shippers to become more discriminating in their carrier selection. In the case of rail transportation, it forced competition through regulatory mechanisms wherever natural intramodal competition was absent.

The intention was to allow market forces to prevail, with minimal if any intervention by government, in the belief that this would lead to an effective and efficient transportation system. It was believed, not unreasonably, that the U.S. experience with deregulation was sufficient example of the success of this approach. Two things were overlooked. First, was the fact that U.S. carriers with seven or eight years experience were well advanced in the process of becoming highly efficient and capable of functioning in unprotected markets. Indeed, those U.S. carriers which had not adapted by 1988 had either withdrawn from the market, or had been swallowed by their more enterprising competitors. Second, with respect to rail, the U.S. Staggers Act sought to ensure the financial health of the railways by releasing them from regulatory constraints rather than imposing a regime to regulate competitive options for shippers, as does the NTA1987.

The consequence was that in transborder markets the leaner, more efficient U.S. carriers tended to dominate in both the rail and the truck modes. The effects were not immediately apparent, but U.S. truckers moved quickly to enter transborder and in some cases domestic Canadian markets. U.S. railways, aided in at least one instance by the Canadian competitive access provisions, moved quickly to seize the longest possible portion of the haul in transborder movements. As traffic diminished in 1990, as a consequence of the recession, and Canadian carrier costs on transborder moves continued to be adversely affected by a strong Canadian dollar, domestic truckers showed signs of severe stress. The decline in railway financial performance commenced at the same time, although public concern was slower to crystallize, perhaps because the railways reaction was less dramatic than the truckers.

Blockades by truckers in 1990 served to disrupt industrial activity, particularly in Ontario and Quebec, and as a consequence governments moved very quickly to address the issue. A series of seven studies were commissioned by Transport Canada to examine perceived problems of the industry, with the focus being on carrier and owner operator complaints of disparity between Canadian and U.S.

cost inputs, and taxation and inequity in matters of enforcement. A wrap up or synopsis of these studies was prepared by Heads et al in 1991. A more qualitative comparison of the Ontario trucking industry and that of neighbouring states was prepared for the Ontario Government by Deloitte Touche.

This research was necessary because governments to that point had taken very little account of what was happening in the truck freight transportation marketplace since 1987. Perhaps, Governments had underestimated the degree of regulatory change, and the period of adjustment required by industry to learn to function in a new environment. The former mechanisms of entry management had been abandoned, and no effective mechanism of monitoring the industry replaced it. The National Transportation Agency performed national ongoing monitoring based on surveys and other available sources, and it published annual reports as required by NTA1987. These reports formed the best available data, but due to a lack of timely or detailed information provided only a very broad perspective on the industry. Statistics Canada data on financial performance of the trucking industry at that time lagged at least two years behind, and it was of little assistance. No information existed to evaluate the specific industry complaints raised at the time of the blockades.

The federal studies showed that the operating costs of Canadian transborder carriers were indeed higher than those of their U.S. competitors at the then prevailing value of the Canadian dollar - 86 cents U.S. Indeed, the effect of the value of the Canadian dollar relative to the U.S. on competitiveness was one of the more interesting discoveries of this exercise. The Ontario study performed by Deloitte Touche identified some significant differences in carrier management and market orientation between U.S. and Ontario carriers which had hitherto not been acknowledged.

It is important to note that while the output of these studies was something of a revelation to government, they were little more than confirmation of the obvious to the more progressive carriers who had quietly figured things out for themselves. Several of them had already shifted portions of their transborder activity to a U.S. base, and they were busy emulating the more effective management practices of their U.S. based competitors.

The result of government awakening to the problems of the transborder trucking industry were some tax relief measures. In Ontario, there was also a government response to trucking industry educational needs, focusing initially on owner operators, and to the need for the Ontario industry to assess itself, develop a vision for its future, and strategies to compete successfully within a continental market.

In rail, the realization of problems and their understanding by government has been much slower. While evidence of poor financial performance has been available for some time, and it was well documented by NTARC research, there has been little reaction from government, and the railways themselves have been slow to analyze the problems and to institute internal remedial action and strategies to achieve reforms. As the truckers did initially, the railways are inclined to invoke the hackneyed complaint about the lack of a "level playing field" for which they blame government. Studies focus on tiresome comparisons of U.S. and Canadian tax regimes, and they attempt to quantify the cost implications of the very differing means by which railways and truckers pay for transportation infrastructure. Little, if anything, has been done to perform analysis similar to the Deloitte Touche trucking study. CN North America was reported to have performed a productivity comparison of several North American railways in 1991, but has been very shy about sharing whatever it learned. Attempts by the Ontario Government to proceed with an in depth analysis of the rail industry in that province, leading to a shared vision of the future, are being met with reticence by the railways to share meaningful information. While the railways may have a very clear understanding of their circumstances and how to address them, beyond general statements by chief executives, very little has been shared with governments, customers or the public. Without more specific information, it is very difficult to evaluate whether some of the suggested remedies (merger, downsizing, revised labour agreements) will address their financial difficulties appropriately.

What Have We Learned, And Where Do We Go From Here?

The experience of the past several years shows that government has been ill equipped to understand in a timely and comprehensive way, exactly what is transpiring in freight transportation markets. As a consequence, it has had difficulty in responding appropriately to carrier complaints, and to balance legitimate needs of carriers for equality of opportunity with the needs of shippers for efficient transportation. Similarly, segments of the transportation industry have been slow to recognize that government is not necessarily the chief impediment to commercial success. All industry, as well as individual Canadians, would prefer lower taxes, better public services, and fewer regulatory impediments. Furthermore, "playing fields" are seldom level in all respects which is why the rules of most games call for teams to change ends at half time. Indeed, there may be a competitive advantage to choosing to move the ball uphill, if the wind and/or the sun are at your back.

Certainly, we all need to better understand and monitor the marketplace. We need better and more timely information, and we need to interpret the information we receive much more effectively. Statistics Canada has made improvements in the timeliness of trucking industry data. However, we must recognize the limitations of financial performance data and aggregate industry figures, as well as acknowledge the time lag in publishing data and the fact that change can occur rapidly.

Judging the condition of an industry, solely by financial performance, at a specific point in time, is likely to be as successful as assessing the weather, solely by reading the temperature. Trying to assess the current status of an industry, based solely on last year's financial performance, is similar to assessing today's weather, based on the temperature last year. Some analysts (and lobbyists) go further. Based on last year's financial performance (temperature), they will forecast for next year.

Furthermore, aggregate industry figures do nothing to inform us about the fortunes of specific companies. Financial performance reported for the trucking industry can be skewed significantly by a single large exceptional performer (NTARC Vol II, p 37). Similarly, the fortunes of the industry or specific segments can change dramatically between the reporting period and the time data is published.

As an example, in January 1993, the then most current financial performance data reported by Statistics Canada showed the trucking industry continuing in severe financial difficulty. Its situation was considered critical enough, based on 1991 aggregate data, to warrant further government attention in Ontario. However, a quick telephone survey of senior executives of a very small sample of Ontario carriers revealed that none of those contacted had been in a loss position in 1992. On the contrary, one carrier reported that 1992 had been its best year ever and another that the same year had seen its best financial performance in the previous five years. While most acknowledged extreme difficulty in the years 1990 and 1991 they were quick to point out the manner in which they had responded to changing market conditions and competitive pressure and the mechanisms they had employed to restructure their enterprises and focus on market opportunity. The upbeat tone from this informal and unscientific data gathering was sufficient to draw a reasoned, if tentative, conclusion that the industry was well on its way to recovery. Subsequent information has proved that assessment to be correct, whereas, reliance on dated and skewed published information may have led to unnecessary government intervention.

What government should learn from this is that aggregate industry data should be viewed with caution, and that published information should be verified by some empirical research. It should be recognized also that governments do not have a

responsibility to ensure the financial success of an entire industry through the application of crude instruments, such as taxation and regulation, when individual companies within those industries are being quite successful in the prevailing environment. What may be needed is for government to assist poorer performers to recognize the reasons for their failings and facilitate restructuring and refocussing of their resources on available opportunities. This is best achieved through programs oriented toward education and consultation, rather than by manipulation of taxation and public policy.

Governments also need to recognize the implications of marketplace continentalization. Often, we refer to the "Canadian railway industry" or the "Ontario trucking industry" without really reflecting or considering what we mean by those terms. Since governments are called on to be responsive to "their" industry, we should attempt to define those terms within a continental perspective. A narrow definition of the Ontario trucking industry might restrict it to those companies owned by Ontario residents. A broader definition might include all carriers who maintain terminals and provide employment in the province. The broadest might consider the Ontario trucking industry to include any carrier providing service to a shipper or receiver located in the province.

It is not the purpose of this paper to defend any one of those definitions. However, if we recognize continentalism in manufacturing and retailing, we should be prepared to do the same in transportation and adopt similar strategies to ensure that investment, regardless of origin, and employment occur within our jurisdictions.

The primary concern of government should be that our goods producing and trading industries have access to an efficient, competitive transportation system. We should next ensure that we have an environment which encourages the individual carriers to invest and employ within our jurisdictions. Finally, we should ensure that our locally domiciled entrepreneurs have fair and reasonable access to do business in other jurisdictions. We should recognize that at times locally domiciled carriers may be displaced by more efficient, more effective, or perhaps, simply more fortunate entrepreneurs from other jurisdictions. Examples of this exist in Ontario, not only in trucking, but in rail, with the potential operation of the Algoma Central Railway by the Wisconsin Central.

A further objective should be to integrate freight transportation policy with our broader economic and social policy objectives. Our government institutions, federally and provincially, are not yet structured to achieve that. A first step, which Ontario has achieved, is a modal integration of transportation policy analysis and development. Next as issues arise, we must achieve greater synergy among government ministries and departments in addressing issues. In Ontario,

we are working on this, but we need to improve our processes of staff level consultation in the early stages of issue analysis. Finally, we need to fine tune our consultative mechanisms, not just with shippers and carriers, but with the broader public which shares the use of our transportation infrastructure, and which monitors society's progress in addressing safety and environmental issues.

In 1993, the Ministry of Transportation in Ontario, brought these considerations to bear on the issue of allowing longer 16.2 metre (53 foot) semi-trailers and 25 metre overall double trailer combinations. Shippers were concerned about competitive access to markets; truckers with productivity improvement and uniformity of equipment among jurisdictions; the railways with competitive equity, and the public with safety and the environment. The economic issues were dealt with in a comprehensive consultant study (PMS&K 1993). Once that work was completed, it formed the basis, along with safety and environmental analysis for consultation with interested groups and with other ministries. A final check on broader public perceptions were obtained through a series of focus group discussions.

This approach proved effective in achieving a decision by government to implement changes in an environment in which all parties had experienced the opportunity for input and to influence the final outcome. Through consultations, it was acknowledged that the need for Ontario industry to be competitive with that in neighbouring jurisdictions could not be ignored. While absolute consensus was not achieved, all parties developed a broader understanding of the issue and most could take credit for having modified the outcome. Government was able to feel comfortable that the final decision addressed economic and social considerations, and that safety had not been compromised.

To achieve these results consistently, government transportation ministries and departments, in addition to improving data collection, need to adopt a multi-modal, multidisciplinary approach to policy analysis and development. Regular communication should be fostered, not only with carriers and shippers, but with other groups having an interest in transportation service and infrastructure, and with the public at large. This requires a depth and breadth of expertise which has not always been found within transportation ministries and departments. To develop it during times of restraint and retrenchment, is challenging; to fail to do so, may have very negative consequences.

ENDNOTES

(NTARC Vol II) Competition in Transportation, Policy and Legislation in Review
- the report of the National Transportation Act Review Commission, March 1993.

(Globe & Mail) Head Office Flexes Its Might - January 18, 1994 p.1 This
articles deals with many aspects of the continentalization of North American
industry and the diminishing role of Canadian branch head offices in directing
national corporate activity.

(PMS&K 1992) Canadian Shippers' Needs Assessment - Appendix B of this
report prepared for NTARC provides detailed commentary on emerging practices
in logistics management.

(PMS&K 1993) Economic Impact of Introducing 53' Semi-trailers and 25 metre
B-trains in Ontario, January 1993.