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Changing the Crow Rate: State-Societal Interaction

by

© Michael J. Laslovich

**A Thesis submitted in conformity with the requirements
for the Degree of Doctor of Philosophy at
Carleton University
1987**

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ISBN 0-315-40613-5

The undersigned hereby recommend to
The Faculty of Graduate Studies and Research
acceptance of the thesis,
CHANGING THE CROW RATE: STATE-SOCIETAL INTERACTION
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ABSTRACT

This study investigates the major determinants of the Canadian federal government's controversial decision to change its long-standing western rail transportation policy, namely, the Crowsnest Pass grain freight rate. The interaction between state and societal actors in the decision-making process is examined, particularly the extent to which government officials were able to translate their own policy preferences into public policy, despite the existence of strong opposition from powerful societal groups. For these purposes, a "state-centric" approach to the study of public policy was adopted.

A number of propositions central to the state-centric model are examined. How and why did the policy preferences of state officials diverge from those of societal groups that were affected by the government's decision? What means were available to state officials to increase their policy-making autonomy from societal demands?

The outcome of the Crow debate of the early 1980's illustrates the need to consider the interaction between public and private actors in the determination of public policy. In this particular instance, federal government officials eventually abandoned the pursuit of some of their

long-range goals in the context of changing the western grain freight rate regime. Furthermore, it is the contention of this study that to fully appreciate the nature of the relationship between state and societal actors, consideration must be given to the extent of state autonomy in public policy formation.

PREFACE

I would like to express my gratitude to the following individuals whose time and effort made possible the completion of this project. Robert J. Jackson's patience, insightful comments and able supervision were invaluable. Glen Williams and Scott Bennett also provided a constant source of constructive criticism and encouragement. I would also like to thank Grace Skogstad and V. Seymour Wilson for their willingness to review this work. Naturally, I assume responsibility for any remaining deficiencies.

A number of others deserve special mention. Mary Mainella graciously typed innumerable drafts. Sheila Gariepy Kelly provided access to valuable documents and interviews. I would also like to acknowledge the support of my colleagues, Alain Gagnon, Micheal Kelly and Tun-jen Chen, whose exhortations saw me through occasional bouts of self-doubt during the course of my Ph.D. program.

Finally, I would like to thank my family. Holly's understanding, patience and sacrifice, as well as Christopher's, Dylan's and Nicholas' tolerance of their father's preoccupation, made this work possible. My parents, Ray and Ruth, also provided a constant source of support and inspiration.

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Chapter I

**CHANGING THE CROW RATE: STATE-SOCIETAL
INTERACTION**

1.1 Introduction

On November 23, 1983, the Western Grain Transportation Act (WGTA) was proclaimed, marking the end of the eighty-six year old Crowsnest Pass freight rate. The Act capped a controversial and protracted debate which exposed deep divisions within the western Canadian agricultural community, as well as between western and eastern Canadian farmers. The controversy surrounding the proposed change was not unexpected. As one author has written, historically: "No single issue has contributed more to western Canadian discontent within Confederation than the so-called national transportation policies."¹ Jean-Luc Pepin, the federal Transport Minister, indicated the complex nature of the Crow issue in his comments to the House of Commons upon introducing Bill C-155, An Act to facilitate the transportation, shipping and handling of western grain and to amend certain Acts in consequence thereof, legislation aimed at ending the historic statutory rate.

¹ T.D. Regehr, "Western Canada and the Burden of National Transportation Policies," in David J. Bercuson, ed. Canada and the Burden of Unity. Toronto: Macmillan of Canada, 1977, 115.

Pepin commented that he: "...[felt] some trepidation...because the subject is...very complex. It is not easy to assimilate its multiple aspects, which are economic, social, psychological and political."²

The prospect of changing the Crow rate aroused concern on the part of many groups, including grain and livestock producers, non-agricultural bulk commodity shippers including coal, potash and sulphur producers, agricultural processing industries, the prairie wheat pools and the two national railways, namely, the Canadian Pacific Railway (CPR) and the Canadian National Railway Company (CNR). Although some groups supported the need for change, powerful organizations opposed any tampering with the octogenarian rate.

Support for the Crow rate was deeply ingrained in western Canadian history and folklore. Although the rate's origins were based upon a 1897 agreement between the Canadian Pacific Railway and the Government of Canada, many western Canadian farmers had come to view the freight rate as part of the Confederation bargain, offsetting the burdens of federal policies formulated to protect the interests of central Canada. The national tariff structure, for example, meant that western Canadians paid higher prices for goods produced in central Canada, rather than having access to cheaper American goods.³

² Jean-Luc Pepin, *Debates*, May 12, 1983: 25377.

³ See J.M.S. Careless, "The Myth of the Downtrodden West."

Altering the Crow rate, therefore, was viewed by many western Canadians as tantamount to disturbing the very conditions of Confederation. The comments of Les Benjamin, federal New Democrat Party (NDP) transport critic, during the House debate of Bill C-155, illustrate this sentiment: "Anyone who agrees to demolishing the statutory grain rates is not worthy of his or her position in this House [of Commons], not worthy to represent the people in their constituencies and, in particular, not worthy of what Confederation, unity and co-operative federalism mean in Canada."⁴

Economically, the Crow rate was considered an important means of compensating producers for the long distances they had to ship their products to market. The region's dependence upon long-distance land routes to markets and supplies was compounded by the lack of alternative transportation routes, such as waterways. Western Canadians, therefore, have traditionally been very concerned about the cost of rail transportation, and the monopolistic power of eastern Canadian based railways to set freight rates. The establishment of the statutory freight rate, in fact, was partially the result of pressure from western Canadians to limit the power of the CPR.

Saturday Night. 96 May 1981. 30-37.

⁴ Les Benjamin, Debates, May 12, 1983, 25389.

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In view of the political controversy that would accompany any attempt to change the Crow rate, why did the federal government decide to enact comprehensive changes to its western rail transportation policy? The federal government had virtually no electoral standing in western Canada and was approaching the end of its mandate. Were federal officials responding to the demands of powerful societal groups motivated by a sense of economic urgency? The railways, for example, had argued that they were losing large amounts of money throughout the 1970's and early 1980's hauling grain under the statutory rates. More importantly, they contended, these losses were preventing them from adequately maintaining the aging western rail network. The problem would become increasingly critical in the near future as bulk rail traffic increased. The prospect of the western rail system unable to cope with traffic demand also caused non-agricultural bulk commodity producers, as well as some grain farmers, to add their voices to the call for change.

This study investigates the major determinants of the federal government's decision to change the cornerstone of its long-standing western rail transportation policy. Particular attention is directed at the identification of the interests and policy preferences of state officials, and their ability to influence the outcome of the policy process accordingly. For these purposes, a "state-centric" approach

to the study of public policy is employed.³ Application of a state-centric approach to this case study also permits an evaluation of its analytic utility for the study of public policy.

Traditionally, the analysis of public policy focuses attention on societal demands upon government for policy changes. Within such "societal" frameworks, policy is assumed to be the result of demands made upon government officials. This view of the relationship between state and societal actors, for example, is typical of many pluralist models of public policy. Pluralist models trace the infusion of private interests into the definition of public preferences and the existence of public choice.⁴ In a recent work on theories of the state, Robert Alford and Roger Friedland observe that:

The pluralist perspective's home domain is the political behavior of individuals and groups and the influence their interactions have on government decision making. The empirical focus is upon interactions among citizens, representatives, and officials, particularly as these generate controversial issues that must be decided. The structure and functions of public

³ Prominent examples of statist approaches include: Stephan D. Krasner, Defending the National Interest: Raw Materials Investments and U.S. Foreign Policy. Princeton: Princeton University Press, 1979; Theda Skocpol, States and Social Revolutions: A Comparative Analysis of France, Russia and China. Cambridge: Cambridge University Press, 1979; Alfred Stephan, The State and Society: Peru in Comparative Perspective. Princeton: Princeton University Press, 1979; and Eric Nordlinger, On the Autonomy of the Democratic State. Cambridge, Mass.: Harvard University Press, 1981.

⁴ See David Apter, Introduction to Political Analysis. Cambridge, Mass., Winthrop Publishers, 1977, 291.

and private organizations and the class relations that underlie them are taken as given.⁷

Power is conceived as situational and is measured by influence over the outcomes of conflictual participation. Institutions are considered a secondary level of analysis because they derive from individual's and cultural values.⁸ The state, for its part, is viewed as dependent upon societal actors for specific and diffuse supports: "Private actors...control a great armory of political resources and others that are readily translatable into public coin with which to importune, threaten, pressure and levy sanctions against the state."⁹ State officials, therefore, react to, or attempt to anticipate, the expectations, demands and pressures of powerful societal groups in the formulation of public policy.¹⁰

Thus, while not ignoring the role of government officials in the formulation of public policy, the pluralist tradition: "...has seen (political)...leaders as being substantially constrained by societal forces, commanding

⁷ Robert R. Alford and Roger Friedland, Powers of Theory: Capitalism, the State, and Democracy. Cambridge: Cambridge University Press, 1985, 4.

⁸ Ibid., 5.

⁹ Eric Nordlinger, On the Autonomy of the Democratic State, 42.

¹⁰ Some analysts have argued that government officials, when considering alternative policy options, attempt to anticipate public reaction when making their policy choice. Officials, therefore, are said to be constrained by societal groups, at least indirectly. See, for example, Carl Friedrich, Man and His Government. New York: McGraw-Hill, 1963.

resources that are derived from a wide variety of public and private sources, and functioning in a fluid, institutional environment which has a limited impact on the power and interests of actors."¹¹ Alford and Friedland express a similar view when describing some pluralists' "implicit" concept of the state: "The state is no more than another nonmarket institution resulting from aggregated individual choice, without any societal function, power or rule."¹²

Recent studies, however, have drawn attention to the ability of state officials to formulate public policy according to their own interests, even if those preferences are in opposition to important societal groups.¹³ In the words of one author: "No longer viewed as merely the reflection of societal pressures, whether in terms of interest groups or class, the state and its officials are now seen as possessing significant power and interests of

¹¹ Stephan Krasner, "Approaches to the State: Alternative Conceptions and Historical Dynamics," Comparative Politics, 16(2) January 1984, 229.

¹² Robert R. Alford and Roger Friedland, Powers Of Theory, 44.

¹³ For a discussion of the renewed interest in the state, see Theda Skocpol, "Bringing the State Back In: A Report on Current Research on the Relationship Between States And Social Structures," Items, Social Science Research Council, 36(1/2) 1982; Stephan Krasner, "Approaches to the State," Comparative Politics, 16(2) January 1984, 223-246; Alain Cairns, "The Governments and Societies of Canadian Federalism," An address delivered at the Annual Meeting of the Canadian Political Science Association, Fredericton, New Brunswick, 1977, mimeo, 1; and Peter Evans, et al., Bringing the State Back In. Cambridge: Cambridge University Press, 1985.

their own."¹⁴ While few, if any, analysts would not acknowledge the importance of state actors in the policy process, "state-centric" approaches are unique in their assumption that state actors have preferences that are not dependent upon those of particular societal groups which they seek to translate into public policy. The interaction between state and societal actors, therefore, is not viewed solely as an attempt by private groups and individuals to influence government policy, and of the government to respond in an effort to placate demands or gain support. Rather, both state and societal actors attempt to translate their particular preferences into public policy.

James March and Johan Olsen describe this renewed focus upon political organization within recent theories of politics as "new institutionalism."¹⁵ The assumptions of new institutionalism, they posit:

...deemphasize the dependence of the polity on society in favor of an interdependence between relatively autonomous social and political institutions; they deemphasize the simple primacy of micro processes and efficient histories (i.e., the idea that institutions and behavior are thought to evolve through some form of historical process that inexorably moves toward a more "advanced" level) in favor of relatively complex processes and historical inefficiency; they deemphasize metaphors of choice and allocative outcomes in favor of other logics of action and

¹⁴ Joanne Gowa, "State Power, State Policy: Explaining the Decision to Close the Gold Window," Politics and Society, 13(1) 1984, 91.

¹⁵ James G. March and Johan P. Olsen, "The New Institutionalism: Organizational Factors in Political Life," American Political Science Review, 78(3) September 1984, 734-749.

the centrality of meaning and symbolic action.¹⁴ While acknowledging the importance of both the social context of politics and the motives of individual actors, March and Olsen note that these approaches assume a more autonomous role for political institutions. The state is not only affected by society, but also affects it. Elements of the state, for example, bureaucratic departments and legislative committees, are considered political actors in their own right.

Because institutions are treated as political actors, they are assumed to be coherent and autonomous. The state is viewed as making choices on the basis of some collective interest, intentions, alternatives or expectations. As March and Olsen observe:

Whether it makes pragmatic theoretical sense to impute interests, expectations and any other paraphernalia of coherent intelligence to an institution is neither more or less problematic, a priori, than whether it makes sense to impute them to an individual. The pragmatic answer appears to be that the coherence of institutions varies but is sometimes substantial enough to justify viewing a collectivity as acting coherently.¹⁵

The assumption of institutional autonomy is necessitated by the premise that political institutions are more than simply mirrors of societal forces. Processes internal to political institutions, although possibly triggered by external events, may have a major influence upon government decision-making.

¹⁴ Ibid., 738.

¹⁵ Ibid., 739.

This point differentiates statist frameworks from other approaches to the study of public policy. Bureaucratic politics models, for example, have long recognized the influence of bureaucrats on public policy outcomes.¹⁰ Organizational interests, namely, those which impinge upon the status of a particular department or agency, or the position of an individual bureaucrat, are considered important determinants of the state's response to particular policy problems. Decisions are said to be the result of bargaining among organized groups within government, some possessing more power than others, depending upon their hierarchical position. Attitudes of state actors, assumed to stem largely from their organizational position, are considered decisive in choosing a particular choice among alternatives. Thus, policy studies employing bureaucratic politics models explicate the preferences of public officials and the processes involved in translating them into authoritative decisions. Yet, as Nordlinger contends, most of these studies:

...explicitly or implicitly accept the societal constraint assumptions. By and large, public policy is interpreted in terms of the resource-weighted parallelogram of societal preferences: when the explanatory focus is upon the state, it is not because public officials act contrary to societal preferences, but because the weightiest societal actors' preferences are congruent or consonant with the state's.¹¹

¹⁰ See, for example, Graham T. Allison, Essence of Decision Making: Explaining the Cuban Missile Crisis. Boston: Little, Brown and Company, 1971.

¹¹ Eric Nordlinger, On the Autonomy of the Democratic State.

Failure to conceive of state officials' interests as independent of societal preferences, therefore, differentiates bureaucratic from statist models' view of the relationship between state and society.

The following sections provide a more detailed discussion of state-centric approaches and concepts. How are state preferences determined? By what means are state officials able to translate their policy preferences into policy outcomes? What is meant by the concept, the state? These questions are crucial in evaluating the analytic utility of state-centric approaches in the study of public policy.

1.1.1 The Statist Approach

As noted, state-centric approaches assume that the state has a measure of autonomy from society in the determination of government policy. The state is conceived as an actor with drives and aims of its own, separate and distinct from the interests of any particular civil group. The state is treated as an actor in its own right, as either an exogenous, or intervening, variable. Furthermore, state actors have resources which allow the translation of their preferences into public policy. Important determinants of policy, therefore, are likely to be internal to the governmental decision-making process.²⁰ As Cranford Pratt posits: "For the statist, the state plays a major

²⁰ Stephan Krasner, "Approaches to the State," 224.

initiating role, identifying desirable policies through its own internal procedures, promoting support for those policies, and then executing them."²¹

Eric Nordlinger differentiates state-centric approaches from what he terms "societal-constraint" explanations of public policy. Each of the major variants of empirical democratic theory, namely, pluralism, neo-pluralism, social corporatism and marxism, he argues, rely upon a set of societal constraint assumptions:

When state and societal preferences diverge, [the] society-centered model denies, ignores, or downplays the possibility of public officials acting on their preferences after engineering a shift in societal preferences or in the relative distribution of resources behind them, and strenuously denies the possibility of the state translating its preferences into authoritative actions when opposed by societal actors who control the weightiest political resources.²²

Stephan Krasner makes the same point in distinguishing his approach from those of structural marxists.²³ Structural marxists, he argues, view the state as acting to preserve the coherence of capitalist society as a whole, and thus, in a general fashion, relate state actions to societal needs, albeit a particular class.²⁴ Krasner, however, contends

²¹ Cranford Pratt, "Dominant Class Theory and Canadian Foreign Policy: The Case of the Counter-Consensus," International Journal, 39(1) Winter 1983-84, 103.

²² Eric Nordlinger, On the Autonomy of the Democratic State, 3.

²³ For a discussion of the assumptions of structural marxism, see Nicos Poulantzas, Political Power and Social Classes. London: New Left Books, 1973.

²⁴ Stephan Krasner, Defending the National Interest, 20-26.

that while the state is constrained by its institutional structure, state officials may seek objectives that are independent of economic considerations. He cites the conduct of the United States during the Vietnam War as an instance in which central decision makers did not act according to any rational calculus in the pursuit of economic ends. Rather, ideological goals became an end in themselves, namely, anti-communism.²⁵

Yet, if state officials do not simply enact policies which reflect the outcome of interest group or class composition in the political arena, what are the sources of independent state "preferences"? A number have been suggested. The importance of personal material objectives of state officials has already been mentioned. Nordlinger, for instance, posits that: "Public officials... attach...process meanings and significance to public policies, since it is they who formulate, adopt and apply them. The processual costs and benefits associated with alternative policy options are often given overriding weight...in choosing from among policy alternatives."²⁶ Processual costs and benefits may include a policy option's significance for relations with other state officials and rivalries between state units.

²⁵ Ibid., 346.

²⁶ Eric Nordlinger, On the Autonomy of the Democratic State, 32.

State officials may also be motivated by factors not directly related to matters of self-interest. According to Charles W. Anderson, policy is:

a conscious contrivance reflecting human purposiveness...therefore policy cannot be satisfactorily 'explained' simply as a product of certain socioeconomic conditions, or a given configuration of political pressures, all of which are dominant motifs in contemporary policy study. It is also necessary to know what people thought of prevailing socioeconomic conditions, what claims and grievances interested parties brought forward, and how they debated and assessed these problems.²⁷

State preferences, for example, may reflect the educational training and "frameworks of reasoning" of state officials. Nordlinger agrees that such factors are often overlooked in the study of political decision-making: "It is too often forgotten that governing is in large part an intellectual exercise, and that knowledge of public officials and the criteria they apply are sufficiently different from that of most societal actors to make for a good number of divergent preferences."²⁸

Another potential source of diverging state and societal preferences are state official's views of the "national interest". As Krasner notes, the state, unlike societal actors or groups, has the ability to assign values among

²⁷ Charles W. Anderson, "The Logic of Public Problems: Evaluation in Comparative Policy Research," in Douglas E. Ashford, ed., Comparing Public Policies: New Concepts and Methods. Volume IV, Sage Yearbooks in Politics and Public Policy. Beverly Hills, California: Sage Publications, 1978, 19-41.

²⁸ Eric Nordlinger, On the Autonomy of the Democratic State, 33.

groups. In situations where decisions cannot be made according to a shared-sum decision logic, compromise based upon accommodation collapses in the absence of some basis for allowing interpersonal utility comparison. In such circumstances: "Only the state...can make...(particular) goals the primary objectives of policy; for the state is the only institution that can formulate aims that either have very little diffuse benefits or impose costs on specific societal groups or the society as a whole."²⁹ In such instances, the state makes determinations according to its own conception of the national interest. Whatever the merits of the policies advocated in the national interest, Krasner argues, whether it be the protection of interests of particular state institutions, the application of exclusively national, technocratic criteria in deciding among policy options, or the reproduction of capitalism, the concept is important in its consequences. Perceptions of the national interest, or the public good, help generate and reinforce divergent state preferences.³⁰

State and societal interests and preferences, therefore, may diverge (or converge) as a result of a number of factors, including personal material or organizational interests of state officials, shared educational outlooks, and subjective views of what policies would further the "common good". But how are state officials able to

²⁹ Stephan Krasner, Defending the National Interest, 44.

³⁰ Ibid., 14.

translate their preferences into public policy? This question is addressed in the following section.

1.1.2 State Resources

Nordlinger provides a useful list of "autonomy-enhancing strategies and options" from which state officials may choose in attempting to translate their policy preferences into public policy within the context of interaction with societal groups.³¹ The choice of strategy depends, in part, upon the nature of societal preferences state officials face in regard to a particular issue. Nordlinger divides the various strategies into three groups, depending upon the degree of convergence or divergence between state and societal preferences, and the overall strategy adopted by the state. For example, the state may seek to maintain and strengthen the degree of commitment of those groups that have similar policy preferences to its own. In cases where state and societal preferences diverge, state officials may either attempt to alter the views of opposing groups, minimize their power to influence policy outcomes, or enact its preferences into public policy despite societal opposition. For our purposes, strategies related to the first two instances, that is, the available options in dealing with groups supportive of state policy views, and those with divergent views who are the objects of government

³¹ The following discussion of state autonomy-enhancing strategies is drawn from Eric Nordlinger, On the Autonomy of the Democratic State, 90-98, 109-115, 128-134.

attempts to alter their views, are discussed.

According to Nordlinger, public officials can maintain or strengthen the degree of commitment of those societal actors with whom their preferences converge by:

1. limiting the dissemination of information that casts doubt on the advisability of the mutually preferred policy;
2. making ambiguous statements and taking contradictory actions to allow societal actors to read their own preferences into them;
3. publicizing and inflating the success of ongoing programs;
4. discouraging serious consideration of divergent preferences, keeping "nonissues" off the public agenda (for example, by depicting those who raise them as extremist or irresponsible);
5. relating authoritative actions to widely shared, largely unquestioned values and symbols;
6. recruiting well-known experts for high official positions;
7. making it known that they are grappling with societal problems, actively looking for and developing remedies;
8. playing up the exigencies of a situation or societal problem, the need for prompt and decisive action;
9. capitalizing upon existing statist traditions and deferential attitudes toward authority;
10. encouraging the belief that they are highly capable in dealing with the problem, that they know precisely what needs to be done;
11. underscoring their impartiality among societal groups regardless of their more or less weighty resources;
12. declaring that decision-making responsibility resides with "nonpolitical" state units that are beyond their control;
13. giving the impression that they evaluate policy alternatives in a highly rational, apolitical manner;

14. stressing their responsiveness to societal expectations and demands; and
15. highlighting the adherence to formal-legal procedures in the consideration and adoption of policies.

In instances where state and societal preferences are divergent, state officials may choose from the following possible options to neutralize or diminish the constraining resources by societal groups:

1. employ state resources, or those controlled by it, to neutralize similar private resources (for example, using state-generated data to offset those of private associations);
2. use a decision-making style that is difficult to decipher and permeate;
3. select decision sites whose occupants are relatively insulated from societal pressures;
4. take visible, formal authoritative actions that conform to societal preferences, while negating these publicly proclaimed goals in less visible ways;
5. serve as the ostensible mediator between opposing societal groups;
6. turn to those actors with convergent preferences for substitute support;
7. disengage or co-opt some of the leaders or other visible group members;
8. fracture the unity of opposition groups;
9. exacerbate divisions and mistrust among them;
10. get them to direct at least some of their resources toward other nondivergent issues or rival societal groups;
11. prolong the policy information process so as to make the continuing deployment of resources more problematic;
12. threaten the realization of their other policy preferences, more or less overtly reminding them of their dependence upon the state;

13. be less forthcoming in providing services and "particularized" benefits;
14. jeopardize their position or predominance vis-a-vis rival societal groups;
15. put their advantageous relations with the state at some risk; and
16. erode their organizational cohesiveness.

Not all these options are available, or attractive, to state officials in every policy instance. The choice reflects the nature of the issue and the particular relations between the state and various groups. However, Nordlinger argues that the existence of any number of these options illustrates the element of choice government officials have in their relations with societal groups.³²

1.1.3 Determination of State and Societal Preferences

Thus far we have discussed the major premises of statist approaches and the potential sources of divergent state and societal preferences. The identification of those preferences remains to be addressed. How state preferences are identified raises two important questions, one conceptual, the other methodological. First, what is meant by the concept, state? Secondly, how are state preferences determined? Statist theorists disagree over these important questions. A brief discussion of the contrasting conceptualizations and approaches of Stephan Krasner and Eric Nordlinger will provide both an illustration of the

³² Eric Nordlinger, On the Autonomy of the Democratic State, 94.

diversity among statist, and a demonstration of how these questions are linked. Finally, an evaluation of the work of Krasner and Nordlinger provides the basis of the state-centric approach that has been adopted for the purposes of this study.

Central to the differences between Krasner's and Nordlinger's statist approaches is their conceptualization of the state. Krasner views the state as a set of roles and institutions having peculiar drives, compulsions and aims of its own, separate and distinct from the interests of any particular group.³³ State behaviour, in turn, refers to the actions of individuals occupying certain positions in the central government. Which individuals are involved in the determination of the state's preferences is a function of the policy considered. Furthermore, government departments are deemed relevant to the determination of the state's preferences or interests only if they pursue collective goals, and not if they only act to further specific societal and bureaucratic interests.³⁴ Otherwise, he argues, the explanation of public policy would be better served by the use of bureaucratic or societal approaches. Thus, Krasner's conceptualization limits the state to only those individuals that are charged with furthering the nation's general interests in differentiating state and societal interests. Other political institutions are excluded.

³³ Stephan Krasner, Defending the National Interest, 5-6.

³⁴ Ibid., 11.

Krasner's delineation of the state, however, is too narrow and arbitrary to be useful for the analysis of domestic policy-making.³⁵ His particular approach leaves government institutions and actors, such as legislatures and bureaucrats, "in a conceptual no-man's land", since they are differentiated from private actors, but are not included within the state.³⁶ In his attempt to separate state and societal interests, Krasner's framework excludes institutions and groups which are important to the state's ability to translate its preferences into public policy. The resources and skills of legislators and civil servants, for example, can be crucial in determining the extent of the state's ability to influence the outcome of public policy.

Eric Nordlinger provides a more useful conception of the state for the study of the policy process. He conceives the state in a Weberian manner. The state: "...refers to all individuals who occupy offices that authorize them, and them alone, to make and apply decisions that are binding upon any and all segments of society. Quite simply, the state is made up of and limited to those who are endowed with society-wide decision-making authority."³⁷ Nordlinger's

³⁵ For an excellent critique of the ideological overtones of Krasner's conceptualization of the national interest, see Cranford Pratt, "Dominant Class Theory and Canadian Foreign Policy: The Case of the Counter-Consensus," International Journal, 39(1) Winter 1983-84, especially 108-115.

³⁶ Eric Nordlinger, On the Autonomy of the Democratic State, 124-125.

³⁷ Ibid., 11.

conception of the state, therefore, is much broader than Krasner's. The state includes all public officials, elected or appointed, involved in making public policy. As Nordlinger rightfully contends, an individualistic conception of the state is both useful and necessary for analysis of the determinants of public policy: "Only individuals have preferences and engage in actions that make for their realization and only by making individuals central to the definition can Hegelian implications (substantive and metaphysical) be avoided when referring to state preferences."³⁰ A focus upon individuals avoids the view of the state as a unified monolithic body which self-consciously pursues its interests vis-a-vis societal groups. Rather, the state includes individuals and groups that have divergent policy preferences and resources which vary from issue to issue.

Nordlinger is also critical of institutional conceptions of the state employed by Krasner and another prominent statist analyst, Theda Skocpol, arguing that they are inappropriate for the study of policy-making. Skocpol, in her study of social revolutions, agrees that conceptions of state and society should not be collapsed, and that political and state actions should not be reduced to representations of socioeconomic forces and interests.³¹

³⁰ Ibid., 9.

³¹ Theda Skocpol, States and Social Revolutions: A Comparative Analysis of France, Russia and China, 14.

She views states as: "organizations that are potentially autonomous from (though of course conditioned by) socioeconomic interests and structures."¹⁰ Skocpol posits that state organizations compete with the dominant class or classes in the appropriation of resources from the economy and society, and that the state's objectives to which the resources are appropriated may be at odds with existing dominant-class interests.

Skocpol also relates state autonomy to the imperatives of the state within the international power structure. Pursuing their own interests within the context of international state competition, states may enact policies at the expense of the dominant class fractions of their society:

"A state's involvement in an international network of states is a basis for potential autonomy of action over and against groups and economic arrangements within its jurisdiction - even including the dominant class and existing relations of production. For international military pressures and opportunities can prompt state rulers to attempt policies that conflict with, and even in extreme instances contradict, the fundamental interests of a dominant class."¹¹

However, Skocpol's conceptualization does not address the determinants of state interests or preferences, or how the state might attempt to realize its preferences. As one critic observes: "The state, from...[Skocpol's] 'structural perspective', becomes a black box, a reified entity that is

¹⁰ Ibid..

¹¹ Ibid.. 31.

acted upon and that acts upon society and the external environment. It is an abstract construct that interacts with classes and nations with clear effects but not clear causes."²

How are particular state policy preferences determined in the face of internal diversity of views within the state? Nordlinger posits that they may be conceived as the "resultant of public official's resource-weighted preferences", that is, preferences that are supported by variously distributed intra-state resources:

State preferences, as distinct from the discrete preferences of public officials, are those with the weightiest support of public officials behind them, based on the number of officials on different sides of the issue, the formal power of their offices, their hierarchical and strategic positioning relative to the issue at hand, and the information, expertise, and interpersonal skills at their disposal."³

The predilections of the state, therefore, can be determined by identifying the state actors involved in a particular policy matter and assessing the weights of their respective views and resources in defining the state's view. The identification of a state preference in this fashion does not imply unity and coherence of purpose among state actors, avoiding anthropomorphic and reification fallacies. Societal preferences may be ascertained in the same manner.

² Bruce Cumings, "Interest and Ideology in the Study of Agrarian Politics," Politics and Society, 10(4) 1981, 486.

³ Eric Nordlinger, On the Autonomy of the Democratic State, 15.

by investigating the preferences and resources of groups and individuals interested in a particular policy issue and considering the various resources they are capable of bringing to bear on the government's policy decision.

Krasner, however, argues that Nordlinger's view of the political universe is not qualitatively different from earlier pluralist positions. While conceding that Nordlinger places greater emphasis on the role of the state, Krasner argues that: "...like the pluralists, he [Nordlinger] sees a world of atomistic political actors, albeit one in which relatively more of the atoms are public officials...Nordlinger endorses the pluralist image of politics as a resolution of vectors."²² Krasner's criticism is based upon his view of what separates recent statist literature from orientations associated with the behavioral revolution, particularly pluralism. He argues, in part, that statist orientations place greater emphasis on institutional constraints, both formal and informal, on individual behavior: "Actors in the political system, whether individuals or groups, are bound within these structures, which limit, even determine, their conceptions of their own interest and their political resources."²³

Yet, Krasner's criticism is not convincing. Although positing that an individualistic conception of the state is necessary for the study of public policy, Nordlinger

²² Stephan Krasner, "Approaches to the State," 231.

²³ Ibid., 225.

recognizes the importance of institutional constraints upon individuals' actions, including the formal powers of state officials and their hierarchical and strategic positioning relative to the issue at hand. Institutional constraints are recognized as important in determining which state officials are involved in a particular policy matter, as well as the resources which they can use to influence the state's preference. Recognition of a pluralism of views within the state should not be confused with the acceptance of a "pluralist" conception of state-society relations.

For these reasons, Nordlinger's framework is deemed most appropriate for this study's purposes. Our interest in the determinants of the federal government's decision to change the Crow rate, and how state officials were able to translate those preferences into public policy despite the opposition of powerful societal groups, suggests such an approach. State preferences, therefore, are more usefully understood as the resultant of the pull-and-haul among individual officials and departments involved in a specific policy decision.

Before proceeding to the case study, however, it is worthwhile to discuss some of the major criticisms that have been directed at statist models. They are important, not in terms of discrediting the approach, but because of their value in elucidating areas in which greater theoretical development is required.

1.1.4 Critique of Statist Approaches

Statist approaches have been criticized upon a number of counts. The following are particularly noteworthy. The extent of state autonomy from societal influence assumed by statist analyses has been the subject of criticism. The concept of "autonomy" can be problematic, if crudely understood, thus lessening its analytic utility. In terms of statist analyses, state "interests" are considered autonomous from civil society for analytic purposes, namely, to allow an assessment of the role of state officials in the determination of public policy. Whether based upon considerations of personal material interest, preservation and growth of organizational power, or subjective views of the national interest, state interests and policy preferences may diverge from those of societal groups.

Contrary to what some critics have charged, however, statist analyses do not assume that states are completely autonomous from societal influence.⁴⁶ Nordlinger, for example, consciously uses the term "state-centric" in describing his model in recognition of the overlap between state and societal interests and preferences. Furthermore, he argues, state-centric approaches complement, rather than displace society-centered frameworks. They compensate for

⁴⁶ Tom Keating, for example, states that: "Statists...[assume] that the state will always win out in an encounter with societal interests...". See Tom Keating, "The State, the Public, and the Making of Canadian Foreign Policy," paper presented at the Annual Meeting of the Canadian Political Science Association, Montreal, Quebec, June 2, 1985, 24.

the: "...one-sided, partly problematic assertions by emphasizing important dimensions it (society-centered frameworks) ignores and propositions it denies."¹⁷

Specifically, focus is directed toward the identification of the state's policy preferences, and the state's ability to shape public policies accordingly. Policy outcomes are the result of the interaction between state and societal interests. The success of the state in translating its preferences into public policy is contingent upon the particular constellation of forces it faces in regard to each policy decision. As Nordlinger posits: "The fit or lack of fit between state and societal preferences constitutes the critical contextual variable within which state-society relations are played out. Variations in the patterns of state-society preferences go a long way in determining the outcome of authoritative actions [i.e., public policy]."¹⁸

Nor do statist analytic frameworks deny that state officials are linked to civil society. As Kim Nossal convincingly argues, state-centric approaches recognize that:

...state officials have been socialized and politicized before they enter the apparatus; that the 'social character' of officials is not only homogenous but distinctly similar to what marxian analysts term the 'dominant' class; that there is a general (but not universal) predilection for the

¹⁷ Eric Nordlinger, On the Autonomy of the Democratic State, 6-7.

¹⁸ Ibid., 17.

maintenance of a capitalist mode of production; or that the periodic imperatives of electoral contests impose an important set of linkages between the elected officials of the state and civil society. (Yet, acknowledging)...that the state does not operate in a socio-economic vacuum, and that officials are inexorably part of the society they govern does not lessen the applicability of statism's basic axiom that the state will try to ensure that its actions will accord with its preferences even if those preferences diverge from the parallelogram of society's preferences. Rather, it suggests that the state's preferences will be fashioned within broad politico-economic parameters.²⁹

State interests may or may not be congruent with societal groups. When they diverge, state officials will attempt to ensure that its interests prevail. Consequently, the most proximate account of public policy requires an examination of the interaction between and among state and societal actors.

Another major criticism of statist analyses is their failure to provide a developed theory of the determinants of the interests and preferences of state officials which shape the state's decisions. According to one critic: "To say that policy is the product of state action, whether in the public interest or not, is hardly an explanation. As in an older style of systems theory, the state looms again as a black box, central to the explanation of political outcomes yet opaque."³⁰ This observation is not without merit. The

²⁹ Kim Mossal, "Statism, Realism and Canadian Policies Toward the Third World," Working Paper No. A.9, January 1984, 7.

³⁰ Peter Hall, Governing the Economy: The Politics of State Intervention in Britain and France. New York: Oxford University Press, 1986, 15.

need for further theoretical development can be attributed to the fact that statist approaches generally take the form of criticism of existing policy models, including pluralist and marxist conceptions of state-societal relations.³¹

Nordlinger's primary objective in his book, On the Autonomy of the Democratic State, for example, is to demonstrate the plausibility and persuasiveness of state-centric models. Nordlinger, therefore, focusses upon the distinctive characteristics of the state itself which differentiate its interests from most societal actors, offering a framework which is more heuristic than theoretical.³²

Finally, the statist division between state and society has been criticized, particularly in regard to the analysis of the public policy-making process in federal systems.³³ In Canada, for example, how are the views and preferences of provincial governments to be conceptualized? While "external" to the federal government, provincial officials hold a politically more privileged position in the policy-making process than societal groups. To that extent, the influence of provincial officials is not the same as societal groups. Thus, provincial governments' views and policy preferences do not fit comfortably in the category of

³¹ See March and Olsen, "The New Institutionalism," 742.

³² Eric Nordlinger, On the Autonomy of the Democratic State, 31-38.

³³ See, for example, E. Riddell-Dixon, "State Autonomy and Canadian Foreign Policy: The Case of Deep Seabed Mining," paper delivered at the Annual Meeting of the Canadian Political Science Association, Winnipeg, 1986, 18-19.

societal influences.

Our application of a state-centric model is mindful of these criticisms. First, although primarily interested in the ability of the state to translate its preferences into policy outcomes, attention is given to the societal and political constraints within which state officials pursued the Crow initiative. The state is not assumed to be totally autonomous from civil society. Rather, it pursues its interests within parameters defined by the given politico-economic circumstances associated with a particular policy issue.

Secondly, the interests and preferences of the state and societal groups are identified. While not postulating a developed theoretical explanation of the determinants of the interests of state officials, this case study does provide an empirical test of the central tenets of the statist model of public policy. Nor, finally, does this study resolve the conceptual problem of where to locate sub-national governments within state-centric models. This can be particularly problematic in terms of investigating the policy making process in a decentralized federal system. Nevertheless, this problem has not proven to be insurmountable in the context of this study. The provincial governments lacked constitutional jurisdiction in interprovincial transportation. Consequently, their views were not included in the definition of the state's policy

had decreased by only approximately one-fourth.⁸⁷

The government appointed a Special Committee of the House on Railway Transportation Costs to investigate the matter.⁸⁸ According to A.W. Currie, the establishment of the Special Committee, instead of referring the matter to the Board of Railway Commissioners, reflected the loss of faith of western Canadians in the Board's decisions.⁸⁹ In the Committee hearings, the railways argued that complete restoration of the Crowsnest Pass Agreement would seriously deplete their revenues at a time when railway operating costs remained high. Moreover, the railways argued, although the Agreement applied only to a limited number of commodities, and was restricted to the CPR lines in existence in 1897, restoration of the Agreement's limitation on freight rates would in effect reduce practically all rates across Canada since the Board of Railway Commissioners was legally obligated to prevent unjust discrimination between commodities and localities.

Agricultural groups, on the other hand, argued that the Agreement was a legally binding contract whose provisions had to be honored by the railways. Moreover, although the CPR had received a subsidy to build a rail line through the Crowsnest Pass, western farmers had in fact not received any

⁸⁷ Duncan, The Crowsnest Rates as a Policy, 18.

⁸⁸ The following discussion is taken from A.W. Currie, Economics of Canadian Transport, 2nd ed., 76-85.

⁸⁹ Ibid., 76.

perpetuity; and the establishment of a new grain freight rate regime that would divide future rail transportation costs between grain shippers and the federal government. Western bulk commodity shippers, including coal, potash, lumber and petrochemical producers, also benefited from improvements in the western rail transportation system.

However, although the federal government's legislative changes benefited these groups, these results were incidental to the main interests being served, namely, those of the state itself. Evidence that the decision to change the statutory rate resulted primarily from the policy preferences of state officials, and not the demands of albeit important societal groups, is obtained from a number of factors which will be discussed in the following chapters. State officials played an important role in placing reform of the Crow rate on the political agenda. The tireless efforts of Transport Minister Jean-Luc Pepin were particularly important in forcing western agricultural groups to respond to the government's call for the need to reform the Crow rate.

The timing of the government's decision is also important in illustrating the ability of state officials to enact public policies despite strong opposition. When the federal government launched its Crow initiative, little demand for reforming the statutory rate was expressed by grain producers. The effects of high inflation, rising interest

rates, and a declining price of grain, made the idea of higher transportation costs unacceptable to many prairie grain farmers. State officials, therefore, were faced with the task of mobilizing active support, both from agricultural and nonagricultural groups, for its policy initiative. In the past, demands had repeatedly been made that the Crow rate be abandoned. The federal government, however, retained the statutory rate, even when it became increasingly apparent that the railways were losing money hauling grain under the statutory rate. Instead, the federal government had embarked upon a number of programs and subsidization schemes to ensure the integrity of the western rail system. Furthermore, the extent to which state officials were successful in translating their preferences into public policy provides a measure of the extent of their autonomy in the policy-making process. In view of the dominant assumption of societal-centered analyses that public policy results from private demands, investigation of the means the state employs in translating its policy preferences into public policy, is very important in empirically testing the propositions of a state-centric model of public policy.⁵⁵

⁵⁵ A brief note on the method of inquiry used in this study is in order. Between May 1985 and March 1986, thirty-two interviews were conducted with many of the principal actors involved in the debate which surrounded the federal government's decision to change the Crow rate. Those interviewed included federal cabinet ministers, opposition MPs, their advisors, senior bureaucrats from Transport Canada, Agriculture Canada, and the Canadian Transport Commission, and representatives of western

The following chapter discusses the origin and development of the Crow rate over the course of its long history. The Crow rate's background is important in understanding the controversy that surrounded the issue, and the genesis of the arguments made for and against its retention. Chapter III investigates the demands for change of the Crow rate beginning in the 1970's. The effects of inflation on the adequacy of the western rail system were becoming more problematic during that period. Chapter IV discusses the formulation of the federal government's Crow initiative. Chapters V, VI and VII analyze the reaction of the federal opposition parties, the provincial governments and interest groups, to the government's plans. Finally, Chapter VIII concludes with a discussion of the implications of the Crow rate debate in regard to state-societal relations and an evaluation of the statist approach in the study of public policy.

agricultural groups and the railways. Several government officials from the Government of Alberta were also interviewed. Interviews lasted from forty minutes to two hours. All participants were promised anonymity. Furthermore, analysis of the Proceedings of the Standing Committee on Transport and House of Commons debates, government and interest group publications and documents, and newspaper coverage was conducted.

Chapter II

THE ORIGIN AND EVOLUTION OF THE CROW RATE

2.1 Introduction

An understanding of the origin and historical development of the Crowsnest Pass freight rate is important for an appreciation of the controversy that accompanied the federal government's efforts to end the historic rate. The perceptions and policy positions of many of those involved in the Crow debate, for example, were based upon interpretations of past governmental decisions and railway commitments in return for public subsidization.

The debate concerning whether the Crow rate should be changed and, if so, who should pay for any increases in freight rates, was couched in views considered alternatively as either facts or myths.³⁶ Some western farmers, for example, believed that the Crow rate had been established in exchange for 25 million acres of western Canadian land given to the Canadian Pacific Railway (CPR) in 1881.³⁷ The CPR,

³⁶ See Garry Lawrence Fairbairn, From Prairie Roots: The Remarkable Story of Saskatchewan Wheat Pool. Saskatoon: Western Producer Prairie Books, 1984, 221.

³⁷ According to the terms of a contract between the Government of Canada and the newly formed CPR to complete construction of a transcontinental railway, the government provided a subsidy of \$25 million and 25 million acres of land. The land granted was to be in alternative sections of 640 acres each, 24 miles deep on

in turn, had used the land holdings to build its corporate empire of hotels, real estate, industry, ships and airplanes. Hence, the CPR had an obligation, some farmers argued, to haul grain at the lowest possible rate. However, the Crow rate was not related to the original transcontinental railway agreement. Rather, its origins are located in the Crowsnest Pass Agreement of 1897, to be discussed below.

Other misconceptions surrounding the Crow rate included the belief that the CPR received monopoly rights over wide areas of the prairies as part of the Crow Agreement, and that the Crow rate was originally intended as a national gift to the West upon joining Confederation. Although inaccurate, these views nevertheless underlined a significant part of the opposition to altering the Crow rate.

either side of the railway between Winnipeg and Jasper House. Additional provisions included land for road beds, shops and stations; material for original construction could be imported duty-free; and the railways, grounds and buildings used for construction and operation, as well as the capital of the company, were to be forever free from any taxation. The land grants were exempt from taxation for twenty years, unless sold or occupied in the meantime. Furthermore, the CPR was granted a monopoly. For twenty years, no railway would be authorized south of the Canadian Pacific, except those running south-west. Such lines, however, could not continue to within fifteen miles of the U.S. border. Finally, the company was empowered to issue \$25 million in bonds secured upon the land grants. See G.P.deT. Glazebrook, A History of Transportation in Canada: National Economy, 1867-1936. Volume II, The Carleton Library Number 12, Toronto: McClelland and Steward Limited, 1964, 74-75. &

This chapter discusses events which shaped the views of the Crow rate. The economic, political and philosophical arguments marshalled for and against the retention of the statutory rate were to a large extent grounded in the rate's origins and long history. We will begin with a review of the Crowsnest Pass Agreement.

2.1.1 The Crowsnest Pass Agreement of 1897

During the 1890's, Canada's economy was stagnating due to the effects of one of the most severe recessions of the century.³⁰ International markets were depressed and export markets weak. Canada's bleak economic outlook was worsened by the impending loss of its preferential status as a supplier of resources to England and its difficulty in penetrating the American market.

Within this context, interest in the mineral-rich Kootenay region of south-eastern British Columbia was expanding. The area, however, was inaccessible by rail, since Canada's transcontinental rail lines ran north and south of the area. Moreover, the area's mountain ranges ran in a north-south direction. Consequently, the intervening valleys and the proximity of the mining area to the United States made the locality much more accessible to American territory and U.S. water and rail communications than to

³⁰ Report of the Grain Handling and Transportation Commission (Hall Commission), Grain and Rail in Western Canada. Volume I, Ottawa: Minister of Supply and Services, 1977, 33.

Canada.⁵⁹ An American rail line, the Great Northern, for example, had reached the area (Nelson, British Columbia) by branch line in 1895. The federal government became concerned that United States interests might capture much of the wealth of this potentially prosperous area.⁶⁰ Such a development would threaten an important goal of the National Policy, namely, ensuring that economic development in Canadian territory would be integrated into the Canadian, rather than American, economy.⁶¹

Construction of a rail line into the Kootenay area was also supported by western farmers, especially those far removed from the sales outlet through the Lakehead. The rail line would open up a market for their products. Coal producers in southern Alberta favored the construction of the railway line since it would allow them to supply the coke necessary for smelting in the area. Finally, Winnipeg merchants hoped the line's construction would allow them to replace St. Paul and Minneapolis, Minnesota as the region's supply center. Thus, construction of a railway line into the Kootenay region was supported by both the federal and provincial governments, business groups and agricultural interests.⁶²

⁵⁹ Vernon C. Fowke, The National Policy and the Wheat Economy. Toronto: University of Toronto Press, 1957, 53.

⁶⁰ See D.J. Hall, Clifford Sifton: The Young Napoleon, 1861-1900. Volume I. Vancouver: University of British Columbia Press, 1981, 154.

⁶¹ Vernon Fowke, THE National Policy, 53.

On September 6, 1897, the Government of Canada entered into a contract with the Canadian Pacific Railway to build a rail line into the Kootenay region. The federal government agreed to subsidize the cost of the construction of a rail line from Lethbridge, Alberta, through the Crowsnest Pass, to Nelson, B.C., a distance of 330 miles. The subsidy was set at \$11,000 per mile, but not to exceed \$3,630,000. In return, the CPR agreed to a number of concessions, including a reduction of freight rates.⁶³ Rates on flour and grain from points in the north-west to Port William, Manitoba were reduced three cents per hundred pounds. Half the rate was to be implemented by September 1, 1898; the remainder a half a year later. Thereafter these levels were to be considered the maximum rates.⁶⁴

The federal government also gained the power to set freight rates and to permit other railways to use sections of the Crowsnest line where a second rail line would be impossible to construct. The charter of the Canadian Pacific Railway had provided that the railway was exempt from rate regulation until profits exceeded ten percent of

⁶² A.W. Currie, Economics of Canadian Transportation. Toronto: University of Toronto Press, 1954, 47.

⁶³ The CPR agreed to reduce freight rates by one-third on green and fresh fruits, by one-fifth on coal oil, and by one-tenth on a series of consumer goods vital to the farmer. Consumer goods included cordage, binder twine, agricultural implements, iron, wire, glass, roofing and construction paper, construction felt, paints and oils, livestock, woodenware, and household furniture.

⁶⁴ D.J. Hall, Clifford Sifton: The Young Napoleon, 154.

investment. This level had not yet been reached when the CPR gave up the exemption altogether.

The intent of the Crowsnest Pass Agreement has been the subject of dispute since its inception. Major interpretations include the views that the Agreement was: (a) an economic development policy, (b) the result of expedient politics, and (c) an attempt to thwart U.S. designs on Canadian territory. The federal government's concern with American penetration into the Kootenay region has already been noted. A brief discussion of the other viewpoints is useful since they helped shape the arguments made during the Crow rate in the 1970's and 1980's.

Some analysts have argued that the Crow rate was intended to improve the competitive export position of grain, the prairie's cash staple, and thereby encourage development of the region. Low freight rates provided western settlers with less expensive capital equipment, and ensured that the maximum possible proportion of the equipment would be supplied by eastern Canadian factories, and transported to western Canada by Canadian railways. The grain transportation policy, therefore, complemented the goals of the federal Conservative government's National Policy. Advocates of the Crow rate have placed particular emphasis upon this interpretation.

The importance of the Crow rate in creating and sustaining the prairie wheat economy, however, has been

questioned by recent analyses. The economic development that followed the introduction of the Crow rates, it is argued, resulted from changed crop and market conditions. According to S.N. Kulshreshta and D.G. Devine, only a portion of western agricultural development can be attributed to the existence of the Crow rate. Other factors were also important, including a sharp increase in world wheat prices over the period from 1896 to 1920, and a rapid increase in farm productivity as western Canadian farmers gained experience and adopted agricultural techniques from adjacent and geographically similar areas of the western United States. Furthermore, during this period Canada had free or cheap land to offer new immigrants while the era of cheaper land in the U.S. was almost over by the beginning of the 20th century.** According to Kulshreshta and Devine:

Although it cannot be denied that the decrease in the cost of transporting wheat to international markets through Crowsnest rates did help Canadian grain exports, it is apparent that a combination of favorable demand and supply conditions, supported by technological and capital borrowings largely influenced the phenomenal rate of progress that was achieved.**

** Prior to 1898, the five year average price of grain was \$.70 a bushel, compared to the next ten year period ending 1908, when it reached \$.85 per bushel, an increase of 21.4 percent. See S.N. Kulshreshta and D.G. Devine, "Historical Perspective and Propositions on the Crowsnest Pass Freight Rate Agreement," Canadian Journal of Agricultural Economics. 26(2) 1978, 77.

** Ibid..

Nevertheless, many western farmers continued to believe that low grain freight rates were fundamental in sustaining the prairie wheat economy. Any attempt to raise grain freight rates, therefore, was staunchly opposed.

Other scholars have interpreted the Crow Agreement as an attempt of the federal government to enhance its political power. M.M. Duncan, for example, contends that the Liberals entered into the Crow's Nest Agreement as a result of the careful calculation of political benefits in order to maximize their tenure in office.⁶⁷ Duncan supports her contention by noting the sequence of events which lead to the signing of the Agreement. The Crowsnest Pass line was expected to be self-supporting, as indicated by the number of groups that sought to obtain the charter for the line. It became obvious, however, that while the line would be built, to be successful, it would have to be linked with existing rail lines. When it appeared that the Canadian Pacific Railway was the most likely company to construct the line, the freight rate issue became dominant, and was used as a means to reduce the CPR's control over freight rates, since many western farmers feared the monopolistic powers of the CPR. Thus, Duncan contends that the idea of rate reductions began as a rider to the initial intention of providing Canadian rail access to the Kootenay region:

⁶⁷ M.M. Duncan, The Crowsnest Rates as a Policy Tool: But What Policy? An Historical Analysis. Research Report Number 11. Winnipeg: Center for Transportation Studies, University of Manitoba, March 1973, 3.

"However, by the time the Act was passed, the emphasis had switched to the provision of lowered rail rates, with the access which the rail line would provide being of secondary interest... (It seems doubtful that anything less than the concessions made by the CPR would have been acceptable to the public in exchange for the Government's subsidy.)"

Groups in western Canada, for example, had argued for government construction and/or operation of the line, rather than allowing the unpopular CPR control of the line. Due to the federal government's decision not to build a government line, a compromise was struck between the railway and the Government of Canada. According to Duncan: "...since the line would have most likely have been built in the absence of a cash subsidy, the subsidy was mainly a means of buying back from the CPR certain rights which many felt they never should have had. In this way, the Liberals were able to satisfy a fairly large anti-CPR faction in the nation, in the East as well as in the West."

The newly elected federal Liberal government of 1896 was under growing pressure from western Canadians to address the monopolistic powers of the Canadian Pacific Railway to set freight rates. While the government, in 1888, had bought back the monopoly rights granted to the railway in the 1881 Canadian Pacific Railway Act, concern remained regarding the railway's ability to control freight rates. The Liberals,

** Ibid., 9-10.

** Ibid., 11.

whose 1896 election platform contained a strong anti-monopoly plank, believed that the Crowsnest Agreement was an opportunity to gain partial control over western freight rates. In fact, rather than the actual level of these rates, many politicians at the time considered government control of freight rates to be the most significant part of the Agreement.

Support for this contention is provided by the recollections of Sir Clifford Sifton, Minister of the Interior in Laurier's government. Shortly before his death in 1929, Sifton wrote that CPR President William Van Horne and Vice-President Thomas Shaughnessy had approached him expressing a desire to build the line. They had argued, however, that their company would require a large bonus, since it was on the verge of bankruptcy. Yet, by 1897, the Canadian Pacific was not in danger of bankruptcy. Furthermore, the subsidy, which was expected to cover approximately half the cost of building the rail line, actually accounted for little more than one third of the construction costs.⁷⁰

Duncan's argument that the federal government had extracted concessions from the CPR in return for the subsidy is important in the context of the debate to change the Crow rate in the 1970's and 1980's. As will be discussed, some

⁷⁰ Construction costs totalled \$9,898,392, while the CPR received \$3,404,720 in subsidy payments. See W. Kaye Lamb, History of the Canadian Pacific Railway. New York: Macmillan Publishing Company, 1977, 210.

critics of the federal government's initiative to change the historic Crow rate charged that the railways had derived benefits far in excess of any costs they had incurred as a result of the Agreement. In the words of one author, the Crow rate: "...[i]nflicted no great hardship on the railway; the lower rates yielded a modest profit and continued to do so until the First World War."⁷¹

Given the anti-monopoly mood of the time, the CPR may have concluded that government regulation of freight rates was preferable to creation of lower rates through competition, given the railway's excess line capacity. As Duncan observes: "Rate regulation to be agreed to in exchange for a non-essential subsidy, when it seemed likely that regulation was coming anyway, was preferable to rate control with no such subsidy."⁷² CPR President W. Van Horne, for example, wrote that the rate reduction was: "...merely a reduction which Mr. Shaughnessy [Vice-President of the CPR] and I believe will be forced upon us by other causes by the time the line is completed."⁷³ As well, railway officials expected that the recent growth of the western population would continue, leading to a drop in per unit costs of shipping grain. According to W.B. Lanigan, Freight Traffic Manager of the CPR at the time, the

⁷¹ W. Kaye Lamb, History of the Canadian Pacific Railway, 120.

⁷² Duncan, The Crowsnest Rates as a Policy Tool, 14-15.

⁷³ Quoted in D.J. Hall, Clifford Sifton, 153.

railway company felt that the value of its extensive land holdings in the region would in turn appreciate.⁷⁴ Lower freight rates, therefore, would be economically acceptable. The wisdom of this assumption has been confirmed by the recent work of Gillian Wogin. According to Wogin, the Crowsnest Pass Agreement enabled the CPR to increase its wealth from future sales of land by assuring prospective buyers that it would not raise freight rates upon the sale of its land to settlers.⁷⁵

The federal government also desired the establishment of friendly relations with the financial interests which controlled the Canadian Pacific. In a report by Public Works Minister Israel Tarte to Prime Minister Laurier of an interview with CPR Vice President Shaughnessy about the Crowsnest affair, Tarte stated that the future of the government would depend upon the wisdom of its railway policy. Conservative power in Quebec, he wrote, had been based upon the support "des grands interets materiels" and the influence of the Church. Due to the Liberal's recent stand regarding the Manitoba school question: "il faut attacher le plus solidement possible a notre char les influences terrestres, la puissance du capital." Thus the government needed to secure the support of both the Grand

⁷⁴ Ibid..

⁷⁵ Gillian Wogin, The Wealth-Maximizing Behaviour of the Canadian Pacific Railway: Lands, Freight Rates and the Crowsnest Pass Agreement. Ph.D. thesis, Ottawa: Carleton University.

Trunk and the Canadian Pacific railways: "Avec ces grands compagnies de chemins de fer derriere nous, nous pouvons faire face a l'orange clerical."⁷⁶

Finally, the owners of the Toronto Globe, who were very influential with the federal government, stood to benefit materially from the development of southern British Columbia. The Manitoba Free Press, for example, accused members of the Globe of being: "...at the head of a syndicate that have taken over the charter of the British Columbia Southern Railway which...[controlled]...several million acres of land including coal deposits of the Crow's Nest Pass and...[were]...negotiating with the Government for the construction of the road."⁷⁷

The Government of Manitoba's intention to aid the construction of a railway line direct from Winnipeg to Duluth, Minnesota, unless the Canadian Pacific reduced its freight rates, also encouraged the railway to agree to reduced freight rates. While a direct line, without branchlines, in the agricultural area might lack effective power to force the CPR to lower its freight rates, the proposal, coming as it did when the possibility of an agreement between the federal government and the CPR was being considered, likely added to the pressure on the company.⁷⁸ The CPR was also interested in the coal deposits

⁷⁶ Quoted in D.J. Hall, Clifford Sifton, 152.

⁷⁷ A.W. Currie, Economics of Canadian Transportation, 47-48.

⁷⁸ Ibid., 47.

of the Kootenay region, both as a potential source of traffic for the new Crowsnest line, and as a commodity required by the smelters of the region. As one author has observed: "There was an abundance of coal in the Crowsnest region, but there had been no point in mining it until the railway was available to move it to market. Now that the railway was provided, the Canadian Pacific was anxious to make sure that mining would begin without delay, and was prepared to make substantial concessions to bring this about."⁷⁹

2.1.2 Summary

Ironically, in retrospect, neither the federal government nor CPR officials placed much emphasis upon the Agreement's freight rate "perpetuity" clause. According to D.J. Hall, the federal government and the CPR:

...unquestionably were influenced by the fact that the historic pattern of development for fifteen years had been a constant downward revision of rates, made possible by new technology, growing efficiency both of scale and organization and competition. By no means was the new Crowsnest rate seen as a 'bottoming out' of the rates.⁸⁰

Not until costs began to rise during World War I did the railway feel the effects of the Agreement's freight rate limitation.

⁷⁹ Ibid..

⁸⁰ D.J. Hall, Clifford Sifton, 155.

The legacy of the disputes surrounding the Crow Agreement has been mistrust of the railways, particularly of the CPR, by western Canadian farmers. Farmers remain suspicious of what they perceive to be the railway's monopolistic rate-setting powers. Attempts by the railways to remove the limitation of the Crow rate, for example, are viewed by some as an attempt to abandon a commitment they agreed to in perpetuity. Moreover, some farmers argued that the CPR corporate empire owed a good deal of its fortune to the public support the Canadian people provided in the form of subsidies and land grants. Thus, railway requests that they be freed from the commitment to ship export grain at the Crow rate level because it is not "profitable" were not considered legitimate.

In the following section, the evolution of the Crow rate from an agreement between the CPR and the Government of Canada, to a statutory freight rate binding upon railways, is discussed. These developments were also important in shaping the arguments made during the Crow debate of the 1970's and early 1980's, particularly in regard to the extent of the commitment of the railways and the federal government, to the movement of export grain.

2.1.3 Evolution of the Crow Rate

During the first twenty-year period that followed the signing of the Crowsnest Pass Agreement, a number of important developments occurred. Between October 7, 1903 and May 31, 1918, the freight rate limitation was not in effect since the actual freight rate charged by the railways was lower than the maximum specified by the terms of the Agreement, primarily due to the competition from the Canadian Northern Railway.

In 1901, the Government of Manitoba had arranged that the Canadian Northern build lines within its boundaries to break the CPR's monopoly and thus reduce freight rates. Manitoba had not been satisfied with the Crowsnest Pass Agreement, arguing that the Crow rates were too high. Manitoba merchants contended that a reduction in rates on settlers' effects moving into the Prairies tended to favor Montreal and Toronto as distribution centers, rather than Winnipeg.⁸¹ Manitobans were also opposed to the CPR's virtual transportation monopoly, and the idea of giving the railway another subsidy.

The Canadian Northern was exclusively a prairie railway system. As a result, it could set freight rates according to the operating and capital costs it actually incurred hauling western goods. Unlike the CPR, it was not burdened with operating deficits north of Lake Superior. Furthermore, the Canadian Northern was able to send its

⁸¹ Ibid...

traffic originating on or destined for its prairie lines east over the lines of existing railroads, at rates made competitive with Great Lakes water transportation. Thus, Canadian Northern could afford to make further rate reductions and still operate at a profit. The Canadian Northern Railway agreed to have its freight rates set by the Manitoba Lieutenant-Governor-in-Council, i.e., the provincial cabinet, until 1920. Freight rates were reduced to levels lower than the ceiling specified by the Crow Agreement.

Concern with the Crow Agreement's limitation did not arise until late in the First World War. Acute wartime inflation steadily increased wages and commodity prices. Increasingly, railway expenses outstripped net railway revenues. As a consequence, in 1917, the railways applied to the Board of Railway Commissioners for a general increase of fifteen percent in freight rates to offset escalating costs of operation and maintenance.⁸² The Board granted the railways' request, except for those on grain and flour, which were increased only to the Crowsnest rate level. The Board, while agreeing that the railways' needs were legitimate, ruled that the Crowsnest Pass Agreement was a "Special Act" as defined by the Railway Act, i.e., it was legislation of the Dominion Parliament, and thus the Board was bound by its provisions. The Act prohibited unjust

⁸² In 1903, the Board of Railway Commissioners had been given responsibility for the regulation of freight rates throughout the Dominion.

discrimination between localities and shippers, which in turn prevented the Board from raising the rates for the same commodities covered by the Agreement on other railway lines. The Board delivered its decision on December 25, 1917, providing for higher rates effective February 1, 1918. However, the exigencies of the war resulted in the postponement of the rate increases until March 15 (June 1 on grain).

The arguments presented during the Board's hearing of the CPR's request for higher rates are worth noting as they would reappear each time the Crow rate came under consideration. The Grain Growers Association of Manitoba and representatives of the Canadian Northern Railway argued that the CPR had a great advantage over the other railways because of the valuable land and other support it had received from the Dominion. The revenues which the Canadian Pacific had accumulated, they contended, should be considered in the Board's decision of whether to grant the railway's request for higher freight rates.⁶¹

⁶¹ Opponents of higher grain freight rates in the 1970's and 1980's echoed the same argument, namely, that public subsidies and grants provided to the railways should be deducted from the costs incurred hauling grain. The federal New Democratic Party, for example, argued that the freight rate limitation had resulted from a quid pro quo arrangement between the railway and the people of Canada. The railway should not be released from its commitment, they argued, until such benefits had been exhausted.

Representatives of the CPR, however, responded that the real value of any previous assistance must be ascertained as of the time of the control or completion of the works, not years later:

The aid is what was given, not what the company was able, largely through its own efforts, to make (from the assistance)....It would be as logical to say that the value of the raw product to the producer is identical with the value of the finished article to the consumer as to contend that the amount received by the company from land sales in the last thirty odd years plus the present value of the unsold lands as shown by the company's books represents what was given by Canada to the company in 1881. No allowance (would) have been made for the enormous and expensive organization which the company was compelled to establish and maintain to sell and colonize its land. It is inferentially suggested that all the company did was to wait for purchases to come and that no expense was involved....All its earnings were made from the sale of transportation at legal rates of the volume of business transacted and its efficiency in conducting its operations, a surplus has been built up, no argument can be based upon that fact especially when all that is asked for is that additional earnings, less than sufficient to meet additional expenses, must be secured.**

Debate over the extent of the railway's financial needs and obligations would continue throughout the Crow rate's history.

In 1918, the federal government, by means of the War Measures Act, suspended the Crowsnest Pass Agreement for four years in order to allow railways to increase freight rates. In July of that year, the federal cabinet, by Order-in-Council, increased freight rates by approximately 25 percent in response to developments in the United States.

** Currie, Economics of Canadian Transportation, 65.

Under the "McAdoo Award", U.S. railway employee wages had been substantially increased to avoid labor disputes. To meet the costs of higher wages, U.S. freight and passenger tolls were increased by 25 percent. The Canadian government reacted in kind due to the imminence of a railway strike in Canada. It removed the statutory limitation whereby the Board of Railway Commissioners was bound by the freight rate levels specified by the Crowsnest Agreement.

The railways applied for a further general increase of 40 percent on all freight rates in July, 1920. Another American wage settlement, the "Chicago Award", had boosted freight rates in the U.S.. In response, the Board authorized increases in eastern and western freight rates effective, September 13, 1920 to December 31, 1920. In explaining its decision, the Board stated that it was:

"...entirely unreasonable that the railway companies should be expected to provide the necessary transportation services for this country unless they receive rates somewhat in proportion to the increased cost of their operation...."

The Board's decision was appealed to the federal cabinet by the Manitoba and Saskatchewan governments. Cabinet in turn, referred the matter back to the Board. The Board, however, refused to alter its decision, arguing that:

The fact that under the law, the railways as public utilities are required to have their rates approved by the Board does not justify the view that they should therefore be compelled to do business at a loss. Further, if the rates fixed

" Ibid., 73.

are not fair and reasonable to the railways as well as to the public, the public will suffer in as much as no railway compelled to operate on a non-paying basis can furnish efficient service or adequate facilities for the handling of traffic.**

The Board's reasoning succinctly expressed the railways' view of the effects of the Crow rate upon their ability to maintain an adequate transportation system. Increased revenue, the railways contended, were necessary in order to ensure an adequate western rail transportation network.

2.1.4 The Reinstatement of the Crow Rate

The Crow rate issue resurfaced during the parliamentary session of 1922. Unless federal legislation was passed, the temporary suspension of the Crow Agreement, in effect from 1918 to 1922, would expire. Freight rates, as a result, would return to their 1899 level. During the early 1920's, both the railways and farmers had been affected by the seriously depressed economic conditions, as the wartime boom vanished. World grain prices fell, prompting farmers' demands for the reintroduction of the Crow rates.

The compensatory nature of the rates was not at issue. More significant was the fact that all freight rates were at variance with 1922 post-depression prices. While prices and rail rates had reached a post-war high in 1920, by 1922 prices of agricultural products had fallen between one-half and two-thirds of their 1920 levels. Producer and consumer prices had decreased by about one-third. Yet, freight rates

** Ibid., 74.

had decreased by only approximately one-fourth.⁸⁷

The government appointed a Special Committee of the House on Railway Transportation Costs to investigate the matter.⁸⁸ According to A.W. Currie, the establishment of the Special Committee, instead of referring the matter to the Board of Railway Commissioners, reflected the loss of faith of western Canadians in the Board's decisions.⁸⁹ In the Committee hearings, the railways argued that complete restoration of the Crowsnest Pass Agreement would seriously deplete their revenues at a time when railway operating costs remained high. Moreover, the railways argued, although the Agreement applied only to a limited number of commodities, and was restricted to the CPR lines in existence in 1897, restoration of the Agreement's limitation on freight rates would in effect reduce practically all rates across Canada since the Board of Railway Commissioners was legally obligated to prevent unjust discrimination between commodities and localities.

Agricultural groups, on the other hand, argued that the Agreement was a legally binding contract whose provisions had to be honored by the railways. Moreover, although the CPR had received a subsidy to build a rail line through the Crowsnest Pass, western farmers had in fact not received any

⁸⁷ Duncan, The Crowsnest Rates as a Policy, 18.

⁸⁸ The following discussion is taken from A.W. Currie, Economics of Canadian Transport, 2nd ed., 76-85.

⁸⁹ Ibid., 76.

protection under the terms of the Agreement. Once the maximum limit of freight rates had been reached, the CPR had been allowed to raise freight rates. Furthermore, agricultural groups argued, lower freight rates were essential if western Canada was to gain relief from the depressed agricultural conditions it was experiencing.

Western grain producers also viewed regulation of freight rates as necessary due to the absence of competition from any other form of transportation. As T.A. Crerar wrote in 1924: "Rightly or wrongly the view exists in the Prairie Provinces that Eastern rates have always been governed by water competition, and that if there is not some governing maximum in the Prairies, the railways will do what they have always done[.] put on all the traffic will bear on this part of the Dominion."⁹⁰ Finally, in the opinion of many western farmers, the Crow rate represented one of the few concessions the region had successfully extracted from the eastern-dominated federal government. Failure to restore the rates would be interpreted as further evidence of eastern Canadian domination of the federal government.

The issue was ultimately resolved from a political, rather than an economic, standpoint. Initially the Special Committee recommended the indefinite suspension of the Crow Agreement. Several Liberal MP's not on the Committee, however, threatened to vote against their party if the

⁹⁰ T.A. Crerar, quoted in H. Blair Neatby, William Lyon Mackenzie King, 1924-1932: The Lonely Heights. Toronto: University of Toronto Press, 1970, 24.

Agreement was not restored. This posed a serious threat to the Liberal minority government which was dependent upon the support of the agrarian Progressive Party's block of sixty-five members. As one observer has written: "In the fluid circumstances prevailing...division within the ranks was a danger which menaced the old parties...as the fate of the government's proposals for dealing with the Crow's Nest Pass railway rates was to illustrate."⁹¹

The progressive wing of the Liberal Party rallied to the defense of the resumption of the Crow limitations in a party revolt which threatened to upset the government since it numbered about one-half of the Liberal caucus. Furthermore, recent federal government decisions had been unpopular in western Canada, including the effective negation of the Manitoba Agreement by federal policies, as well as the suspension of the Crow rates. Frustration with these policies, for example, had contributed to the political success of the Progressive Party in the 1921 federal election. The restoration of the Crow rate, therefore, was politically appealing to the federal government as a means of gaining the Progressive's support for the government's budget then before the House.⁹² In response, the Committee revised its findings, noting that Canadian National officials had claimed that the Agreement, if applied only to

⁹¹ W.L. Morton, The Progressive Party in Canada. Toronto: University of Toronto Press, 1950, 156.

⁹² Currie, Economics of Transportation, 77.

grain and flour, would result in lower revenue losses. While the Conservatives argued that the matter should be referred to the Board of Railway Commissioners, the House accepted the Committee's recommendation that the Agreement be suspended for two more years. The Committee, however, recommended that the Crow rates on grain and flour be restored at once, since reduction of rates for unprocessed grain was the primary concern of export-oriented western grain producers who wanted low freight rates for shipment of their products to export markets.

The federal government adopted the Committee's recommendations and amended Section 271 of the Railway Act of 1919 by Order-in-Council, restoring the Crow rates for grain and grain-products as of July 6, 1922, but suspending the rate on other traffic until 1924.

2.1.5 Statutory Enshrinement of the Crow Rate

In 1924 the railways again requested the suspension of the Crow rates, arguing that higher costs were resulting in large operating losses. The railways, for example, claimed that operating costs were 140 percent higher than they were in 1897.⁹³ Furthermore, the railways contended that great rate disparities would result from the restoration of the Crow rates. According to CPR officials, if the rates were reactivated, they would only apply to its lines which were in operation in 1897, and to products enumerated under the

⁹³ Currie, Economics of Canadian Transportation, 84.

Agreement. For its part, the Canadian National also opposed reimposition of the Crow rates. Competitive pressure, it feared, would force the reduction of its freight rates and therefore, reduce its revenue.

Prairie groups supportive of the restoration of the Crow rates, however, reiterated past arguments that had been marshalled in defense of the rate. The Crowsnest Pass Agreement represented a binding contract between the people of Canada and the Canadian Pacific Railway, and as such, its terms should be perpetually fulfilled. The federal government acquiesced, and took no action when the suspension expired on July 7, 1924. The Crow rates, as a result, were restored in their entirety.

In response to the government's decision, the railways interpreted the Act as applicable only to those stations that had existed as railway points when the Crow Agreement was signed in 1897: 289 shipping points compared to the more than 1,600 that were operating in 1924. Confusion over freight rates resulted, prompting complaints to the federal government. The federal government, in turn, contested the railways' interpretation, referring the matter to the Supreme Court of Canada. The Court upheld the railway's position, but also ruled that the Board of Railway Commissioners was not authorized under the Railway Act to establish rates in excess of the level specified by the Crow Agreement. In the words of the Supreme Court Justices:

"Parliament, having by statute assumed the obligations under the Agreement, must change or amend the statute."*** The Court's decision, in effect, turned the matter back to the political arena.

The federal government responded by amending the 1919 Railway Act, suspending the Crow Agreement indefinitely, but continuing the Crow rates on grain and flour out of western Canada, applicable to all rail lines and to all railway companies. Rates on westbound goods, previously included under the terms of the 1897 Agreement, were placed under the jurisdiction of the Board of Commissioners. The geographic extent of the rates remained the same, covering the eastbound movement of grain and flour from western Canada to export positions at the Lakehead. The amendment became effective July 23, 1925. In 1927, the law was extended to include export grain moving through west coast ports, and in 1931 to grain moving through the Manitoba port of Churchill.

The 1925 legislation marked an important watershed in the history of the Crow rate. No longer a two-party agreement between the Government of Canada and the Canadian Pacific Railway, the rate was henceforth a national policy enshrined in statute. While rates were set at the maximum level as provided by the Crow Agreement, the rate was now governed by amendments made to the Railway Act of 1919. Technically, therefore, the Crow rate was replaced by the "statutory rates" as a result of the legislation. Furthermore,

*** Ibid., 86.

responsibility for the grain freight rate was transferred from the Board of Railway Commissioners to Parliament. This point is particularly important in light of arguments later advanced by opponents of the government's plans to change the statutory rate who argued that the rates were based upon an agreement whose terms were to remain in effect in perpetuity.

2.1.6 Continuing Problems with the Western Rail Transportation System

Problems with the grain transportation system resurfaced by the 1930's as a result of rail over-expansion, high cost branchline capacity and low traffic volumes over branchlines. In November 1931, the federal government established the Royal Commission to Inquire Into Railways and Transportation in Canada. In its report, the Commission blamed, in part, "irrational and wasteful competition" between the Canadian Pacific and Canadian National railway systems, which resulted in needless duplication of tracks, facilities and services.⁹⁵ Aggravating the problem was competition from other modes of transportation, namely, motor vehicles, which deprived the railways of much shorter distance passenger and freight traffic, and the unexpected severity of a long depression. Those conditions, the Royal Commission claimed: "...imposed upon the Canadian public, as owners of the National System, capital expenditures and

⁹⁵ Canada, Report of the Royal Commission on Transportation. Ottawa: King's Printer, 1951, 243.

losses of great magnitude, and...caused anxiety and deep concern to the holders of securities of the Canadian Pacific Company."⁶⁶ The Royal Commission also argued that the situation was compounded by the inelasticity of the statutory freight rate. While the Commission refrained from making any specific recommendations regarding freight rates, it stated that: "In determining what is fair and reasonable to the railways(,) regard should be had inter alia to the cost (including the remuneration of the capital invested) of providing these services."⁶⁷

In response, the railways sought permission from the federal government to abandon uneconomic branch lines, but were refused in the interests of maintaining rail services to rural communities. Instead, the federal government agreed to provide subsidies to the railways to help defray their costs. Nevertheless, the grain rail system began to deteriorate as the railways neglected replacement of aging equipment and maintenance as a result of lack of profits.

Beginning in the late 1950 and early 1960's, the grain transportation and handling system became the object of a number of governmental inquiries. Evolving throughout these studies was a growing recognition of the substantial losses the railways were incurring hauling grain under the statutory freight rate, and the resultant deterioration of the western rail transportation system. While none of the

⁶⁶ Ibid., 12-13.

⁶⁷ Ibid., 60.

studies recommended the abolition of the statutory rate, each contemplated or recommended increases in the amount of remuneration the railways should receive for transporting grain. In the following discussion, a brief overview of these inquiries is provided, focussing upon their views of the fixed grain freight rate. The government's responses to these investigations provides an illustration of how the federal government dealt with the past problems of the western rail transportation system and the evolution of the view of the Crow rate. The federal government consistently responded with ad hoc solutions in contrast to the comprehensive proposals put forward in 1982.

2.1.7 The Royal Commission on Transportation - The Ingeen Commission

On December 29, 1948, Prime Minister Louis St. Laurent appointed the Royal Commission on Transportation to investigate anomalies in existing tariffs and rates. The Commission reported its findings February 9, 1951. The Royal Commission was asked by the CPR to recommend that the 1925 legislation enshrining the Crow rates be repealed, thereby eliminating the fixed grain freight rate. The CPR argued that all freight rates should be subject to the jurisdiction of the Board of Transport Commissioners. If national policy required special assistance to western Canadian grain farmers, railway officials contended, such assistance should not be made at the expense of other

shippers, or the railways themselves."⁹⁸ Moreover, the CPR contended that the Crowsnest Pass rates had always been a burden, either upon the railways, or upon shippers of other commodities, because they were not "compensatory" since they did not cover total costs. Consequently, other shippers were charged higher freight rates to compensate the railways for losses they incurred hauling statutory grain.

The Commission, however, responded that confirmation of the railway's claims was beyond its mandate and that the issue was not of essential significance to its proposals."⁹⁹ It argued that repeal of the 1925 legislation would result in the Board of Transport Commissioners establishing a new freight rate. Yet, its duty, by its own definition, was to fix and adjust rates "regardless of geographic or economic conditions", since it was concerned, "simply and wholly with the question of the reasonableness of the toll which the railway company is seeking to collect from the carriage of a given commodity irrespective of how it is made or whence it comes."¹⁰⁰ The Commission also dismissed the railway's complaint that the Crow rate had become a hardship on other shippers, noting that they had not received any complaints from bulk shippers to this effect. According to the Commission: "From all that was said before the

⁹⁸ Canada, Report of the Royal Commission on Transportation. Ottawa: King's Printer, 1951, 243.

⁹⁹ *Ibid.*, 244.

¹⁰⁰ Quoted in *Ibid.*, 250.

Commission it can be inferred, on the contrary, that these shippers would rather continue to bear whatever additional increase is required in their rates...than disturb the immunity of the rates on grain and flour."¹⁰¹ Finally, the Commission noted that if grain freight rates were too low, a subsidy to the railways, rather than a rate increase, would be more appropriate. This suggestion would eventually be adopted by the federal government under the National Transportation Act of 1967.

The railways had also criticized the statutory rates as too low in light of the high price at which wheat was selling. The Commission, however, noted that the price of wheat varied greatly according to world market conditions. It agreed with the arguments made by the United Grain Growers Limited before the Commission. The United Grain Growers observed that freight rates were a direct levy upon farmers which they were incapable of transferring to others due to the fact that the price of grain was beyond their control. Furthermore, western rail freight rates were not subject to competitive forces from other forms of transportation such as water. Nor should grain freight rates be governed by the principle of "what the traffic will bear" due to the fact that the development of the western grain-growing industry and of the prairies generally was a matter of continuing national policy.¹⁰² The Commission

¹⁰¹ Ibid., 252.

¹⁰² Ibid., 250.

also noted that Parliament had indicated that the relationship between grain prices and freight rates was fair on several occasions in the past.

The Royal Commission concluded that Parliament should maintain responsibility for the Crow rate that it had assumed in 1897. While a time might come for the Parliament to divest itself of this control in the course of the evolution of Canada's economic position, the Commission stated that:

...it would be against the national interest at this moment, in view of the uncertainties which exist in world affairs, and consequently in world market prospects, to subject this great export industry to the disturbance which the abandonment of statutory protection would undoubtedly cause. This abandonment would mean that Parliament no longer looks upon Western Canada's production of grain for export as an industry requiring special consideration in the national interest. There is no doubt that the effect of such a measure at this time would be particularly unfortunate.¹⁰³

Thus, the Commission argued that any change of the Crow rate would be based upon political, as well as economic, criteria. Yet, the Commission acknowledged that there might come a time when the federal government might be moved to increase grain freight rates. The Commission noted that:

In expressing the opinion that these Crowsnest Pass rates should remain in their present position, what is meant is only that they should remain under the immediate control of Parliament. It cannot be said, and nobody has asked that it should be said, that their present level must never be changed. None of those who oppose repeal have asked for any more than that Parliament's control should continue, and that Parliament itself should make whatever changes in these

¹⁰³ Ibid., 249.

rates, upward or downward, it may appear just and reasonable as time goes on.¹⁰⁰

Finally, in dismissing the railway's call for the suspension of the statutory freight rate legislation, the Commission noted the testimony of the CPR that: "since 1922 the greater burden of the Crowsnest Pass rate deficiency...[has been] borne by other shippers."¹⁰¹ Therefore, the Commission concluded that the railways were not in great need of assistance. The Commission did, however, recommend that the federal government provide for the cost of maintaining that portion of the transcontinental railway system which served as a "bridge" between eastern and western Canada, at an estimated cost of \$7 million dollars annually. The Royal Commission designated the trackage between Sudbury and Port William on the main line of the CPR as that company's "bridge" and suggested a corresponding extent of the CNR's line to be subsidized.¹⁰²

2.1.8 The Royal Commission on Transportation - MacPherson Commission

In 1959, the Royal Commission on Transportation, the MacPherson Commission, was formed to investigate problems of the rail transportation system, including ways of ensuring a more equitable distribution of burdens caused by obligations and limitations upon the railways by law due to public

¹⁰⁰ Ibid., 250.

¹⁰¹ Quoted in Ibid..

¹⁰² Ibid., 253.

policy. The Commission reported its findings between March 1961 and July 1962.

The railways once again contended that the Crow rate did not adequately cover their increased costs for labor, supplies and equipment and that freight rates should be increased. Grain producers were equally consistent in their arguments, contending that higher rates would place an undue burden upon farmers' net income. A joint submission of the Alberta, Saskatchewan and Manitoba provincial governments to the MacPherson Commission summarized western Canadian's opposition to the railways' request. Western producers argued that the rate was the result of a legally binding contract voluntarily entered into by the Canadian Pacific Railway. The CPR had received a cash subsidy, coal-bearing land, and a rail line which stopped further American penetration into the wealthy area of southern British Columbia. Yet, western farmers had received no benefit from these rate reductions between 1903 and 1918 as freight rates during that period were below the maximum rate allowable under the terms of the Agreement. Though the CPR might since have come to regard the Crow Agreement of 1897 as improvident, the prairie provincial governments argued, contracts are binding despite changing conditions. The CPR bound itself to maintain reduced grain freight rates in perpetuity, and therefore should be held accountable to its part of the bargain.

The prairie provincial governments also defended the statutory rates upon economic grounds. They contended that the Agreement was directed toward spurring economic development in the region, and toward linking that development with the eastern Canadian economy:

Reductions [of grain freight rates] were designed to improve the competitive export position of the cash staple of the Prairie region and thus to encourage that type of activity without which the region could not be developed. The reductions on...agricultural implements and building supplies...involved the dual purpose of providing western settlers with cheaper capital equipment and of assuring that the maximum proportion of this equipment should be supplied by Eastern Canadian factories and carried to the West over Canadian railways.¹⁰⁷

The western provincial governments contended that these considerations remained valid. Moreover, because of the inherent instability of the agricultural economy due to the vagaries of nature, prairie farmers required stable transportation rates at the lowest possible levels. Finally, the statutory rate was defended as fundamental to reducing the barrier between prairie farms and world markets.

The Canadian Pacific Railway countered that the Crow Agreement had been abrogated by Parliament in 1918, 1922 and 1925. Consequently, the argument that the railways were committed to providing grain freight rates at the level specified by the Agreement lacked legal standing. The railway also reiterated its charge made before the Turgeon

¹⁰⁷ Quoted in Currie, Economics of Canadian Transportation, 127.

Commission that the statutory rates had become a burden upon all railways in western Canada and on all shippers of commodities other than grain. While railway operating costs had risen rapidly since World War II, grain transportation rates had remained the same. As a result, tolls on other freight had to be increased more than would have been so if grain traffic had borne its share of the costs of inflation.

The CPR also repeated its claim that the statutory rate was too low in relation to the price of wheat. In 1897, when the Crow Agreement was signed, and in 1899, when the freight rate reductions were completed, the average price of wheat in western Canada was 99 and 70 cents per bushel, respectively. While the price of wheat fluctuated, particularly during the depression of the 1930's, for five crop years ending July 31, 1950, prairie farmers received \$1.75 per bushel.¹⁰⁰ Therefore, the railways argued, grain farmers could absorb substantial increases in freight rates without hindering their prosperity.

The railways proposed a compromise they believed would satisfy both their demands and those of prairie farmers. They suggested that the federal government subsidize the hauling of grain, rather than raise the level of grain rates paid by farmers. The subsidy would equal the differences in gross revenues from transporting grain at statutory rates, and the revenues which would be obtained if the same volume of grain were hauled at rates which covered the costs of

¹⁰⁰ *Ibid.*, 128.

handling traffic, or which bore a just and reasonable relationship to rates being charged on other traffic being carried under substantially the same conditions.

The MacPherson Commission agreed that the railways were losing money hauling statutory grain. According to their estimates, the railways suffered a shortfall of revenue on variable costs resulting from the cost of moving grain of approximately \$6 million in 1958 alone.¹⁰⁹ Furthermore, the MacPherson Commission was not convinced that railway earnings and assets in business investments other than in railways should be taken into account in the regulation of freight rates. The Commission reported that it had heard arguments that:

...non rail assets are, at least in part, the result of national grants made to the railway companies over the years to encourage the building of the railways. If this is so, it is claimed that it is only right that the profits should be used to assist in the transport of goods in the nation - or at least in that part of the nation where the grants were made. We can find no evidence that either the donor [the Government of Canada] or receiver [the CPR] contemplated such action. Grants were made to get the railways built. The technical superiority of the relatively high rates were very attractive. Presumably the grants were no greater than was required to get the job done.¹¹⁰

Moreover, according to the Commission: "...the country cannot find its way to a fundamental solution of its transportation problems until the railways are relieved of

¹⁰⁹ Canada, Royal Commission on Transportation. Volume I. Ottawa: Queen's Printer, 1961, 29.

¹¹⁰ Ibid., 30.

the burden derived from policies which are no longer appropriate to the modern competitive era....¹¹¹ Thus, the MacPherson Commission argued that the time had come to change the statutory grain freight rate, something that was not deemed appropriate by the Turgeon Commission in 1951.

The Commission suggested that the railways be assisted with those losses suffered as a result of public policy. It recommended that the federal government make an annual payment to each national railway company, equivalent to the amount by which variable expenses incurred in the movement of grain and grain products exceeded revenues arising from this traffic, as well as an annual payment to cover export grain's share of overhead costs. According to the Commission: "...this remuneration should ensure that there is no burden on other users of railway facilities...since this is a business in which the railways should be encouraged to continue, the traffic should yield a reasonable return upon investment."¹¹² It also recommended that an additional \$16.3 million be paid to the railways as a contribution to fixed costs.¹¹³

The MacPherson Commission favored greater reliance upon competitive forces rather than upon government regulation. According to the Commission, Canada had reached: "...the era of competitive coexistence in transportation...it is the

¹¹¹ Ibid., 31.

¹¹² Ibid., 23.

¹¹³ Ibid., 30.

task of the public, and of industry itself, to ensure that present and future policy is formulated in light of this development."¹¹⁴ The Commission's arguments represented a major break with Canada's past transportation policies. The call for a reduction in government regulation made policies such as the subsidization of western transportation vulnerable. The MacPherson Commission's recommendations illustrated the influence of a user-pay philosophy which would become increasingly evident in the federal government's policy decisions in the 1970's and 1980's.

2.1.2 The National Transportation Act of 1967

The issue of the Crow rate resurfaced during the debate of the 1967 National Transportation Act. The Act's stated policy objective was the development of an economic, efficient and adequate transportation system that would make best use of all transportation modes at the lowest total costs. Competition, rather than regulation, was considered the best means to ensure that each mode of transportation would carry that traffic for which it was best suited.

The railways were given more rate-making flexibility. Furthermore, the Act provided partial government compensation to the railways for losses experienced in carrying out "imposed public duties" by providing services for less than cost at government request. Examples included the retention of specific uneconomic branchlines, hauling

¹¹⁴ Ibid., 34.

export grain in eastern Canada and losses resulting from the operation of certain inter-city passenger services. The government's draft legislation also provided a framework for compensating the railways for losses incurred hauling statutory grain. The federal government, however, deleted the provision before passage of the bill. Nevertheless, the government agreed to provide indirect compensation to the railways in the form of funds for boxcar repairs, hopper car purchases and branchline subsidies.

Jack Pickersgill, federal Transport Minister in the Pearson government, attempted to repeal a freeze that had been placed upon non-competitive and class freight rates, including the Crow rate. The freeze had been enacted by the Diefenbaker government under the Freight Rates Reduction Act. Pickersgill proposed a study of the Crow rates to investigate if the railways were losing money and whether the government should provide subsidies in compensation. According to Jack Horner, then a Conservative MP, the government's proposed study was only a pretext for the government's desire to abandon the Crow rate.¹¹⁵ The government, however, was frustrated in its plans as a result of the passage of a Conservative-sponsored amendment which deleted that section of the bill which provided for the investigation.

¹¹⁵ Jack Horner, My Own Brand. Edmonton: Hurtig Publishers, 1980, 69.

2.1.10 Conclusion

Although the influence of the Crow rate limitation on grain freight rates varied over time, the rate remained essentially intact. The basis of the fixed rate, however, changed significantly. As a result of the 1925 amendment to the Railway Act of 1919, the freight rate became statutory, governing all railways moving grain and grain products out of western Canada.

The railways consistently lobbied for higher freight rates at every opportunity available, arguing that the rate was unrealistic in relation to costs. Furthermore, they argued, the entire western rail network was suffering as a consequence. Prairie farmers, on the other hand, contended that the fixed rate represented a contractual obligation upon the CPR, which had been imposed upon all other railways in 1925. More importantly, they argued, the Crow rate was critical to the prosperity of the wheat economy.

As the above discussion of the origin and development of the Crow rate illustrates, the fixed grain freight rate, over the course of its long history, became increasingly resilient. Despite repeated demands for its removal by the railways, the federal government refused to abandon the Crow rate. Support of the grain rate transcended economic considerations. Its retention became a matter of maintaining the rights of western Canadians. Many prairie farmers came to view the Crow rate as a fundamental element

of the Confederation bargain, part of a contract whose terms had been signed in perpetuity. To alter the status of the Crow rate, therefore, was bound to be extremely controversial. The following chapter discusses the context within which the federal government made its decision to change the Crow rate despite the expectation of significant societal opposition.

Chapter III

CONTEMPORARY DEMANDS FOR CROW REFORM THE RAIL CAPACITY AND FINANCING CRISIS

3.1 Introduction

Developments during the 1970's however, caused the effects of the Crow rate to grow more problematic. Inflation dramatically widened the gap between what farmers paid and the actual cost of shipping export grain to market. The resulting revenue losses, the railways argued, discouraged proper maintenance and needed upgrading of the entire western rail transportation system. The deterioration of the rail network was becoming evident. In the mid-1970's, federal Transport Minister Otto Lang suggested that the Crow rate had to be abandoned in the face of these problems, but was rebuffed by strong opposition. Instead, the federal government enacted a number of short-term programs in an attempt to deal with the rail system's inadequacies.

This chapter describes the railways' financial crisis which was attributed to the burden of hauling grain under the fixed freight rate. Otto Lang's failed attempt to abandon the statutory rate is also examined. Although unsuccessful, Lang's efforts to build support for

abandonment of the Crow rate were important in laying the groundwork for the federal government's later success.

3.1.1 Increasing Demands Upon Rail Capacity

Demand for western Canadian resources; namely, coal, sulphur, potash, forest products, petrochemicals and grain, grew dramatically during the 1970's. A number of developments were responsible, including worldwide economic growth; increased demand for agricultural products to feed a growing world population; the rise of the Japanese steel-making industry; crop failures in the Soviet Union, and favorable Canadian currency rates.¹¹⁶ Increased demand for Canadian grain drove grain prices to record levels. Canadian grain production increased and grain exports reached a record level of 20.5 million tonnes in 1972-73. The dependence of bulk commodity shippers upon rail transportation to move their products to export position made an efficient rail service crucial to sustaining this growth.

Following the recession of the second half of the decade, another period of dramatic growth for westbound exports was forecast for the 1980's. Continuing demand for metallurgical coal by Japan, as well as the development of new markets in Korea and Taiwan; emerging new markets for thermal coal; and increased demand for sulphur, potash,

¹¹⁶ Western Transportation Advisory Council, "The Crisis in Rail Capacity and Financing," WESTAC Briefing. Vancouver: WESTAC, October 1981, 2.

petrochemicals and forest products, were expected to rekindle demand for western Canadian natural resources.¹¹⁷ Grain producers, for example, were encouraged by the Canadian Wheat Board to increase grain exports by 50 percent, to 30 million tonnes annually by 1985. (See Chart 1)¹¹⁸

¹¹⁷ Ibid..

¹¹⁸ The international marketing of Canadian grain is the exclusive responsibility of the Canadian Wheat Board.

Accompanying increased demand for western Canadian exports, however, was a growing concern about the adequacy of the rail system. Without massive capital investment for expansion and upgrading, the railways warned, the rail system would be unable to accommodate the demands of bulk commodity shippers, including grain producers. Prior to 1960, grain had been the only bulk export to the west coast. This pattern, however, began to change thereafter, as modest overseas markets developed for coal, sulphur and potash. (See Graph 2) What was once primarily a grain gathering system had evolved into a multiple resource gathering network.

In the past, the railways had been able to accommodate western transportation needs, partly as a result of the considerable excess line capacity which existed when the railways were first built. Forecast demand, however, threatened to exceed capacity in the near future. (See Figures 1 and 2) In response, the railways embarked upon a number of new management and control methods aimed at improving the flow of products through the system, including car interchange between the railways; car pooling between grain companies; and a block shipping system, jointly operated by the Canadian Wheat Board, the railways, and grain companies.¹¹⁹

¹¹⁹ Under the car pooling system, grain companies agreed to have loaded cars of most Canadian Wheat Board grains spotted at any terminal ready to receive them regardless of the point of origin. Block shipping provided a planning method for coordinating and expediting the

GRAPH 2

	ACTUAL	FORECAST	
	millions of tonnes		
	1982	1985	1990
Grain	11.23	15.0	18.0
Coal	15.70	31.0	46.0
Sulphur	4.98	5.2	6.0
Potash (Note 2)	2.56	4.2	6.0
4-Commodity Total	34.47	55.4	76.0

NOTES 1. Coal, grain, potash and sulphur accounted for 82% of total tonnage exported through Ports of Vancouver and Prince Rupert in 1982.

Historically bulk commodity exports have been volatile from year to year and actual shipments can be expected to swing above and below the trend line.

2. Range of potash forecasts is plus or minus 20% of stated volumes.

Source: WESTAC, Newsletter, 9(3) July-September 1983, 1.

movement of grain from primary elevators to export

FIGURE 1

FIGURE 2

Source: WESTAC, Briefing, "The Crisis in Rail Capacity and Financing," October 1981, 4.

terminals.

In October 1979, the Minister of Transport appointed a Grain Transportation Coordinator with powers to allocate cars and oversee the system generally, and to achieve a targeted increase of 50 percent in grain exports by 1985. The railways also initiated renewal programs for their physical facilities, including the replacement of half their boxcar fleet with larger, newer hopper cars, and the expansion of their mainline capacity.

The railways, however, contended that they were unable to complete the task of the renewal and expansion of the rail system that future demand would necessitate due to a substantial capital shortfall: \$3.1 billion for both railways over a five year period, representing 40 percent of the total capital required. (See Table 1)

Table 1: Railway Capital Investment (1981-1985)

(Current \$ Billions)

	NEEDS(1)	AVAILABLE(2)	SHORTFALL
CN Rail	4.6	3.0	1.6
CP Rail	3.1	1.6	1.5
Total	7.7	4.6	3.1

(1) National system total required to handle all traffic

(2) From internal cash flow

Source: Cited in Western Transportation Advisory Council, WESTAC Briefing, "The Crisis in Rail Capacity and Financing," October 1981, 5.

The CNR and CPR argued that borrowing capital on such a scale was not possible since the resulting levels of debt would be prohibitive. The railways linked their financial difficulties to the statutory freight rate. According to the CPR: "Despite continuous marketing and operational innovations that have greatly improved efficiency, the railway return on investment has remained so low as to preclude normal access to financial markets for long-term funding. This situation can only continue or worsen if the current grain revenue shortfall continues."¹²⁰ The CNR concurred: "As long as Crow losses continue, CN Rail will be unable to generate the revenue required to maintain and expand its transportation system."¹²¹

The railways painted a bleak economic picture. Despite branchline subsidies and the provision of hopper cars, net losses for the CNR exceeded \$130 million in 1980, three times its loss in 1973. Net grain losses rose beyond \$155 million in 1981 and were projected to exceed \$180 million in 1982.¹²² Taking into consideration 1982 inflation rates and traffic levels, CN officials estimated that losses would likely exceed \$300 million per year by 1985 and \$600 million

¹²⁰ Canadian Pacific Rail, Grain Transportation and Revenues, Submission to Dr. J.C. Gilson, March 1982, 20.

¹²¹ CN Rail, Rail Transportation: The Key to Western Economic Development. Public Affairs Research, February 1982, 28.

¹²² R.E. Lawless, President of CN Rail, "Winds of Change in Western Transportation," remarks to the Canola Council of Canada. Vancouver, British Columbia, March 24, 1981, 5.

per year by 1990. Thus, CNR officials argued: "The unique rate structure [the Crow rate] has stifled innovation and efficiency throughout the grain handling and transportation system."¹²³ Likewise, CPR officials contended that: "In the absence of provision to compensate railways adequately for grain transportation losses, the fixed [Crow] rates contradict national transportation policy and work against the national interest. Instead of promoting, they prevent development of an economic, efficient and adequate transportation system."¹²⁴ Both railways called for a new arrangement for sharing grain transportation costs.

An appreciation of the "revenue malnutrition" caused by the Crow, the railways contended, could be obtained by comparing 1982 prices with comparable prices that were in effect in 1899, when the statutory rate was first fully implemented. (See Table 2)

Moreover, unlike the rail transportation segment of the grain handling and transportation system, the cost increases of other segments of the transportation system had been reflected in price increases. (See Table 3)

The western rail system, as a consequence, began to deteriorate. The box car fleet, for example, declined drastically from 34,000 in 1969, to 12,000 in 1980. Train speeds were reduced and branchlines fell into disrepair. At

¹²³ CN Rail Public Affairs Research, Rail Transportation, 8.

¹²⁴ Canadian Pacific Railway, Grain Transportation and Revenues, 43.

2

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Table 2: Rail Cost Increases

Item	1899	1981	Increase 1981/1899
Rail labor (per hr.)	\$ 0.18	\$ 13.00	72 times
New rail (per net ton)	17.00	500.00	29 times
Rail car (per capacity ton)	20.00	540.00	27 times

Item	1938*	1981	Increase 1981/1938
Rail labor (per hr.)	\$ 0.64	\$ 13.00	20 times
New rail (per net ton)	45.00	500.00	11 times
Rail car (per capacity ton)	95.00	540.00	6 times

* 1938 is midway between 1899 and 1981, yet is somewhat insulated from abnormalities resulting from either the Depression or World War II.

Source: CP Rail, Grain Transportation and Revenues.
Submission to Dr. J.C. Gilson, March 1982, 9.

a time when demand for western Canadian exports was expected to boom, the railways were contemplating layoffs and reductions in their capital and operating budgets to compensate for the grain deficit.¹²⁵ Thus, the Crow rate covered a decreasing portion of the actual costs of moving grain. Furthermore, railway officials noted that grain shipments constituted one of the largest portions of total workload and costs. Therefore, they argued, revenues received from grain shipments should cover full costs, i.e., variable costs and an appropriate contribution to fixed costs. (See Table 4)

¹²⁵ Calgary Herald, January 11, 1983, 24.

Table 3: Estimated Average Costs of Moving Canadian Wheat

From a Mid-Prairie Point to Europe Via St. Lawrence Ports* (cents per bushel)

	1938	1980/1981	Increase
Interior Handling	\$ 2.89	\$ 22.95	7.9 times
Thunder Bay Popping	1.48	12.47	8.4 times
Lake Transportation	6.73	39.19	5.8 times
Seaboard Popping and Ocean Transport	12.98	53.31	4.1 times
Total	24.08	128.42	5.3 times
Rail Freight	13.80	13.80	No increase

*Canadian Grain Exports, Canadian Grain Commission.

Source: CP Rail, Grain Transportation and Revenues, Submission to Dr. J.C. Gilson, March 1982, 11.

Table 4: Statutory Grain Workload and Revenue
(percentage of railway totals)

	Workload in revenue ton miles	Crow Revenue	Crow Revenue Plus Branchline Subsidy
CP Rail	21%	4%	8%
CN Rail	17%	3%	6%

Source: CN and CP Rail, Canada's Railways - Limits to Growth, Grain Revenue Requirements. Abridgement of presentation to Canada Grains Council, Vancouver, October 29, 1980, 21.

Increasing freight rates would have been the normal means

of expanding the railway's revenues. Competitive factors for commodities other than grain, however, both in terms of transportation alternatives and in the markets of the commodities being shipped, made it impossible to raise freight rate levels. The average freight rates for coal, sulphur and potash were already four to five times higher than statutory grain on a revenue-ton-mile basis, even though these products could be handled at a lower cost than grain. Furthermore, the fixed grain rate made a normal commercial relationship between the railways and the grain industry impossible due to government regulation of freight rates.¹²⁶

Finally, failure to overcome projected capital shortfalls, the railways warned, would likely lead to capacity rationing through the mountains to the west coast by 1984-85. The long lead times needed before expanded capacity could be in place meant that capacity difficulties were likely to be encountered before additional capacity was in place. The CNR, for example, estimated that traffic demand might exceed supply by as much as five million tons in 1985, and ten million tons in 1990.¹²⁷

The spectre of rail traffic rationing was particularly ominous for grain producers. The Crow rate represented only 18 to 19 percent of the actual costs of moving grain to

¹²⁶ Canadian Pacific Railway, Grain Transportation and Revenues, 20.

¹²⁷ CN Rail Public Affairs Research, Rail Transportation, 32.

export terminals, and was projected to cover even less in the future.¹²⁸ If the railways were to reduce services, rail customers who paid higher competitive rates, farmers feared, would receive preference.

Grain producers' concerns were heightened by the findings of the Canadian Wheat Board that hundreds of millions of dollars were being lost as a result of inefficiencies in the grain handling and transportation system, which was preventing products from reaching markets.¹²⁹ In the fall of 1978, the Canadian Wheat Board reported that 4 million tonnes of grain, valued at approximately half a billion dollars, were lost or deferred in the 1977-78 crop year. The Wheat Board estimated that in the following year, sales could have been 25 percent higher, representing a loss of between \$3 and \$4 billion. Deferment of sales also increased costs. Demurrage costs, for example, reached \$20 million in 1978.¹³⁰ Markets were also lost as a result of the inadequacies in the delivery system. Japan had turned to Brazil and Australia for its supply of rapeseed, to the extent of even financing the establishment of rapeseed

¹²⁸ Western Transportation Advisory Council, "The Crisis in Rail Capacity and Financing," 2.

¹²⁹ The Vancouver Sun, July 7, 1978, A1.

¹³⁰ Demurrage is a charge levied against a shipper for holding a rail car at the time of loading or unloading beyond a specific period. It is designed to prevent a shipper using railway cars for storage when his or her own warehouse is filled or otherwise inadequate. See A.W. Currie, Economics of Canadian Transportation, 321-332.

production in those countries. Canada had previously been Japan's exclusive supplier.¹³¹ Finally, the Western Transportation Advisory Council estimated that if only ten percent of the forecasted westbound bulk exports in 1985 could not be moved, lost export sales would approach \$1 billion for that year alone (at 1980 prices).¹³²

3.1.2 Otto Lang and the Crow Rate

In an October 29, 1974 speech to the Canada Grains Council meeting in Edmonton, federal Transport Minister Otto Lang expressed his desire to abandon the Crow rate. He argued that although improvements had been made in the western rail transportation and handling system, fundamental problems remained. Most prominent were the financial problems of the grain companies and the railways. According to the Minister: "There is at the moment an impossible cash flow situation facing the railways making it unlikely that they will do more than try to hold the line on a system which continues to deteriorate. That cannot be accepted."¹³³ Lang noted that two-thirds of the subsidies

¹³¹ G.S. Crawford and A. Turner, Resource Allocation to Transport and Other Sectors. Summary Report, Workshop D, WESTAC Conference, "Transportation Policy: Action in the West," Saskatoon, May 26-28, 1975, 4.

¹³² Western Transportation Advisory Council, "The Crisis in Rail Capacity and Financing," WESTAC Briefing, October 1981, 6.

¹³³ Otto Lang, Keynote Address for Grain Handling and Transportation Seminar, from the proceedings of the seminar, "Grain Handling and Transportation," Semi-annual Meeting of the Canada Grains Council, October 1974, 25.

which the railways received in compensation for hauling grain on branchlines were instead being used to compensate the railways for the low revenue they received from the Crow rate.

The Transport Minister stated that his government was committed to a new national policy, including a different view of transportation, one that would base freight rates on real costs, and the elimination of freight rate discrimination. Central to the new transportation policy would be an examination of the effect of the Crow rate on the domestic movement of grain. According to Lang: "It is indeed likely that the Crow rate...is harmful to western development in livestock and that the Crow rates on export grain are discouraging the export of more meat and products of grain. They are also creating serious problems in terms not only of maintaining a deteriorating [rail transportation] system, but in rebuilding it into a modern efficient one."¹³⁴ The Minister, however, promised that the government would preserve the full "benefit" to farmers that had been created by the Crow rate, but that those benefits would be conferred in a better manner than through an inflexible freight rate below real costs. Freight rates that reflected real costs would encourage the provision of the most effective grain handling and transportation system. Furthermore, Lang argued, the benefits of the Crow rate should be transferred directly to the producer, or made

¹³⁴ Ibid., 26.

available through the establishment of a fund to support prairie agriculture. The federal government would enshrine these programs in statute to ensure farmers' confidence in the new system.

Lang's plans included: the elimination of the Crow rate; a freeze on further abandonment of branchlines until January 1, 1975; an investigation of future development of the rail transportation system; creation of a "Crow Benefit Fund" to compensate farmers for higher freight rates; incentives for increased trucking of grain; closure of inefficient elevators; and a rehabilitation and road upgrading program.

Lang recognized that any attempt to change the status of the Crow rate would be politically difficult. Lang had toyed with the idea of the federal government unilaterally changing the Crow rate, but had upon consideration thought the move would be too controversial.¹³⁵ The federal government would have to convince prairie grain farmers that giving up the Crow rate was in their best interest. He decided to launch a public campaign toward that end. In 1975, he appointed Carl Snavely, an American railroad economist, to investigate railway costs. Lang believed railway claims that they were losing large amounts of revenue hauling statutory grain. Snavely's investigation, he hoped, would document those losses, thus providing

¹³⁵ Dennis Gruending, Emmett Hall, Establishment Radical. Toronto: Macmillan of Canada, 1985, 196. The following discussion of Lang's attempt to alter the Crow rate is primarily drawn from this work. See 193-208.

support for his call to reform the Crow rate.

Lang's initiative, however, encountered immediate opposition. The Saskatchewan Wheat Pool opposed Lang's proposals. Support of the SWP, representing the majority of western grain producers, and long involved in the formulation of western agricultural policy, was considered essential in persuading western producers to support Lang's proposals. SWP leaders, however, were not willing to consider changes to the Crow rate without specific proposals regarding what would replace it.

Further complicating matters was a strain in relations between the Pool and Transport Canada, due in part to the outcome of the controversial Lower Inventories for Tomorrow (LIFT) program.¹³⁶ Transport Minister Lang's decision to announce the government's intentions at a Canada Grains Council meeting also disturbed Pool leaders. The SWP had recently withdrawn from the organization as a result of a dispute over the Council's involvement in policy matters. The Grains Council, an industry-wide forum fostered by Lang, had provided the Pool only minority representation. SWP President Ted Turner complained that the Transport Minister had adopted an unnecessarily public and belligerent posture in his Grain Council speech, instead of privately consulting the Pools.

¹³⁶ In 1970, the federal government provided incentives for farmers to reduce their grain production in favor of forage crops, in order to reduce excess stored grain that was clogging the system.

Lang's proposals were also opposed by the Saskatchewan Liberal Party. The party's leader, Davie Stewart, worried about the effects the policy would have on an impending provincial election, dissuaded Lang from conducting a series of public meetings across the prairies to advocate his plans.

Lang also appointed the Grain Handling and Transportation Commission in April 1975. Emmett Hall, a former Supreme Court judge, was chosen to head the Commission. Hall was well-respected in western Canadian for his work, including his role as a mediator in rail transportation disputes.¹³⁷ The Hall Commission was asked to make recommendations regarding the dispensation of western rail branchlines. The railways had requested permission to abandon uneconomic branchlines. The federal government decided to retain nineteen of the total thirty-thousand kilometers of prairie branchlines. The Commission was asked to recommend what should be done with the remaining eleven thousand kilometers of branchlines. Due to the political sensitivity of deciding which branchlines being used by grain farmers would and would not be retained, Lang wanted the Commission to conduct extensive public hearings, to make any decisions to abandon rail lines more legitimate. It was also hoped that Hall's personal standing among western farmers would make rail abandonment decisions more acceptable. The Commission

¹³⁷ For a discussion of Emmett Hall, see Dennis Gruending, Emmett Hall, Establishment Radical.

responded by holding 120 public meetings throughout western Canada. Between 1975 and 1977, the Commission received 1,400 briefs during 160 days of hearing testimony.¹³⁰

The Commission submitted its report, Grain and Rail in Western Canada, on April 18, 1977. The report covered a vast number of issues concerning the grain transportation and handling system. The Crow rate issue was continually raised throughout the hearings. Grain farmers defended the statutory rate. Critics, however, included railway representatives, private grain trade companies, agribusiness leaders, and western livestock producers. They called for government deregulation of freight rates. The railways argued that the statutory rate prevented them from investing in the maintenance and upgrading of the rail service throughout western Canada. Both the CPR and CNR called for an end to government protection of rail lines, arguing that they needed the flexibility to abandon them as market conditions dictated. Carqill, a large privately-owned American grain company that had recently expanded its operations into western Canada, blamed government regulation for the grain industry's problems. Because the rate applied only to raw grain exports, and not to finished products, specialty crop and livestock producers, and processing industry representatives complained that the statutory rate effected a strong disincentive against processing and secondary manufacturing in the West. Economic activity,

¹³⁰ Ibid., 197.

therefore, was transferred elsewhere. Livestock producers, for instance, claimed that it was often cheaper to let eastern livestock feeders buy prairie-owned barley and western cattle, ship them east, and fatten to slaughter weight near the large Montreal, Toronto and Hamilton markets, than to fatten them in western Canada.¹³⁹ Higher freight rates, livestock producers argued, would spur livestock production, creating more jobs on farms, auction houses, packing plants and export houses.

The Commission recommended that the statutory rate be applied to other agricultural commodities to remove its distortive effects; that the railways be compensated for the cost of moving grain by rail and assume responsibility for adequate maintenance and upgrading of lines within the basic network to the year 2000. Subsidies to the railways for grain-related branchlines should cease. A newly created Prairie Rail Authority was proposed to replace the Canadian

¹³⁹ This situation resulted from the fact that the Crow rate kept barley prices, a feedlot owner's most crucial input, abnormally high. To illustrate, barley prices in Alberta are determined by subtracting the freight rates from Lethbridge to Vancouver export terminals. With low freight rates, Lethbridge feedlot owners consequently pay higher prices for barley feed. Higher freight rates would therefore allow Lethbridge feeders to cut costs, thereby reducing beef prices, making their products more competitive. However, because of the Crow Rate, there is little incentive to feed prairie grown barley to western cattle since it costs four to six times as much to ship the equivalent amount of meat to eastern markets. Moving grain rates closer to those charged for other agricultural products would remove this distortion, and would encourage the prairie agricultural industry to grow or process crops that were not subject to the statutory rate.

Transport Commission. It would assume ownership of branchlines from the railways for a nominal fee, and ensure that they were kept in usable condition, until such time as their dispensation was decided. The Prairie Rail Authority would hire the railways to haul grain from the branchlines at profitable rates. The Hall Commission also recommended that the Crow rate be retained for grain producers, and that the difference between the freight rate and the cost of transporting grain be paid directly to the railways:

...the Government must continue to subsidize the transportation of export grain and that the full cost...must not be imposed on the producer. The contribution Western grain makes to Canada's balance of payments position demands that a substantial part of any increase be borne by the federal government in the National Interest...The Commission recommends that the difference between the Crowsnest rate and the rate determined through costs...should be paid directly to the railways, and not to individual farmers. The very idea of sending out checks to 160 thousand farmers is appalling.¹⁴⁰

The Commission's Crow rate recommendations, however, were unacceptable to the federal government. Hall's suggestion that if the railways needed more money, it should come from the federal treasury, was popularly received in western Canada. Major farm groups, the prairie provincial governments, and the federal opposition parties supported Hall's counsel. Federal officials, however, were not enthusiastic about the prospect of continuing federal expenditures of millions of dollars annually. The

¹⁴⁰ Grain Handling and Transportation Commission, Grain and Rail in Western Canada. Volume I. Ottawa: Minister of Supply and Services, 1977, 336-337.

government, therefore, was guarded in its response. Lang noted that none of the studies that had been prepared for the Commission had dealt with the Crow issue. The statutory freight rate, therefore, had not been thoroughly studied. Nor had the Commission provided any information as to the cost of its proposals. Lang argued that its recommendations were much too expensive, including the suggestion of extending the Crow rate to processed goods.¹⁴¹

Instead, the federal government initiated a number of short-term remedies in response to the problems confronting the western rail transportation system. The National Transportation Act of 1967 had provided for branchline payments to the railways. For the period 1970-81 inclusive, CP Rail alone received total payments of \$541 million for its western Canadian operations.¹⁴² The declining supply of rail cars in grain service, and the consequent reduction in grain carrying capacity, prompted the federal government, along with the prairie provincial governments and the Canadian Wheat Board, to enter into a series of grain car purchase-lease programs. (See Graph 3) The federal government also established the Prairie Rehabilitation Program to help restore rail branchlines to proper operating condition. Between 1977 and 1982, the Government of Canada spent a total of \$495 million: \$197 million for the CPW and \$298 million in support of the CNR and the Northern Alberta

¹⁴¹ Winnipeg Free Press, May 18, 1977, 4.

¹⁴² CP Rail, Grain Transportation and Revenues, 13.

Railway.¹⁴³

In total, the two national railways received government subsidies totalling \$971 million between 1971-81. Yet, despite this massive spending, the western rail transportation network was considered inadequate to cope with expected traffic demand. Large investments would still be needed to prevent the development of transportation bottlenecks in the movement of prairie products to world markets.

¹⁴³ The Northern Alberta Railway was jointly owned by CN and CP Rail until 1981 when CP acquired CN Rail's share.

GRAPH 3

Note: a standing capacity estimated using average payload for box car at 54 tonnes, hopper car at 75 tonnes
 b some of the cars announced ordered in 1979 were on track at year end but most were slated for delivery in 1980 or later

Source: WESTAC, Fact Sheet, "Grain Transportation: The Seventies in Review, 6(4) overleaf.

3.1.3 The Snavely Commission

In October 1976, the Commission on the Cost of Transporting Grain by Rail, the Snavely Commission, submitted its three volume report. The commissioner of the 31-member technical committee, Carl M. Snavely, Jr., had been asked by Transport Minister Lang to investigate the costs and revenues of grain traffic and to determine their relationship. In its investigation of revenues and costs for three different years, Snavely found the losses for the CNR, CPR and Northern Alberta Railways to be: (millions of dollars) 1974 - \$103; 1977 - \$160.5; and 1980 - \$244.4.¹⁴⁴ The Commission concluded that in 1974, only 38 percent of the variable costs attributable to grain traffic was covered by grain growers (Crow rate revenues), while a further 24 percent was covered by federal branchline subsidies. The balance, 38 percent (approximately \$89 million), was absorbed by the railways.¹⁴⁵ In one of two follow-up studies, Snavely estimated that by 1977, the distribution of revenues covering costs among shippers, the federal government and the railways, had changed to 32, 18 and 50 percent respectively.¹⁴⁶ Furthermore, the Commission stated that: "Although revenues at this level (variable costs

¹⁴⁴ Cited in David R. Harvey, Christmas Turkey Or Prairie Vulture? An Economic Analysis of the Crowsnest Pass Grain Rates. Montreal: The Institute for Research on Public Policy, 1980, x.

¹⁴⁵ Ibid..

¹⁴⁶ Cited by Minister of Transport, Public Affairs, Information. Number 23/82, February 3, 1982.

only) would remove the present negative influence on system viability, the grain traffic would not make a positive contribution to the maintenance of an ongoing, viable railway system -- this would still rest solely on the excess of revenue over variable costs of all other traffic.¹⁴⁷

Consequently, the railways, albeit involuntarily, were providing substantial subsidies to the grain system. From 1970 to 1981 inclusive, for example, the CPR estimated that its cumulative uncompensated shortfall was \$1.1 billion after considerations of all government subsidies.¹⁴⁸

The Snavely Report fulfilled Lang's expectations. According to one author:

The Snavely report changed the entire tone of Western Canada's debate over the Crow rates. Skeptical farmers and politicians had previously argued that there was no proof railways were really losing money under the Crow rates, that modern technology allowed increasingly efficient rail movement. Such arguments were suddenly untenable, and a new question emerged: How were the railways to get revenues that would fully compensate them for grain-movement costs.¹⁴⁹

Some agricultural group leaders began to call for federal government compensation to the railways for losses incurred hauling statutory grain. In 1976, for example, the United Grain Growers stated in their annual report that: "Crow

¹⁴⁷ Report of the Commission on the Costs of Transporting Grain by Rail, Grain and Rail in Western Canada. Volume I, 1976, 64-65.

¹⁴⁸ CP Rail, Grain Transportation and Revenues. Submission to Dr. J.C. Gilson, March 1982, 12.

¹⁴⁹ Garry Lawrence Fairbairn, From Prairie Roots: The Remarkable Story of Saskatchewan Wheat Pool. Saskatoon: Western Producer Prairie Books, 1984, 223.

Rates without adequate compensation from the government have resulted in a rail system hopelessly expensive to operate and maintain if left as is...the Government of Canada has a commitment to help pay for the movement of grain.¹⁵⁰ In 1979, the Prairie Farm Commodity Coalition (PFCC), an umbrella group including the Palliser Wheat Growers Association, the Western Barley Growers Association, and the Western Stockgrowers Association, released its proposal for transportation policy reform. The PFCC favored a system in which railways would charge farmers the full cost of shipping grain. The federal government would pay a subsidy directly to producers based, at least in part, on acreage. The group also suggested that the railways be allowed to charge variable rates, enabling railways to reduce freight rates on the basis of volume or efficiency. Freight rates, therefore, would vary between shipping points, branchlines, or even shippers at the same point.

Other agricultural groups also indicated their willingness to discuss changing the Crow rate. The Alberta Wheat Pool, for instance, suggested the necessity of preserving Crow "benefits" rather than the statutory rate itself. Unifarm resolved its longstanding dispute between grain and livestock producers, deciding that producers should pay part of the costs of future freight rate

¹⁵⁰ Quoted in United Grain Growers, "In Reaction to the Government of Canada's Policy Statement on Western Transportation," (March 1982), Supplement to GRAINERS. April 1982, 2-3.

increases. The Manitoba Farm Bureau appeared to be moving toward a similar position.¹⁵¹ At its January 1980 meeting, the Western Agricultural Conference (WAC) supported the need for a new grain freight rate regime. The WAC advocated the retention of the Crow rate, but proposed that the federal government establish a compensatory rate for moving grain. The difference between the statutory and compensatory rates would be paid directly by the federal government to the railways. Agricultural producers not covered by the statutory rate also supported change.

Non-agricultural bulk commodity producers favored reform of the statutory freight rate. The Crow rate jeopardized the viability of the western rail system, they argued, threatening all of the region's resource-exporting industries. Coal, sulphur and forest products, among others, feared that they would bear a disproportionate share of the expense necessary to expand the western rail transportation system if grain growers were not required to pay higher freight rates. If the railways increased compensatory freight rates to offset their losses incurred hauling grain, the burden would likely fall upon them.

Thus, critics of the statutory grain freight rate argued that its effects were becoming increasingly problematic. While the Crow rate may have contributed to the initial development of western Canada, it had become an impediment

¹⁵¹ Harry Wilson, Beyond the Harvest: Canadian Grain at the Crossroads. Saskatoon: Western Producer Prairie Books, 1981, 177.

to the economic diversification of the prairie economy, and the ability of export commodity producers to transport their products to market.

1.1.4 Support For the Crow Rate

Despite the arguments of its critics, however, a large number of grain farmers remained firmly opposed to any change in the Crow rate. They contended that the fixed rate was an historic right of the western farmer and that it had been a part of the national transportation policy since its inception. The Crow rate represented the only protection the farmer had against inflation and was the only means by which the Canadian farmer could compete with heavily subsidized American grain producers. Moreover, the railway's financial problems, supporters of the Crow rate argued, should not be tied to the statutory rate since the rail capacity problem was largely the result of the growth in demand for coal and other bulk commodities, not simply grain. Finally, defenders of the Crow rate contended that appreciably higher grain freight rates would either reduce producer net incomes, resulting in a decrease of land in production, lower export levels, and an erosion of the health of Canada's balance of payments; or grain export prices would be forced to rise, possibly resulting in reduced export sales.

The results of the 1979 federal election witnessed the defeat of the Liberal government at the hands of the

Conservative Party. Otto Lang suffered personal defeat in the election partly as a result of his attempts to abandon the Crow rate. The Tories, therefore, were now faced with the problems of the western rail transportation system and the Crow rate. Conservative Transport Minister, Don Mazankowski, asked his party's western MPs to consult with their constituents regarding what their reaction would be if the government did, or did not, seek changes to the Crow rate. The Tories unexpected fall from power, however, prevented any action upon the issue.

The problems of moving grain became more critical in the early 1980's. Record export levels were predicted for 1981-82. The Canadian Wheat Board estimated that 30 million tonnes of grain would be exported in 1985, and 36 million in 1990. Yet, the railways continued to lose huge amounts of revenue shipping statutory grain. The two national railways estimated that the "Crow gap", i.e., the difference between the actual cost of shipping grain, and the money received under the Crow rate, for 1981 would total approximately \$538 million. Deduction of branchline compensation would still leave the railways with a \$335 million loss.¹⁵² Another study projected that by 1987, the Crow gap would exceed \$400 million, and that the cost of transporting grain at statutory rates would be almost five times the level of

¹⁵² CN Rail and CP Rail, Canada's Railways - Limits to Growth, Grain Revenue Requirements. Abridgement of Presentation to Canada Grains Council, Vancouver, October 29, 1980, 27.

revenues if they remained unchanged.¹⁵³

3.1.5 Conclusion

Despite railway complaints in the past about the inimical consequences of the fixed grain freight rate, the federal government had retained the Crow rate. However, the effect of continuing inflation after the 1960's continued to widen the gap between the revenues collected under the statutory rate, and the actual cost of transporting grain. Projections of a boom in demand for western Canadian natural resources in the early 1980's raised questions about the ability of the rail system to meet traffic demand. Bulk commodity shippers feared that they might be unable to ship their products to export markets. The federal government, however, was also very concerned. The railways and bulk commodity shippers, including grain growers, had relied upon the federal government to ensure the viability of the western rail network. The federal government had spent hundreds of millions of dollars in support of the grain handling and transportation system. Nevertheless, despite this massive spending, the railways contended that they would need billions of more dollars to ensure that the western rail system remain capable of meeting future traffic demand. Government officials, however, did not wish to assume responsibility for the seemingly open-ended escalation of grain transportation costs.

¹⁵³ David R. Harvey, Christmas Turkey or Prairie Vulture?, 17.

This concern prompted federal Transport Minister Lang's attempt to abandon the Crow rate. Lang's efforts to mobilize support illustrate some of the means which state officials may employ in their attempts to change the policy preferences of societal groups. Snavely's appointment to document railway losses was an attempt to provide "expert" substantiation of the railways' claims that they were losing money as a result of the Crow rate, which in turn prevented them from adequately maintaining the western rail network. The deep distrust on the part of prairie farmers of the railways, especially the CPR, caused many to question the validity of the railway claims.

The appointment of Emmett Hall to lead the investigation of the branchline problem was also an attempt by the federal government to make its decisions more palatable. Any decisions to abandon rail lines would be considered more legitimate if they were recommended by someone perceived as sensitive to the concerns and circumstances of western farmers.

Lang's failure to achieve his goal of establishing a new grain freight rate scheme before the next federal election, however, illustrate the constraints that state officials encounter in attempting to translate their preferences into policy. Despite Lang's efforts, the federal government was unable to convince such powerful critics of his plans as the Saskatchewan Wheat Pool. The Hall Commission's

pronouncements on the Crow rate provided a rallying point for those who recognized that problems existed with the western rail system, but who supported the retention of the Crow rate.

The government's failure might be interpreted as an example of how government officials attempt to respond as best they can to their perceptions of the public's desires. Failure to do so results in their eventual defeat. Government officials, therefore, are unable to impose their vision upon an unwilling public.

Drawing such a conclusion, however, would be unwise. The federal government did succeed in its efforts to remove the fixed Crow rate in 1983. Its success was not the result of a change of heart on the part of groups who had previously opposed altering the Crow rate, who in turn communicated their demands to government officials. Rather, Lang's efforts are better understood as part of a larger effort of the federal government to change the Crow rate which came to fruition in 1983. Lang had prepared the important groundwork which helped the newly elected 1980 Liberal federal government to successfully enact a new grain freight rate regime.

The following chapter discusses the circumstances that surrounded the federal government's announcement of its comprehensive solution to the problems of the western rail transportation system, including its desire to alter the

Crow rate. The government's attempts to develop a consensus among groups which would be affected by changing the Crow rate is also examined, particularly the Gilson consultation process.

Chapter IV

THE CROW INITIATIVE

4.1 Introduction

Shortly after assuming the Transport portfolio, Jean-Luc Pepin announced his government's intention to change the Crow rate. At a March 16, 1980 Winnipeg news conference, Pepin stated that it was time to change the Crow rate: "If we can't do it now in an atmosphere of growth and prosperity, we may miss our time in history."¹⁵⁴ Pepin was alluding to the fact that western Canada's economy was booming, lead by demand for the region's natural resources. Yet, as discussed in the previous chapter, concern existed that the rail system might not be able to handle traffic demands. The Transport Minister claimed that his government was responding to the recognition among western agricultural producers of the problems associated with the statutory freight rate.¹⁵⁵ However, Pepin's contention did not acknowledge that agricultural producers had become less concerned about earlier railway predictions of an impending rail capacity crisis. Instead, farmers' attention had

¹⁵⁴ Quoted in Barry Wilson, Beyond the Harvest: Canadian Grain at the Crossroads. Saskatchewan: Western Producer Prairie Books, 1981, 169.

¹⁵⁵ Jean-Luc Pepin, Proceedings of the Standing Committee on Transport, Minutes. June 29, 1983, 104:13-14.

turned to the onslaught of a severe North American recession, accompanied by high interest rates. A 1981 survey of grain producers in Saskatchewan, Alberta and Manitoba, for example, found little concern regarding the state of the western rail transportation system.¹⁵⁶ Asked what were their main concerns about grain operations, fewer than five percent of the respondents mentioned grain transportation. When asked specifically about the delivery of grain, only between 25 and 30 percent indicated this was a dominant concern. Finally, in response to the question of whether the Crow rate was helping or hurting producers, 46 percent answered the rate was helping, while 34 percent responded that it was hurting grain farmers. Surprisingly, 20 percent gave no opinion.

The survey's results call into question the notion that there existed widespread pressure from grain farmers to change the statutory freight rate. Indeed, Pepin acknowledged that farmers were less concerned in 1982 and 1983 with the state of the rail transportation system. Grain producers were experiencing no difficulty shipping crops at record levels, due primarily to the economic recession which had reduced demand for other bulk commodities.¹⁵⁷

¹⁵⁶ The following results are drawn from a survey conducted by CanWest Survey Research, commissioned by CN Rail. The results are taken from Bill Palmer, "The Prairie Producer: Plans, Options, Concerns," Reprint, Montreal: CN Rail Marketing Department, 1982.

¹⁵⁷ Jean-Luc Pepin, Proceedings of the Standing Committee on

The absence of compelling demands from grain producers for Crow reform has been noted by some public policy analysts, as well as the need for the federal government to rally support for its plans to change the statutory freight rate. According to G. Bruce Doern: "While some farm groups did recognize that the current level of subsidies for farmers could not continue, they were not clamoring for change. To gain a western constituency interested in changing the Crow rate, the Liberals had to create one, or at least encourage it to come out of the political underbrush."¹⁵⁸

Rather, the government's decision to change the status of the Crow rate was based upon its desire to reduce its financial liability for grain movement and the maintenance of the western rail transportation system. As one author argues:

This is an often repeated fallacy [that the federal government was merely responding to the demands of prairie farmers] which has been kept alive and nurtured by politicians and bureaucrats. The fact is that [the] Honorable Otto Lang...first proposed change in the Crow Rate...as a solution to the problem of a rapidly accelerating government financial burden related to grain movement. Some commodity groups supported Lang's proposal but the vast majority of farmers opposed it.¹⁵⁹

Transport, Minutes, June 29, 1983, 103:37.

¹⁵⁸ G. Bruce Doern, "Beyond the Integration Question: Dominant Ideas in Canadian Public Policy," in Jon H. Pammett and Brian W. Tomlin, eds., The Integration Question: Political Economy and Public Policy in Canada and North America. Don Mills, Ontario: Addison-Wesley Publishers Limited, 1984, 256.

Another observer of western agricultural politics has expressed a similar view: "While the arguments...[were] often couched in terms of helping strengthen the Prairie economic base through diversification, the bottom line in the carpeted offices of Ottawa's senior civil servants...[was] money."¹⁶⁰

In the context of economic restraint, the federal government sought to reduce all non-economic government subsidies as a means of reducing the federal deficit. According to one analyst: "The Ministry of Transport...pursued the federal government's economic development strategy to expand capital infrastructure and to reduce or eliminate 'uneconomic subsidies' with a single-minded vengeance."¹⁶¹

While some federal politicians thought the government could continue to subsidize grain transportation, for example, cabinet minister Senator Hazen Arques and the NDP, federal finance ministers in succession had argued that farmers had to make some contribution to the enhancement of rail capacity, which in turn meant a reduction in the Crow subsidy.¹⁶²

¹⁵⁹ A.D. Mcleod, "Invited Discussion of Papers," Canadian Journal of Agricultural Economics 32(July 1984), 283.

¹⁶⁰ Barry Wilson, Beyond the Harvest: Canadian Grain at the Crossroads, 180.

¹⁶¹ G. Bruce Doern, "Liberal Priorities 1982: The Limits of Scheming Virtuously," in G. Bruce Doern, ed., How Ottawa Spends Your Tax Dollars: National Policy and Economic Development, 1982. Toronto: James Lorimer, 1982, 3-4.

Senior federal bureaucrats were virtually unanimous in their belief that the statutory rates had to be changed, although for different reasons. Transport officials were primarily concerned with the looming problems of rail capacity which were traced to the huge deficits borne by the railways as a result of hauling grain. Department of Agriculture officials were anxious about the Crow rate's effects upon agricultural diversification in the region and the impact of higher freight rates on farmers' incomes. Finance officials feared the effects continuing large grain transportation subsidies would have upon the federal deficit. Government expenditures in support of grain transportation in 1985-86, for example, were expected to total approximately \$1 billion, amounting to roughly 15 percent of the value of grain exports at the time. Officials argued that the government could not continue to provide limitless support for grain transportation if the government was to have available resources to meet the needs of other sectors of the economy. David K. Elton, President of the Canada West Foundation, expressed the government's concern: "This kind of boundless escalation [of grain transportation subsidies] into the indefinite future cannot be regarded with equanimity in a country plagued with large and growing government deficits."¹⁶³

¹⁶² Jean-Luc Pepin, personal interview, January 14, 1986.

¹⁶³ David K. Elton, Edmonton Journal, July 15, 1983, A6.

The concerns of Transport Canada officials regarding the Crow rate were expressed in an October 21, 1980 confidential submission to cabinet. Officials argued that:

Perpetuation of the status quo is not a realistic alternative. With rapidly rising fuel prices and other inflationary cost increases, the distortion caused by the present Crow regime can be expected to reach intolerable levels in the 1980's. In addition, the deteriorating cash position of the railways would almost certainly lead to government financial intervention over the decade on a scale that might not be less costly than it would be to deal with the Crow issue now.¹⁶⁴

In another confidential document, dated November 13, 1981, Transport officials again stressed the financial imperative underlying the need to alter the Crow rate regime: "From the government's point of view, the importance of taking steps now towards a (system solution) with increased charges for grain shipments is that it would begin to limit the growth of costs to government and the railways that otherwise would very likely become insupportable in a matter of a few years."¹⁶⁵

At the end of 1980, Pepin reported that he was getting closer to a solution to the rail transportation system's problems. The government had announced in its October 28, 1980 budget that it was setting aside \$4 billion of future taxation revenues for investment in western Canada in the

¹⁶⁴ Ministry of Transport, "Crow's Nest Pass Rate Summary," confidential submission to Cabinet, October 21, 1980, quoted in John Gallagher, To Kill the Crow. Moose Jaw, Saskatchewan: Challenge Publishers, 1983, 5.

¹⁶⁵ Ministry of Transport, "Western Railway Transportation," confidential submission to Cabinet, November 13, 1981, quoted in Ibid..

form of a Western Development Fund (WDF). The establishment of the WDF was in response to western Canadian criticism of the federal government's taxation of the region's natural resources. Government officials sought to assure westerners that the extraction of federal natural resource taxes would not be made at the expense of the region. As G. Bruce Doern and Glen Toner have observed:

The Western Fund was established because it was known by the early autumn of 1980 that the fiscal effect of the forthcoming NEP [National Energy Program] budget would inevitably be such that Ottawa would be seen to be taking several billions of dollars from the West. It was deemed essential, therefore, that several (but fewer) billions be funnelled back, and be seen to be recycled, in the West.¹⁰⁶

Changes to the statutory rate were to be financed from the fund. In November of 1981, the federal government tabled an Economic Development Plan which stated that funding of railway expansion programs would be tied to upcoming changes to the Crow rate.

The initial impetus for the federal government's decision to change the Crow rate stemmed from the rate's shrinking contribution to the actual cost of shipping grain. More specifically, government officials desired a means by which to reduce the grain deficit, and therefore their economic burden, resulting from the subsidization of grain transportation. The fixed Crow rate was considered a "peculiar anomaly". Furthermore, variable freight rates

¹⁰⁶ G. Bruce Doern and Glen Toner, The Politics of Energy: The Development and Implementation of the NEP. Toronto: Methuen, 1995, 33.

were considered essential to any change regarding freight rates. Variable rates would allow the railways to rationalize the transportation system according to the criteria of economic efficiency, which would ultimately benefit agricultural producers.¹⁶⁷ Pepin's personal conviction of the need to address the Crow issue was greatly influenced by Deputy Minister of Transport Arthur Kroequer. According to Pepin, he was infected by Kroequer's passion and conviction that the statutory rate had to be changed. One senior civil servant involved in the Crow issue observed that Kroequer and Pepin seemed to exchange roles, i.e., Kroequer set the Department's policy agenda which Pepin in turn sought to implement.¹⁶⁸ Kroequer argued that the fixed rate was not in any group's interest, including grain farmers, due to its effects on the ability of the railways to maintain adequately the transportation system. His commitment to bringing about change to the Crow rate was mentioned repeatedly in interviews with those involved in the Crow debate. Reform of the Crow was described as Kroequer's personal crusade. Many, including Pepin, credited him with maintaining the government's resolve throughout the controversial debate, including Pepin.

Although grain producers had become less concerned with the condition of the grain transportation network in 1981 and 1982 than they had been in the late 1970's, Pepin argued

¹⁶⁷ Barry Wilson, Beyond the Harvest, 180.

¹⁶⁸ Confidential interview, December 3, 1985.

that the government had to pursue reform of the Crow rate for two reasons. First, the respite of demands upon rail capacity would only be temporary. Once the recession ended, traffic demand would dramatically increase. Bulk commodity shippers, including grain producers, would be faced with a rail capacity crisis. Pepin believed it was his responsibility, as Minister of Transportation, to prevent such an occurrence from developing in the future. The government, he argued, had to ensure that the western rail transportation system would be able to accommodate post-recession capacity demands.

Secondly, Pepin believed that it would be years before such a propitious time would return in which the government could change the Crow rate. Politically, the Liberal government's secure parliamentary majority, coupled with its lack of significant western representation, allowed government officials a greater degree of policy discretion than would otherwise have been the case. Furthermore, the relative economic prosperity prairie farmers were experiencing at the time provided fortuitous circumstance which would make the government's phased withdrawal from subsidizing grain transportation acceptable. During the late 1970's, world grain trade expanded and world prices seemed to be advancing more or less as farm input prices rose.¹⁴⁹ Western farmers, government officials believed, would accept higher freight rates if they were introduced

¹⁴⁹ Alberta Wheat Pool. Update, March 11, 1983.

gradually, and if the benefits of Crow reform could be demonstrated. Accordingly, the government stressed that its proposals would set in motion extensive railway investment in upgrading and expansion programs, stimulating economic activity across the country. Lloyd Axworthy, who replaced Pepin as Transport Minister, for example, claimed that the government's legislation represented the: "...largest, single economic growth project in the history of Canada."¹⁷⁰

The federal government's sparse political representation in western Canada has been noted by some observers in explaining the government's decision to change the Crow rate. The reasoning has variants. First, by addressing the problems associated with the Crow rate, the federal government sought to improve its political standing in western Canada. However, in view of the expected controversy that would accompany any attempt to alter the status of the historic freight rate, few Liberal politicians or party strategists believed that such a policy would pay immediate political dividends. According to Pepin, the best the government could hope for was a "tie" in which it would gain as much support as it lost as a result of its decision.

Others have contended that the federal government acted because, politically, the government had virtually nothing to lose. With only two Members of Parliament west of Ontario, the government was not overly concerned with the

¹⁷⁰ Lloyd Axworthy, House of Commons Debates, November 4, 1983, 28792.

region's reaction. Yet, this view ignores the concern of any elected government with its popularity. The argument that the federal government was not concerned with the reactions of western Canadians is a cynical view, most likely the expression of the prairie region's historic frustration with federal government policies. The limitations of this explanation are also belied by the government's extensive consultations with the region's agricultural groups, and its legislative compromises.

Furthermore, while few expected an increase in the electoral fortunes of the Liberals in the region as a result of its initiative, some eastern Liberals, including Pepin, believed that addressing the western rail transportation issue would go some distance toward reducing feelings of western alienation. Pepin argued in cabinet that the government's action would have long-term beneficial effects: "They'll know we care. They may not like what we plan to do in the short term, but if everything turns up well [increased agricultural diversification and an efficient transportation system], hopefully, they will, in some years from now, recognize that some of us were concerned with western interests."¹⁷¹

The decision to reform the statutory freight rate also impinged upon a debate among Liberal party strategists regarding how the party could increase its western support. Some contended, including Senator Arque, that the party's

¹⁷¹ Jean-Luc Pepin, personal interview, January 14, 1986.

best strategy was to attract NDP supporters by adopting policies which would appeal to their interests. Changing the Crow rate, however, would alienate that very constituency, since many grain farmers were NDP supporters.

Other political advisors, however, saw the possibility of the party building an alliance with "progressive" prairie agricultural groups, for example, value-added crop and livestock producers, who suffered from the economic distortive effects of the fixed freight rate. Even if the government's policy elicited opposition, it was argued, the Liberals would at least attract their support.

Finally, the notion that the government's decision to change the Crow rate can be attributed to its insensitivity to the feelings of western Canadians is contradicted by Trudeau's attraction to the issue. According to Pepin, Trudeau was: "...genuinely saddened by westerner's view of him as the incarnation of the devil...[he]...desire[d] to be rescued by history from the misrepresentation of his approach to the West during his lifetime."¹⁷² Addressing the Crow rate, Trudeau believed, provided such an opportunity.

The federal government's decision to alter the Crow rate, therefore, resulted from a number of important state concerns. Most important was finding a means of disengaging itself from the escalating cost of grain transportation. Government officials sought to establish a new grain freight

¹⁷² Ibid..

rate regime which would share "more equitably" the expense of maintaining and upgrading the western rail transportation and handling system. Some government officials also believed that changing the Crow rate was simply "right", i.e., that the artificially low rate was an anachronism which furthered no one's interests. Pepin and Kroege, for example, passionately believed that it was the government's responsibility to provide leadership, despite the powerful opposition that would attend the government's decision to alter the status of the Crow rate. Failure to recognize these factors makes it difficult to understand why the federal government decided to challenge the sacrosanct Crow rate.

4.1.1 The Crow Initiative

After two years of meetings and consultations with representatives of western organizations, Transport Minister Pepin issued a policy statement on February 8, 1982, outlining a comprehensive approach aimed at dealing with future western Canadian railway needs. Pepin announced that the federal government intended to revise the Crow rate to achieve a fairer sharing of grain transportation costs, to seek performance and investment guarantees from the railways, and to improve the efficiency of the grain transportation system. He noted that under the statutory grain freight rate, grain producers' estimated share of the cost of transporting grain products had declined from 75

percent in 1958, to 20 percent in 1980. Furthermore, it was predicted to decline further to 12 percent in 1985 and 7 percent in 1990.

The government stated four major, and interrelated, reasons why the Crow rate had to be changed. First, a means had to be found to offset railway grain transportation losses. Past ad hoc programs designed to ease immediate difficulties had failed to provide a solution to the basic problem that costs were outstripping revenues by ever-increasing amounts. Second, the need for expanded railway capacity would be necessary to avoid future congestion and lost sales. This would require major investments. The financial burden borne by the railways as a result of the statutory fixed freight rate, therefore, had to be removed. Third, federal officials contended that changes to the statutory rate regime would result in a more efficient grain handling system and thus beneficial to grain producers. Finally, the federal government argued that the artificially low freight rate prevented greater diversification of prairie agricultural production and value-added processing of grain products in western Canada. Removal of the Crow rate would reduce the economic distortion which favored grain exports at the expense of local feed grain usage, livestock production, specialty-crop production and agricultural processing.

The federal government would provide annual subsidies to help ease the effects that would accompany changing the historic Crow rate. It promised to spend \$3.2 billion over a four year period (1982/86), including the \$1.35 billion allocated for western transportation needs in the November 1981 budget, and \$1.85 billion committed under existing grain transportation programs.

Pepin contended that his government was responding to the region's concerns that there be an adequate rail system capable of supporting the region's economic growth. According to the Minister: "In essence, the Government of Canada is seeking an equitable framework within which the railways, the users, and itself can share in the task of expanding Western railway capacity to meet the heavy demands that we expect in the years ahead from a growing western economy."¹⁷³

4.1.2 The Gilson Consultation Process

The federal government planned to introduce legislation to Parliament by the fall of 1982, following consultations with representative groups, especially farm organizations, in western Canada. The decision to engage in a consultation process was an attempt to rally support for its Crow initiative. The government hoped that gathering representatives of those groups which would be affected by its plans to alter the Crow rate, presenting them with the

¹⁷³ Minister of Transport, Public Affairs, "Western Rail Capacity," *Information*, February 8, 1982, 2.

facts and nature of the problem, and asking their help in formulating a solution, would result in a measure of compromise and consensus.

Dr. Clay Gilson, a professor of Agricultural Economics at the University of Manitoba, was appointed to lead the consultations with western agricultural organizations and the railways. Gilson's task was to formulate measures which would best implement the government's stated objectives. The federal government had specified seven principles to guide the consultation group's recommendations:

1. a statutory framework be created that would provide adequate compensation to the railways for moving grain;
2. the Government of Canada would provide an annual payment equivalent to the 1981-82 shortfall between freight rate revenues and actual costs, but that producers and railways must find ways of meeting future cost increases;
3. grain producers must pay higher freight rates;
4. railways would be required to provide performance and service guarantees related to grain transportation, commitments to undertake additional investment programs, rate adjustments to promote agricultural diversification and processing in western Canada and presentation of their revenue, costs and investment plans;
5. reduction of economic distortions within the agricultural sector stemming from the statutory rate, without recourse to new transportation subsidies;
6. the new framework should promote increased efficiency and economy in the grain transportation system, and the western railway system as a whole; and
7. the new regime would not affect the government's financial commitment for branch line rehabilitation. In addition, Ottawa would procure an additional 1,280

hopper cars in 1982.¹⁷⁴

The federal government indicated that it expected the consultation group to address the following questions: the future responsibility for paying grain transportation costs; the railways' future financial investment capacity; the method of payment of the government's contribution; the kinds of railway performance guarantees and means of monitoring their performance; measures to improve the grain transportation system; a means of promoting the diversification of the prairie agricultural economy and processing agricultural products; variable rates; ensuring that the level of compensation adequately protect the interests of producers while providing a fair return to the railways; and recommendations on what arrangements should be incorporated in the government's new legislation.¹⁷⁵ Gilson was allotted a short time, 126 days, to submit his report to allow federal officials time to prepare legislation for the fall sitting of Parliament.

Participants in the consultation process included the two national railways, CPR and CNR, one group of processing companies, and nine major farm organizations. The processing group consisted of five companies engaged in the crushing of canola. Farm groups represented included four large farmer-owned elevator companies: the United Grain

¹⁷⁴ J.C. Gilson. Western Grain Transportation: Report on Consultations and Recommendations. Ottawa: Minister of Supply and Services, 1982, I:2-3.

¹⁷⁵ Ibid., I:3-4.

Growers, Manitoba Pool Elevators, the Saskatchewan Wheat Pool and the Alberta Wheat Pool. The Western Agricultural Conference, representing, directly or indirectly, 43 organizations, also participated. These constituent groups included farm supply, marketing and service co-operatives, farmer commodity associations and producer marketing boards, municipal and womens' associations, and farm business organizations. Two agri-business industry organizations in the farm supply field were also included. The Prairie Farm Commodity Coalition represented twelve constituent commodity associations formed by farmers to promote the production and marketing of their specific products.

Two direct membership general farm organizations were also invited to participate, Unifarm and the National Farmers Union (NPU). However, the NPU refused, arguing that so doing would compromise their ability to oppose any change in the Crow rate. Instead, it limited itself to the submission of a written brief.

Gilson submitted his report, Western Grain Transportation: Report on Consultation and Recommendations, to Transport Minister Pepin on June 15, 1982. The Report proposed a new framework for sharing future transportation costs. It recommended that the total railway revenue shortfall of 1981/82 be set at \$644.1 million, and that this amount, referred to as the "Crow benefit", be paid by the federal government on a continuing annual basis.¹⁷⁶ The

¹⁷⁶ The amount of the Crow benefit was derived from the

Crow benefit would be phased in during the 1982-83 to 1986-87 period, whereby the benefit would be paid to the railways in 1982-83, but each year thereafter an increasing portion would be given directly to the producers, until 1989-90 when the proportion would be 81 percent to producers and 19 percent to the railways.¹⁷⁷

Gilson recommended that producers be given the choice of two methods in receiving payment of their share of the Crow benefit. The first option would involve direct payment of the annual subsidy to producers at the beginning of each crop year. The individual producer, in turn, would be responsible for payment of transportation costs. The second option would provide the establishment of a freight credit account for each producer at the beginning of each crop year. The account would be drawn upon as the individual producer made deliveries throughout the year.

Establishment of an Agricultural Adjustment Payment to all grain producers was proposed to help offset the adverse effects on commodity groups resulting from changes to the longstanding statutory grain freight rate. A central coordinating agency was also suggested to replace the Grain Transportation Authority, which would be responsible for deciding performance and service guidelines to be undertaken

difference between the amount paid by grain producers under the Crow rate, and the actual cost of moving grain, during the 1981-82 crop year. The benefit was ultimately calculated to be \$651.6 million.

¹⁷⁷ J.C. Gilson, Western Rail Transportation, VI:1-5.

in future years in the overall grain handling and transportation system.

Gilson suggested a formula whereby the division of future transportation costs would limit the federal government's liability. For the period 1983-84 to 1985-86, cost increases would be divided between the federal government and grain producers, up to a maximum of a three percent annual increase for the producer. After 1985-86, shippers would pay the first three percent of cost increases and share equally, with the federal government, the next three percent increase, with an aggregate maximum of 4.5 percent for producers. The cost of transporting future volume increases beyond the 1981-82 base amount of 30.4 million tonnes, including inflationary increases on those additional amounts, would be borne by producers.

4.1.3 Reaction to Gilson's Recommendations

Although the Gilson Report acknowledged that the Railways were losing money hauling grain, and absolved them of responsibility for the deterioration in the performance of the western rail transportation system, the railways were disappointed with the level of compensation proposed. For the crop year 1981-82, for example, Gilson recommended CN Rail receive \$117 million less than the railway had requested. The Report also recommended that roughly 20 percent of the government's subsidy be withheld and paid to the railways on the basis of performance. The railways

complained that the amount was too large, and that the onus for performance should be shared with other groups involved in the grain handling system.

Nevertheless, the national railways viewed the Gilson recommendations as a step in the right direction. Jack Horner, Chairman of Canadian National, for example, stated that: "CN would still receive \$900 million less over the decade than it would receive if it charged commercial rates for grain. So obviously the Gilson proposals do not solve CN's grain revenue shortfall completely, but they still represent the closest thing to a solution that's been seen yet."¹⁷⁸

Gilson's proposals attracted support from some western grain producers and cattlemen. The proposed method of payment of the government's annual subsidy, however, faced strong opposition, particularly from the prairie wheat pools and eastern Canadian agricultural producers. Eastern producers, for example, argued that the CROW subsidy should be paid to the railways as a transportation subsidy, not to prairie producers. Direct payments to farmers would represent an agricultural subsidy to the region's producers, whose competition eastern producers feared.

The prairie wheat pools objected to the effects direct payments to grain producers would have upon their country grain elevator collection system. Producers, for example,

¹⁷⁸ Jack Horner, speech to the Western Canadian Transportation Congress, September 2, 1982.

would be encouraged by the railways to truck their grain to central grain collection points, bypassing the pool's local elevators. The Pools favored an alternative scheme for the distribution of the Crow benefit. Payments would be made directly to the railways. The economic distortion caused by the Crow rate would be addressed by the establishment of a "Western Feed Grain Equalization Fund" for western grain users, primarily beef, pork, sheep and poultry producers. The fund would be used to offset any advantages Quebec and Ontario users of prairie feed grain received as a result of the subsidized grain freight rate. The Pools suggested that the federal government, western grain producers, and possibly the prairie provincial governments, would contribute to the fund. The equalization subsidy would be paid directly to feed grain users.

The measure of consensus that had been achieved during the Gilson consultations came under attack as participants returned to their respective memberships to explain the results. Some group leaders encountered immediate and strong opposition to the tradeoffs that had been made. SWP members, for example, accused their leaders of having compromised the interests of the individual grain farmer on behalf of the Pool's corporate interests, namely, the protection of its country elevator system.

On August 4, 1982, the federal government announced its acceptance of the main thrust of the Gilson recommendations.

subject to later decisions about the recommendations' financial and administrative aspects. Pepin appointed four task forces, comprised of representatives of western agricultural organizations, the railways and the federal government, to further develop the major Gilson proposals and to prepare the government's legislation.

4.1.4 The Western Transportation Initiative

On February 1, 1983, Transport Minister Pepin unveiled the government's "Western Transportation Initiative", a multi-billion dollar program to expand rail capacity, improve the grain transportation system, assist agricultural and industrial development and stimulate economic recovery. Recognition of the controversy which would attend its announcement was illustrated by the federal cabinet's decision to delay unveiling the legislation four times. The government had indicated it would reveal its plans to revamp the Crow rate in early December of 1982, but postponed the announcement first to late December, then to January 6, and again to January 21.¹⁷ Reasons for the postponements included the fact that Senator Hazen Arque's eleventh-hour counter-proposal for Crow reform was gaining support among western farm groups, causing cabinet members to reconsider Pepin's Crow initiative. Marc Lalonde, Minister of Finance, feared that the announcement might become a major issue at the federal Progressive Conservative convention scheduled

¹⁷ Calgary Herald, January 19, 1983, C8.

for January 26 in Winnipeg. Lalonde also did not want to provide Quebec's Minister of Agriculture Jean Gagnon, who was leading a rural task force on the effects of the Gilson recommendations on Quebec producers, an opportunity to criticize Ottawa's legislation. Finally, some cabinet ministers were worried that the Crow announcement might overshadow the negative coverage of the Progressive Conservative leadership convention which had been called as a result of Joe Clark's faltering leadership.

The initiative called for the implementation of the Gilson Report's principal recommendations for a four year period, 1982-83 to 1985-86. The federal government committed itself to spending \$3.7 billion over four crop years, which it claimed would result in \$16.5 billion in direct railway investment over the next ten years. Jobs created by new railway construction, including tunnelling and double-tracking in western Canada, as well as rail car and equipment manufacturing and related spin-off activity, federal officials claimed, would stimulate economic recovery across the country. Over the course of the decade, 375,000 person-years of employment would be created, including thousands of jobs in the construction and material industries in the West and manufacturing employment in eastern Canada. Moreover, revision of the freight rate structure, the government argued, would encourage the diversification of the prairie agricultural economy.

Removal of the economic distortion caused by the fixed freight rate would encourage greater livestock and specialty crop production and food processing. Annual western agricultural production would be \$3.5 billion higher by the beginning of the 1990's as a result of the initiative.

In an attempt to broaden support for its initiative, the government also announced that it would spend an additional \$250 million over five years to promote industrial and agricultural development. The "Agricultural Adjustment Fund" would alleviate the problems that would arise under the system of direct subsidy payments to producers. Seventy-five million dollars would be devoted to increase the supply capability of western manufacturing and service sectors to take advantage of the economic opportunities resulting from railway expansion programs, and to expand the western food and agricultural processing base. The remaining \$175 million was slated for programs designed to increase agricultural production in western and eastern Canada. It was hoped that the Fund would reduce opposition from groups that might feel threatened by the government's plans. Allocation of the Fund demonstrated the government's particular concern with the reactions of Quebec agricultural producers. Quebec producers were slated to receive seventy percent of the fund.¹⁰⁰

¹⁰⁰ Provision of the Agricultural Adjustment Fund, however, became unnecessary as a result of the government's decision to pay the annual subsidy to the railways. Instead, the \$250 million was allotted to the general purpose of the western grain transportation initiative.

The major provisions of the Bill were contained in four major parts, dealing with administrative measures, rates, government payments, and a review of the legislation's effects on agricultural groups. Under the Administrative Measures section, a Grain Transportation Agency Administrator would be appointed with authority to coordinate the grain transportation system in cooperation with producers, the Canadian Wheat Board, grain companies and the railways. A Senior Grain Transportation Committee would be created to advise the Administrator and the Minister of Transport on any issues affecting grain transportation. A scheme of awards and sanctions for grain system participants based on performance objectives determined by the Administrator would be developed at the earliest by 1986-87, by which time the responsibilities of each participant in the grain hauling system would be determined.

The Rates section of the Bill required the Canadian Transport Commission (CTC) to set grain freight rates which would represent the producers' share of transportation costs; be generally distance-related; and limit the railway costs that could be recovered from the transport of grain. Part III of the Bill, Government Payments, committed the government to pay the full Crow subsidy directly to the railways. The payment was based upon an annual volume of 31.1 million tonnes of grain shipped from the West.

Producers would pay a blended freight rate for tonnage over this limit.

Export grain producers would be required to pay higher freight rates, almost double the fixed statutory rate by 1985-86, and possibly five times the current rate by 1990. Farmers, therefore, would be faced with the first increase in the cost of shipping grain in more than fifty years, with rates increasing sixty cents a tonne. Railways would be compensated for grain transportation losses, but would be required to meet performance and investment guarantees or lose a portion of their subsidy.

Finally, Section V, Review, provided for a comprehensive review of the key features of the Bill in 1985-86. The federal government promised to conduct a full scale legislative review after four years to evaluate the working of the new system. Provision of the review reflected the divisiveness among western agricultural groups themselves, and with agricultural producers in other parts of Canada, regarding the effects that would result from changing the Crow rate. Quebec farm groups, for example, had not been consulted during the formulation of the government's proposals. Their views, however, would be sought during the review process. The federal government hoped to win at least conditional support for its plans from such groups in return for a commitment to assess the effect of the legislation.

The comprehensive legislative package included: a statutory annual payment of \$651.6 million; a sharing by the federal government and grain producers of future increases in the cost of grain transportation; a phased-in system of payments to the railways and producers; a Grain Transportation Agency to supercede the Office of the Grain Transportation Coordinator; specific railway and investment guarantees; a stipulation that grain freight rates would continue to be generally distance-related, i.e., not variable; the addition of canola and linseed oil and meal under the new statutory regime; and a major review of the method of payment and cost-sharing arrangements in 1985-86. Furthermore, Ottawa committed itself to purchase up to 3,840 hopper cars over the next three years, at an estimated cost of \$290 million, and to continue to fund the branch line rehabilitation program until 1989, at an added cost of \$670 million.

The federal government adopted the Gilson formula for sharing future grain transportation cost increases through 1985-86. Grain producers would not pay higher freight rates in the 1982-83 crop year, but would defray the first three percentage points of increased railway costs due to inflation in each crop year from 1983-84 through 1985-86. Afterward, subject to a review, farmers would pay the first six percentage points of annual railway cost increases due to inflation. Grain producers would be required, through a

blended freight rate, to absorb all cost increases due to additional volumes over the record 1981-82 level of 31.1 million tonnes, known as the "volume cap". By blending the costs of grain movements above 31.1 million tonnes a year, into the rate scale paid by all producers, the government argued that there remained an incentive for the individual producer to increase his or her output.

The phased-in increase in grain rates would result in grain producers paying 30 percent of the estimated total grain production costs by 1985-86, compared with 20 percent in 1983. In view of the controversy over the method of payment of the government's annual subsidy, the government decided to implement Gilson's recommendation up to the beginning of the 1986-87 crop year, at which time the payment would be equally divided between producers and the railways. Any further progression of payments to producers would require a decision by Parliament.

Legislation to enact the new grain transportation regime was promised for the next session of Parliament. In the interim, the government announced that, pending passage of legislation, it would make payments of \$313 million to the railways for the current year to enable construction and investment to be undertaken by the spring. In return, the national railways committed themselves to increase their capital investment expenditures in 1983 from roughly \$530 to over \$800 million, and implemented long-term expenditure plans to \$16.5 billion in current dollars.

Pepin's plan differed from Gilson's in several important respects. The annual subsidy, to be paid in perpetuity, was increased from \$644 million as proposed by Gilson and the \$612 million Pepin had initially offered, to \$651 million. The volume of grain covered by the subsidy was raised by one million tonnes, to 31.4 million tonnes a year. Government officials felt obliged to provide a cap on the subsidy to limit its costs, even though one of the stated objectives of the Crow initiative was to stimulate raw grain exports. By introducing the ceiling cap, the federal government also sought to allay the fears of livestock producers that western grain producers would export all their grain due to the low transportation rates, thus ignoring the domestic market.

The government also reduced its liability for future transportation costs. Gilson had proposed that it cover the cost of inflation in excess of three percent until August 1, 1986 and above 4.5 percent thereafter. The government's legislation, however, set the threshold point of its share of inflationary costs at six percent. Government officials were concerned that an open-ended fiscal commitment by the public treasury be avoided. Finally, Gilson had recommended that the portion of subsidy payments going directly to producers gradually increase from zero percent the first year, to 81 percent by 1990. Pepin's plan, on the other hand, proposed a 50-50 division after the first year.

4.1.5 Conclusion

The government's decision to change the statutory fixed grain freight rate was the result of the culmination of several factors. Important among them were the interests and perceptions of government officials. Both national railways had argued for decades the need to change the Crow rate, but it was the threat of a rail capacity crisis that helped mobilize the federal government into action. Rehabilitation of the rail system would cost billions of dollars. In order to address the problems of the western rail transportation network, while limiting its spending, the government decided to establish a new freight rate regime that would reduce its share of the burden of future transportation costs.

Gaining the support of prairie groups, however, would be difficult. If government officials were to be successful in their plans to disturb one of the region's icons, it would require some measure of support. Consequently, officials actively sought the support of western agricultural and non-agricultural groups. The government engaged in extensive consultations in an effort to rally support, including the Gilson process and the task forces.

In the next chapter, we will discuss in detail the reaction of agricultural groups to the government's legislation. Government officials had attempted to provide a politically palatable scheme, thus compromises had been

made. However, as events unfolded, these changes only seemed to backfire. In its attempts to mobilize as much support as possible, the federal government seemed to please few. The government's efforts to neutralize opposition to its plans to alter the Crow rate demonstrate the ability of state officials to enhance their policy-making autonomy, and therefore, illustrates the importance of state-societal interaction in the determination of public policy.

Chapter V

REACTION OF AGRICULTURAL GROUPS TO THE CROW INITIATIVE

5.1 Introduction

Reaction to the federal government's Western Grain Transportation Initiative reflected the philosophical, territorial, and most importantly, economic division of interests within the Canadian agricultural community.¹⁸¹ Before discussing the responses of the various groups involved in the Crow debate, however, we will first briefly discuss the major issues over which views diverged.

At the core of the Crow debate was a massive shift of wealth, either from farmers or the federal government, to the railways. The government's decision to enact a new grain freight rate regime meant that the mounting losses railways incurred hauling statutory grain would be reduced. The federal government committed itself to payment of a fixed annual subsidy and raised the amount grain shippers would have to pay to move their products to market. Arising

¹⁸¹ For a brief discussion of the intra- and inter-territorial differences of interest within the Canadian agricultural community, see Grace Skogstad, "Interest Groups, Representation and Conflict Management in the Standing Committees of the House of Commons," Canadian Journal of Political Science, 18(4) December 1985, 739-772.

from the government's legislative proposals were the following major issues:

1. the division of financial responsibility for future costs of transporting grain between grain shippers and the federal government;
2. the monitoring, assessment and enforcement of railway performance in return for government subsidization and higher freight rates; and
3. the method of payment of the government's annual subsidy, the Crow benefit.

Bill C-155 provided that government payments would be based upon the conditions of 1981-82 (the base year) when the government set into motion its plans to change the Crow rate. In that crop year, railway costs not covered by revenues received under the Crow rates were estimated to be \$658.6 million for the 31.5 million tonnes of grain moved. Bill C-155 specified that the government would cover future railway revenue shortfalls up to that level. If railway costs to move the base year volume of 31.5 million tonnes increased, they would be shared by the federal government and grain shippers, with limits upon the proportion to be assumed by grain producers. Grain producers, however, complained that the government's six percent threshold was too high and that 4.5 percent would be more acceptable.

Similarly, objections were raised in regard to the Bill's provision that shippers would be responsible for the entire cost, including cost increases, of moving grain volumes in excess of 31.5 million tonnes in a given year (the "volume cap"). Critics argued that the volume cap constituted a

disincentive against greater wheat production, when at the same time the Canadian Wheat Board was encouraging increased production. Officials, however, contended that the government had to limit its financial commitment to subsidizing grain transportation due to its growing deficit. The government was anxious that it not commit itself to an open-ended subsidization of grain transportation. Finally, concern over farmers ability to pay higher freight rates, in view of the low price of wheat and the high costs of farm production, resulted in demands for a limit on the level of freight rates that producers would have to pay.

On May 31, 1983, Transport Minister Pepin announced amendments to Bill C-155 designed to make the legislation more palatable. Included was the provision of a "safety net" which limited the grain shippers' share of the freight rate to a specified percentage of the market price for grain. The provision, entitled the "Shipper Share Limitation", required the government to ensure that average rates paid by shippers would not exceed a defined percentage of the selling price of a "basket" of six grains.¹⁸² Percentages were set at 4, 5, 8 and 9 percent for the calendar years 1984-1987 respectively, and 10 percent for 1988 and thereafter. The federal government would assume responsibility for additional freight rates above that level. Historically, freight rates often exceeded this

¹⁸² The basket included wheat, oats, barley, rye, flaxseed and rapeseed (canola) in the calculation of the weighted average price.

level, until the 1970's, when persistent inflation reduced the cost of transporting grain to 2 or 3 percent of the price of grain. (See Table 5) In comparison, other bulk shippers paid substantially higher freight rates as a proportion of the selling price of their product, for example, potash, 28 percent; sulphur, 23 percent; coal, 28 percent; and lumber, 38 percent. Critics, however, maintained that the safety net threshold was too high, and that it was not flexible enough to provide protection to grain shippers in the event of dramatically falling grain prices.

Pepin also announced that a number of specialized crops would be added to the list of products covered by the new freight rate regime, including dehydrated alfalfa meal or pellets, mustard seed, sunflower seed, sunflower oil and triticale. In addition, a mechanism would be provided by which further crops and products could be added to the eligible list by Order-in-Council. Pepin intentionally had not included these crops in Bill C-155, although he intended eventually to expand the number of crops covered by the subsidized freight rates. Pepin wanted to wait until after the legislation's introduction so the government could be seen as responding to demands for changes.

Grain producers' major concern with Bill C-155's administrative machinery was ensuring that the money the railways would receive would indeed be spent in the

Table 5: Wheat Prices and Freight Rates

	Farm Level Prairie Wheat Prices		Freight From Scott, Saskatchewan
	Actual Price (dollars per tonne)	Actual Rate	Freight as a Share of Price (percent)
1930-31	17	5.07	29.3
31-32	14	5.07	37.0
32-33	12	5.07	40.4
33-34	17	5.07	29.5
34-35	22	5.07	22.9
35-36	22	5.07	22.8
36-37	34	5.07	15.0
37-38	38	5.07	13.4
38-39	21	5.07	23.6
39-40	19	5.07	25.8
40-41	21	5.07	24.2
41-42	22	5.07	23.4
42-43	28	5.07	18.1
43-44	42	5.07	12.2
44-45	46	5.07	11.1
45-46	60	5.07	8.4
46-47	60	5.07	8.5
47-48	60	5.07	8.5
48-49	60	5.07	8.5
49-50	59	5.07	8.6
50-51	56	5.07	9.1
51-52	56	5.07	9.0
52-53	58	5.07	8.7
53-54	48	5.07	10.4
54-55	45	5.07	11.2
55-56	50	5.07	10.1
56-57	46	5.07	11.1
57-58	47	5.07	10.8
58-59	48	5.07	10.4
59-60	48	5.07	10.5
60-61	58	5.07	8.8
61-62	64	5.07	7.9
62-63	61	5.07	8.3
63-64	64	5.07	7.9
64-65	58	5.07	8.7
65-66	62	5.07	8.2
66-67	65	5.07	7.8
67-68	60	5.07	8.5
68-69	49	5.07	10.4
69-70	46	5.07	11.0
70-71	52	5.07	9.7
71-72	49	5.07	10.3

72-73	69	5.07	7.4
73-74	165	5.07	3.1
74-75	155	5.07	3.3
75-76	133	5.07	3.8
76-77	105	5.07	4.8
77-78	103	5.07	4.9
78-79	139	5.07	3.6
79-80	178	5.07	2.9
80-81	206	5.07	2.5

Source: J.C. Gilson, Western Grain Transportation: Report on Consultations and Recommendations.
Ottawa: Minister of Supply and Services, 1982.
IV-35.

upgrading and expansion of the western rail transportation system. Bill C-155 included a variety of checks, reviews and investigations which would allow further regulatory and statutory changes if necessary. Possibilities included the introduction of performance objectives with awards and sanctions for system participants; possible penalties for the railways if annual expenditures were judged inadequate by the Minister of Transport; a mandatory costing review every four years; investigation of rail-car allocation; a mandatory review of government payment of the annual subsidy to the railways rather than to grain producers; and a mandatory comprehensive review of the legislation. Many grain farmers remained suspicious of the railways and therefore were concerned that the government closely supervise their performance. Government officials were anxious to assure grain producers that they would enjoy a first-class rail system in return for giving up the fixed grain freight rate.

Debate arose over the membership of the Senior Grain Transportation Committee, a twenty-one member group which would represent the spectrum of interests in the western grain transportation system. The Committee would advise and make recommendations to the Minister of Transport on any matter affecting the transportation, shipping or handling of grain. Concern was expressed that the interests of grain shippers would be inadequately represented due to the fact that only four members of the Committee would be directly elected by grain producers. (See Table 6)

Finally, and most importantly, much controversy surrounded the method of payment by which the government would distribute its annual subsidy. Debate centered around opposing interpretations of what the Crow rate represented. Those favoring railway payments contended that the statutory rate was a transportation subsidy, while advocates of producer payments argued that it represented an agricultural subsidy designed to promote agricultural development in western Canada. Groups favoring producer payments, for example, were interested in removing the impediments to the rationalization of the grain transportation and grain handling system, and the diversification of the prairie agricultural economy. Generally, those with a vested interest in the status quo favored payment of the Crow benefit to the railways rather than to producers.

Table 6: Composition of Senior Grain Transportation Committee

Appointed By:	Representing:	Number of Representatives
Statute	Canadian Wheat Board (Chief Commissioner)	1
(ex-officio)	Canadian Grain Commission (Chief Commissioner)	1
	Grain Transportation Agency (Administrator)	1
<hr/>		
Election by producers	Grain producers (Alta.-1, Sask.-2, Man.-1)	4
<hr/>		
Minister on advice of respective organizations	Six largest primary elevator licensees	6
	Other primary elevator licensees	1
	Canadian National Railway Company	1
	Canadian Pacific Limited	1
	Great Lakes carriers	1
	Process elevator licensees	1
	Trucking industry	1
	Livestock Feed Board	1
	Feed grain users associations	1
<hr/>		
SUBTOTAL FULL MEMBERS		21
<hr/>		
	Minister of Transport	1
Minister, at his option, as	Producers of specialty crops (not requiring	

observer	Wheat Board permit)	1
	Labour	1

TOTAL INCLUDING OBSERVERS		24

The prairie wheat pools, for example, argued that direct payments to the railways would ensure the continuation of low freight rates. Specialty crop producers, agricultural processors and livestock producers, on the other hand, favored producer payments. The fixed grain freight rate made it more profitable for farmers to grow grain for export rather than specialty crops or raising livestock. Abandonment of the Crow rate would remove this economic distortion, resulting in more jobs in western Canada.

Bill C-155 required that, in order to qualify for movement under the new statutory rate, grain and grain products would have to be listed in Schedule I and be shipped by rail out of a designated area. Critics argued that rates on these products, therefore, would distort the economies of local conversion of grain into value-added products. If the entire Crow benefit was paid directly to the railways, the distortion affecting those acres of land producing grain, which was either not exported or exported but not included in Schedule I, would remain.

Historically, only about two-thirds of western Canadian grain was shipped via the rail-elevator system. For

example, in 1981-82, prairie farms produced just over 42 million tonnes of grain; yet only approximately 30.6 million tonnes were shipped through the elevator system. The remainder of the grain was consumed locally.¹⁸³

Payment of the entire Crow benefit to farmers would eliminate the economic distortion entirely. Yet, the Crow benefit would be spread over all grains produced, resulting in what was termed the "dilution effect". As a result, farmers who had shipped grain under the low statutory freight rate would receive less compensation from the government under the new regime. The fact that these two conditions, distortion and dilution, were inversely related, meant that finding a consensus was very difficult.

In an effort to persuade the federal government to abandon its plan to pay its annual subsidy to the railways, several prairie farm groups attempted to devise an "option-payrent system". Such systems would allow each farmer the choice of taking his or her share of the annual grain subsidy, or to transfer their share to the railways as a credit for the farmer's grain shipments. Alberta's major farm groups (AWP, ACC, Unifarm, APPMB and UGGO) proposed that eighty percent of the federal subsidy be set aside each year in a producer entitlement fund, with the remaining twenty percent given to the railways. Progressive Conservative Transport critic Donald Mazankowski also

¹⁸³ See Lorne Hehn, President of the United Grain Growers, Proceedings of the Standing Committee on Transport, Minutes, August 5, 1983, 111:12.

advocated a version of an option-payment scheme, known as the "Freedom-of-Choice" proposal.

However, critics of the option-payment plans, including the Pools and federal government officials, argued that such plans would result in an administrative nightmare. More importantly, advocates of option-payment plans were unable to agree on how such arrangements would be administered. Thus, option-payment supporters were no more successful in devising a plan which attracted more support than the federal government's proposal.

Not surprisingly, the reactions of various western agricultural groups to the government's initiative were predicated upon each group's objectives. The need for improvement of the western rail transportation system, to avoid any future capacity crisis, was acknowledged by most groups. However, some, most notably the National Farmers Union and the NDP, argued that the problems of the rail transportation system should not be tied to the Crow rate. They contended that since the upgrading and expansion of the western rail system would benefit other non-agricultural bulk commodity producers, placing the entire financial burden upon wheat producers by means of raising grain freight rates was unfair. Yet, some agricultural groups seemed willing to pay higher freight rates in return for a more efficient and flexible transportation system, one that would allow producers to choose the transportation and

marketing configuration most suitable to their needs. Thus, grain farmers were divided among themselves. Grain producers with small farms, located long distances from the railway's mainlines, for example, were more adamant in their opposition to altering the Crow rate, than grain farmers more strategically located. Furthermore, the government's desire to reduce the level of its grain transportation subsidies, was recognized by some agricultural leaders. They believed that the high levels of government subsidization would not continue indefinitely.

The divergence of opinion between the United Grain Growers (UGG) and the prairie wheat pools illustrates the contrary interests of groups involved in the Crow debate. Both groups ostensibly represented the same constituency, that is, western Canadian grain producers. The UGG represented approximately 96,000 shareholders, of which 44,000 were active customers who delivered grain to UGG elevators on a daily basis and served sixteen percent of the prairie market.

Yet, the divergence of positions regarding reform of the Crow rate between the two groups was marked, as shown below. (See Table 7) The difference between the two groups resulted from the Pools' concern with the effects altering the Crow rate would have upon its country elevator collection system. Critics charged that the Pools were more concerned about their primary elevator collection system than the interests

of individual grain producers. Rationalization of the grain handling and collection system would encourage grain producers to truck their grain to centralized elevators in order to take advantage of lower rail freight rates. The Pools feared that their decentralized elevator system would, in turn, become superfluous.

Table 7: UGG and SWP Views of Grain Reform

UGG	SWP
1.supported producer payments	1.supported railway payments
2.supported variable rates	2.opposed variable rates
3.favored a comprehensive review process	3.opposed a comprehensive review process
4.concerned with the livestock industry's interests	4.not concerned with the livestock industry's interests

The United Grain Growers, on the other hand, supported agricultural diversification and increased value-added activity. Its leaders argued that there should be a balance between the domestic value-added industry, which provided favorable economic spin-offs in terms of jobs and economic activity in western Canada, and the need for a first-class transportation system. The two, UGG leaders claimed, were interrelated. The only means to obtain an affordable, efficient transportation system was to allow individual

producers to choose the mode of transport most suitable to their needs. The government's annual subsidy, therefore, should be paid directly to farmers.

5.1.1 The Prairie Wheat Pools

The large cooperative prairie wheat pools, namely, the Manitoba Pool Elevators (MPE), Saskatchewan Wheat Pool (SWP) and the Alberta Wheat Pool (AWP), representing approximately 135,000 member producers in the three prairie provinces, had begun to recognize the need to address the problems of the western rail network in the 1970's as the rail system began to reach capacity and potential grain sales were lost. The first major break in the Pools' traditional solid support of the Crow rate came in late 1978 when Manitoba Pool Elevator President Jim Deveson stated that farmers should be willing to discuss rate changes if it would improve their economic situation.

The Pools had traditionally maintained that any tampering with the statutory rate would open the door to variable freight rates. Opposition to variable rates was based upon a number of interrelated concerns. The purpose of variable, or "incentive" rates, was to attract grain to centralized collection points which were more efficient and economic, by offering different rates between shipping points. Critics, however, contended that variable rates would threaten the viability of the decentralized local elevator system, allowing the railways to direct delivery patterns away from

branchlines. The Pools argued that producers located in areas serviced by branchlines should not be placed in a discriminatory position vis-a-vis producers serviced by the main line of any railway. Moreover, rationalization of the grain collection and transportation system, based upon the criteria of economic efficiency, would threaten the existence of many small rural communities which had developed around local elevators. Variable rates, critics argued, would threaten a distinctive way of life.

Supporters of variable freight rates, however, argued that farmers would be free to choose where they would deliver their grain. The UGG, for example, contended that: "Farmers will not be forced to haul there [centralized collection points]. Whether or not they feel attracted will be their decision and will depend, no doubt, on the services offered when they get there, weighted against...the cost of getting there."¹⁸⁴

Pool leaders, however, were becoming increasingly concerned about the need to ensure railway capacity to move much larger volumes of grain forecasted for the late 1980's. At its November 1980 annual meeting, for example, SWP directors told delegates that: "Grain producers can all afford to have grain remain in their bins at current high interest rates while world demand is strong."¹⁸⁵ SWP

¹⁸⁴ Ibid., 111:18.

¹⁸⁵ Garry Lawrence Fairbairn, From Prairie Boots: The Remarkable Story of Saskatchewan Wheat Pool. Saskatoon: Western Producer Prairie Books, 1984, 225.

delegates voted, 122 to 22, in support of the Western Agricultural Conference's (WAC) transportation policy. The WAC was an umbrella organization, whose membership included the United Grain Growers, Unifarm (the Alberta agricultural umbrella group), the Manitoba Farm Bureau, and the Saskatchewan Federation of Agriculture. The WAC had expressed a willingness to discuss how future rail cost increases might be shared among the federal government, railways and producers. The WAC placed several conditions upon its support for increased freight rates for grain producers: freight rates would have to remain statutory; railway performance must be guaranteed; and railway rates must not be variable.¹⁰⁶ The WAC's transportation policy was important in that it eventually formed the basis of policies adopted by the Canadian Federation of Agriculture and the three prairie wheat pools. The SWP added one additional qualification to its support of the WAC's transportation policy: that the SWP press for the retention of the present statutory rate for grain producers.

The Saskatchewan Pool vote caused a storm of protest, despite this qualification. Both the National Farmers Union and the Saskatchewan NDP government criticized the SWP for not adopting a firm retentionist stance. Nevertheless, SWP delegates reaffirmed the transportation policy at its 1981 annual meeting by a vote of 99 to 45. However, in response to criticism that the SWP was not adequately defending the

¹⁰⁶ Ibid..

Crow rate, delegates passed an eight-point transportation policy. It called for a policy that:

1. preserved the present statutory Crow rate;
2. provided federal government guarantees of railway performance;
3. extended the statutory rate to all agricultural raw and processed products from the prairie region;
4. maintain a rate structure that was statutory and distance-related (non-variable);
5. and ensured that the compensatory rate shortfall be paid directly to the railways by the federal government;
6. Ottawa honor its commitment to provide necessary funding for the completion of branchline upgrading;
7. the federal government ensure an adequate supply of railway rolling stock available to the grain industry; and
8. if the above seven points were accepted by the federal government, future costs due to inflation would be negotiated by producers, railroads and the federal government; and in any negotiations the Saskatchewan Wheat Pool would strive to retain the present Crow rate for producers.¹⁰⁷

The ambiguity and contradictions among the eight points reflected the recognition on the part of the Pool leaders that any move to alter the historic Crow rate would be highly controversial. Yet, Pool leaders were worried about the condition of the rail transportation system. Thus, the Pools' resolution expressed a willingness to discuss future costs only if the Crow rate remained intact.

¹⁰⁷ Saskatchewan Wheat Pool, "Toward Tomorrow's System: The Role of Saskatchewan Wheat Pool in Transportation Policy Development, 1974-1983," 4.

The Pool's ambivalence was further reflected in its insistence that its participation in the Gilson consultation process did not imply agreement with the federal government's intent to alter the Crow rate. In a covering letter sent to Pepin accompanying its submission to Gilson, SWP President Ted Turner stated that: "We wish to make it clear that our continued participation in dialogue with Dr. Gilson in no way implies that we accept the limitations imposed on that discussion as adequate federal government policy, and commitment to western rail transportation development, and to the freight rate issue for agricultural products in the region."¹⁰⁰ Pool leaders, nevertheless, claimed that their participation was necessary to protect the interests of grain producers.

SWP leaders expressed a number of reservations during the Gilson proceedings. The Pool objected to the limitations imposed upon Dr. Gilson. It proposed that other topics also be considered, including: that the statutory rate cover all western grains as defined by The Canada Grain Act (sunflower, buckwheat and mustard); that freight rates on processed agricultural products be included within the statutory rate framework in a manner which would not discriminate against value-added activity in the prairie region; that the federal government give a clear commitment to fund the upgrading of all prairie branchlines; and that

¹⁰⁰ Correspondence from E.K. Turner to Jean-Luc Pepin, March 24, 1982. Reproduced in Saskatchewan Wheat Pool, "Towards Tomorrow's System," 18.

the "Crow benefit payment" be adjusted for inflation in subsequent years and be related to export volumes rather than a flat dollar amount. The SWP also argued that additional costs of an upgraded transportation service should not be passed along to grain producers in view of their contribution to Canada's balance of trade.¹⁸⁹

At a special meeting in Saskatoon, July 22-23, 1982, SWP delegates considered their response to the Gilson recommendations. Delegates rejected the Report's lack of assurance that freight rates would not be variable. They also objected to payment of the annual subsidy to producers, rather than to the railways; that producers would be required to pay total transportation costs above the 30.4 million tonne volume cap; and the high percentage of transportation costs grain shippers would have to pay. According to the Pool: "To honor an historical commitment and in recognition of the geographic and economic facts related to Western Canadian agriculture, farmers must be protected, in any new legislation being considered, against transportation cost increases which go beyond a reasonable relationship to producers' ability to pay."¹⁹⁰

Delegates resolved the contradictions of their 1981 eight-point transportation policy, agreeing that the various policy points would not have to be accepted by government and others as a precondition to any Pool discussion of

¹⁸⁹ SWP, "Toward Tomorrow's System," 18.

¹⁹⁰ Ibid., 19.

increased freight rates. Instead, the Pools' concern shifted to another matter, the method of payment of the Crow benefit. As discussed, the Pools advocated payment of the annual subsidy to the railways, arguing that it was a transportation rather than a farm production subsidy.¹⁹¹ Railway payments would ensure the continuation of low, incentive rates for export grains since the railways would be able to use the government subsidy to offset rising transportation costs.

The Pools were also critical of the lack of income protection for grain producers, contending that some western farmers would be forced into bankruptcy by higher transportation costs. The government's legislation, it argued, placed far too much of a financial burden on western farmers at a time when their economic position was rapidly deteriorating. The SWP estimated that the net farmer income in 1983 would decline by 15 percent from the previous year.¹⁹² (See Graph 4)

Moreover, producer payments, the Pools contended, would be too visible a subsidy and thus would be vulnerable to erosion by a future financially strained Parliament. Pool leaders also argued that it would be easier to ensure that the railways made systems improvements if the federal government controlled the allocation of the entire subsidy.

¹⁹¹ See Proceedings of the Standing Committee on Transport, Minutes, August 3, 1983, 109:9.

¹⁹² Saskatchewan Wheat Pool, "Why the Pepin Plan Should Be Stopped: The Saskatchewan Farmer's Viewpoint," 1983, 3.

GRAPH 4
PEPIN PLAN NET COST TO
WESTERN FARMERS
1983-92

Source: Saskatchewan Wheat Pool, "Why Pepin Plan Should Be Stopped: The Saskatchewan Farmer's Viewpoint," 9.

The Pools objected to the 31.1 million tonne volume cap; the composition of the Senior Grain Transportation Committee, and the failure of the government to extend statutory

coverage to additional specialty crops and other oilseed products processed on the Prairies.

The Pools continued to push for iron-clad assurances that variable rates would not be allowed. They feared that higher freight rates would allow the railways to offer reduced rates for shipping efficiency. Grain farmers would be encouraged to haul grain to large centralized elevators. The Pools, in turn, would be left with a large number of superfluous country elevators located along under-utilized grain branchlines.

Yet, while these issues were important to the Pools, they were secondary in the context of the larger question of changing the Crow freight rate. As Garry Fairbairn, in a study of the Saskatchewan Wheat Pool, has observed: "The fundamental question of whether to change Crow rates had, in effect, been decided in 1980, when Pool delegates supported their directors in deciding not to go to war for the Crow."¹⁹³ NDP Transport critic, Les Benjamin, agreed, arguing that once the Pool indicated to the government that the Crow rate was bargainable, it was lost. Benjamin recalled that Justice Emmett Hall had issued a similar warning in his study of the western rail transportation system.¹⁹⁴ Fairbairn attributes the Pools' policy vacillation to the dilemma facing its leadership:

¹⁹³ Fairbairn, From Prairie Roots, 231.

¹⁹⁴ Les Benjamin, NDP Transport critic, personal interview, May 28, 1985.

Pool leaders could not march in disciplined, perfectly co-ordinated fashion into a brave new post-Crow world, because their members were not yet ready to discard that 85-year-old bird. At the same time, Pool leaders could not blindly say 'no' to change, because they were painfully aware of the need to bring more revenue into the transportation system so that future generations of farmers would be able to get grain to market.¹⁹⁵

Pool leaders, therefore, recognized the need for change, but were constrained by the views of their membership.

Transport Minister Pepin offered a similar, though less sympathetic, view: "The [pool] leaders chickened when they realized their troops weren't following them. The Pool leadership didn't dare make up its mind, so we had to be daring on their behalf."¹⁹⁶

Another SWP special delegate meeting was held February 17, 1983 in Regina for the purpose of reviewing Pepin's announced Grain Transportation Initiative. The delegates rejected Pepin's proposals in their entirety, particularly the government's plans to pay a portion of the annual subsidy to producers. The Pools organized a lobbying campaign to express their concerns to the federal government and eastern Canada. Senior elected Pool leaders and staff travelled to Ottawa on a rotating basis, meeting MP's and senior civil servants of all major departments involved, especially Transport Canada. The Pools attempted to demonstrate to the government that its membership, although

¹⁹⁵ Ibid., 231.

¹⁹⁶ Quoted in Ron Graham, One-Fred Kings, 96.

divided by geography and differences in the agricultural economies of the three prairie provinces, were united on key aspects regarding the Crow rate. In an attempt to demonstrate the extent of support for its position, a petition with almost 110,000 signatures was delivered to the government, April 21, 1983 by a 125 person delegation.

5.1.2 The Alberta Wheat Pool

The Alberta Wheat Pool's support for the retention of the Crow rate was particularly controversial as a consequence of diversity of interests within its membership. This division was evidenced by a survey of their views regarding the government's proposed method of dispensing the Crow payment. In a survey of its membership, 57 percent supported payment of the government's annual subsidy to the railways, while the remaining 43 percent supported producer payments.¹⁹⁷ The responses of AWP members reflected the extent of diversity of Albertan agricultural operations. Many ~~livestock~~ producers, for instance, also grew wheat. Nevertheless, despite a lack of consensus among its 45,000 members, the AWP adopted a strong stand against the federal government's plans to alter the Crow rate. Some AWP members charged that their leaders intentionally misled the general membership in an attempt to protect the Pools' corporate interests.

¹⁹⁷ Proceedings of the Standing Committee on Transport, Minutes, August 5, 1983, 111:90.

The AWP opposed the 31.1 million tonne volume cap on grain qualifying for reduced transportation rates; argued that producers' share of inflationary transportation increases should be lowered from the proposed 6, to 4.5 percent, annually; and called for changes in the Grain Transportation Authority to ensure that grain marketers would not be controlled by grain handlers and transporters.

5.1.3 The Manitoba Pool Elevators

The Manitoba Pool Elevators (MPE), representing over 18,000 producer-members, supported the need for an improved rail transportation system and, under the right conditions, was willing to pay more to move grain by rail.¹⁹⁸ The MPE was interested in the establishment of an efficient grain transportation system at the least cost to the producer. However, while the MPE was not opposed to freight rate reform, it opposed some of the government's proposals. MPE leaders, for example, argued that while they did not oppose increasing the efficiency of the western grain transportation system through increased rationalization, they believed that it should proceed at a rate that would not place hardships on grain producers. In particular, it objected to what it perceived as the government's attempt to solve every problem involving agriculture, regional development and farm marketing by revising statutory freight rates. Manitoba Pool Elevators' leaders, for example, were

¹⁹⁸ Ibid., 111:90.

sensitive to the problems of the processing industry and the livestock sector. They argued that attempts to resolve these problems should not jeopardize the grain export sector. Attempting such a comprehensive reform package, the MPE contended, made impossible the arrival at a consensus among agricultural groups with such diverse interests. Nevertheless, the Manitoba Pool Elevators supported the government's amended legislation, noting that its deficiencies could be dealt with over time.

In the past, the prairie wheat pools' defense of the Crow rate had been crucial in its retention. Otto Lang's attempt to abandon the statutory rate in the mid-1970's, for example, had floundered as a result of the SWP's staunch resistance. The prospect of a western rail system incapable of handling future grain traffic demand, however, softened pool leaders' opposition. The federal government was able to exploit the pools' willingness to discuss the problems of the western rail network, despite the claims by the pools that their participation in the Gilson consultations did not represent their support for the government's plans to alter the Crow rate. But by that point, however, it was too late. Pool leaders could only complain that they had no other alternative, since government officials were intent on changing the Crow rate, despite prairie opposition.

5.1.4 Advocates of Crow Rate Reform

Crucial in legitimizing the federal government's plans to change the Crow rate was the support of western agricultural groups. Pepin repeatedly referred to their support in his attempts to deflect charges that the government was acting against the wishes of western farmers. Thus, the views of such groups as the Palliser Wheat Growers Association and the United Grain Growers, were very important in the government's attempts to change the historic grain freight rate.

5.1.5 The Palliser Wheat Growers Association

The Palliser Wheat Growers Association had promoted the need for change in western Canada's grain handling and transportation system since its inception in April 1970. Resolutions calling for reform of the Crow rate, for example, had been passed at each of its annual meetings between 1980 and 1983.¹⁹⁹

Past attempts to deal with these problems, Palliser argued, had failed to address the underlying causes afflicting the transportation system, and prairie agriculture, in general: "All of the federal initiatives have been directed to the symptoms of one ailment of the grain handling and transportation system. It's starvation through lack of capital."²⁰⁰ It demanded that reform

¹⁹⁹ See Palliser's submission to the Standing Committee on Transportation, *Minutes*, August 10, 1983, 115A:38-40.

²⁰⁰ Palliser Wheat Growers Association, submission to the

include a new rate structure to facilitate the efficient movement of grain; that mechanisms be provided to ensure adequate levels of railway service and performance; and that changes not have an adverse impact on domestic markets for grain.

Palliser officials argued that lost export markets, eroded market credibility, the need for public funds to bail out the transportation system in the past, including branchline subsidies, provision of railway equipment, and branchline rehabilitation; and the slow erosion of the prairie livestock and processing industries, all indicated the need for change. The group echoed concerns expressed by the railways that once the economy began to recover from the 1980 recession, the ability of grain farmers to ship larger amounts of grain would be constrained by an inadequate rail transportation system. The situation would be particularly ominous for grain producers, since the railways were more likely to give attention to other bulk commodity shippers who paid higher freight rates.

In a resolution passed in January 1980, the Palliser Association outlined six fundamental principles which it argued should be addressed by changes to freight rates:

1. the new rate should be compensatory to the railways;
2. the new maximum rate should be statutory, distance-related (variable rates), and regularly adjusted to cover cost increases;

3. the rate system should include provision for negotiated rates below the maximum;
4. the railways should provide service and volume guarantees;
5. the Crow benefit should be paid directly to the producers; and
6. future inflationary costs should be absorbed by producers.

Bill C-155 did not satisfy these principles fully, particularly the government's eventual decision to pay the entire Crow benefit to the railways. Although the Association recognized that it might benefit in the short term if the railways received the annual subsidy, it argued that in the long term railway payments would threaten the future of local livestock markets. Furthermore, feed grain producers would be encouraged to shift their production from domestic to export grains. This would have an undesirable impact on both the costs of moving grain paid by producers. Palliser officials contended, as rail shipments exceeded the 31.1 million tonne volume cap, and as more grain competed for limited export markets.

Palliser also objected to the limitation on establishing lower, incentive rates and the composition of the Senior Grain Transportation Committee. Opposition to variable rates, it contended, came primarily from grain companies with country elevators who feared that payments to producers would lead to greater competition from other means of transportation:

Their [grain companies with country elevators situated across the prairies] concern is the potential competition that may arise for their historic captive grain throughput if transport rates were to differ by significant degrees (i.e., variable rates). They raise spectres of prairies devoid of elevator facilities for hundreds of miles, of producers having to truck grain great distances over deteriorating highways¹, and waiting for hours at large multinationally controlled inland terminals...But most important they fear the need to become competitive in the handling of the producer's grain.²⁰¹

Palliser officials also argued that the establishment and arbitration of rewards and penalties for performance powers delegated to the Senior Grain Transportation Committee, should not be placed in the hands of a group wherein the largest plurality had a vested interest in the maintenance of the status quo. The committee would not be objective in its assessment of performance since only five of its 24 members, namely, the Chief Commissioner of the Canadian Grain Commission, the Administrator, and three producer representatives, could be considered objective.

5.1.6 The United Grain Growers

The United Grain Growers had expressed concern with the state of the western rail transportation system as early as 1976. In its annual report of that year, it stated that: "Crow rates without adequate compensation from the government have resulted in a rail system hopelessly expensive to operate and maintain if left as is."²⁰² The

²⁰¹ See Palliser Wheat Growers Association's Submission to the Standing Committee on Transport, *Ibid.*, 115A:27.

²⁰² Proceedings of the Standing Committee on Transportation,

UGG shifted its position regarding who should bear responsibility for the dramatic increases in railway costs due to inflation. In 1979, the group passed a resolution indicating its acceptance of higher grain freight rates:

Whereas the statutory grain rates are obsolete and inadequate, and whereas producers should be realistic regarding the fact the railways are not making a profit hauling Canadian grain, therefore be it resolved that the Government of Canada negotiate a new rate with the railways for the movement of grain. Be it further resolved that producers be encouraged to show their sincerity in this matter by offering a reasonable sum from the sale of their grain to be applied to the increase.²⁰³

At its 1983 annual meeting, the UGG arrived at the following principles they believed should structure reform of the Crow rate:

1. railways should receive compensatory rates for the movement of grain;
2. the federal government should pay an amount equivalent to the 1981-82 shortfall in railway compensation;
3. the federal government, the railways and farmers, would share in any future inflationary increases; and
4. monies paid by the government to achieve the compensatory level be distributed in such a manner that the impact of such monies on livestock producers, special crops, and secondary processing be neutral (no economic distortions).

The UGG supported payment of the Crow benefit to producers, arguing that farmers should be able to choose the rail, elevator and truck configuration they believed to be in their best interest. Further, freight rates should be

Minutes, August 5, 1983, 111:20.

²⁰³ Ibid., 111:21.

flexible (variable). Elevator location should not be dictated by proximity to a town. Rail access, car spot capability, land terrain, and road access were more important. According to UGG leaders: "The directors of...[the UGG]...recognize and are cognizant of social concerns [e.g., the survival of small rural communities] but simply say, don't lose sight of costs when planning a Prairie grain collection and transportation system!"²⁰⁰ The UGG noted that since 1960, the country elevator system had been reduced by 2,300 elevators due to their lack of economic viability. Replacement costs of equipment required far larger production areas to supply the necessary grain to pay for new facilities. Even with consolidation, the UGG contended, elevator costs had increased 250 percent between 1973-83.²⁰⁵

The United Grain Growers expressed a number of complaints regarding the government's Crow legislation. It objected that the contribution of the government's annual subsidy would be eroded over time by inflation since it would be paid in current, rather than 1981-82, dollars. The UGG also argued that the federal government should commit itself to paying the shortfall on the basis of tonnes of grain moved, not subjected to any volume cap. UGG officials acknowledged the federal government's concern with its deficit, but argued that the federal government's resources were

²⁰⁰ Ibid..

²⁰⁵ Ibid., 111A:28.

infinitely greater than that of prairie grain farmers, and that government expenditure in the rail system would result in ample economic reward for all of Canada. The position of the farmer as a taxpayer was such that farmers' tax levels were directly related to the volume of exports: the greater the volume of exports, the greater the contribution to the nation's balance of payments. Finally, the UGG contended that grain producers were being asked to pay too large a share of the cost of grain transportation due to inflation. Farmers' responsibility for future inflationary costs should be limited to 4.5 percent after 1985-86, as had been proposed by Gilson.

5.1.7 Western Livestock and Specialty-Crop Producers

Western livestock producers, specialty crop growers and agribusinesses, also supported the federal government's initiative, due to its efforts to spur increased agricultural diversification. Removal of the fixed grain freight rate in tandem with payment of the Crow benefit directly to producers would encourage grain farmers to consider more lucrative alternatives to growing export grain, including livestock and specialty crop production.²⁰⁶ The Prairie Farm Commodity Coalition, for example, was encouraged by federal government officials to make its views known.

²⁰⁶ See, for example, the arguments of the Alberta Cattle Commission in its submission to the Standing Committee on Transport, Minutes, August 8, 1983, 108:46-70.

5.1.8 Conclusion

Despite the recognition of the problems facing the western rail transportation system, little agreement existed as to the nature of what changes should be made. Prairie agricultural groups were divided among themselves. This made the achievement of a consensus regarding Crow reform extremely difficult. The inability of state officials to obtain a consensus proved to be extremely frustrating, as illustrated by the following comments of Jesse Flis, a Liberal MP who served on the Standing Committee on Transport during its hearings on Bill C-155. Flis observed that:

We [the Committee] have been hearing from witnesses yesterday, today, and [will] all day tomorrow again. I think we have heard the three sort of extreme positions, if I can put it that way. There is the position of the Government of Manitoba, which really is no change to the Crow at all, which is the NDP position, and we heard from the UGG, the position of pay the producer so that the producer can decide how he wants to transport that grain, how far, etc.. So we have heard that extreme, and we as a committee respect that position. Now we are hearing a third position, and that is Bill C-155 with a method of payment to the railways. You can see how difficult it will be to convince 281 members in the House of Commons to come to some sort of a bill that will accommodate the four western provinces and the other provinces across Canada.²⁰⁷

The federal government's task was made even more difficult by the controversy within many western agricultural organizations who claimed to speak on behalf of western agricultural producers. The legitimacy of many

²⁰⁷ Jesse Flis, Liberal MP, Proceedings of the Standing Committee on Transport, Minutes, August 5, 1983, 111:108.

well-established organizations was challenged by groups within their general membership. The Pools, for example, claimed to speak on behalf of the majority of grain producers. However, the tie between the Pools and farmers was tenuous, partly as a result of the indirect nature of their membership. Individual producers were considered members of the Pools if they delivered grain to a Pool elevator. Yet, as one western MP observed, many farmers only dealt with the Pools because they had no choice.²⁰⁸ A witness appearing before the Standing Committee on Transport clearly articulated this sentiment: "People who tend to equate deliveries with agreement with philosophy in agricultural politics are missing the point...[One] company has a monopoly in many points."²⁰⁹ The divergence of opinion between members and group leaders surfaced in complaints that agricultural representatives were more interested in protecting corporate interests, rather than those of individual farmers. For example, in a statement presumably directed at the position of the Pools, the UGG contended: "Regardless that the United Grain Growers facilities and services are owned by farmers[,] it is a fact that what benefits United Grain Growers as a business enterprise or indeed any business servicing farmers is not

²⁰⁸ Confidential interview.

²⁰⁹ Ted Allen, First Vice President of the United Grain Growers, Proceedings of the Standing Committee on Transport, Minutes, August 5, 1983, 111-35. ,

necessarily by definition of most benefit to farmers."²¹⁰

However, the lack of consensus regarding Crow rate reform facilitated the efforts of federal government officials to bring about changes that otherwise would have been much more difficult. The division of interests and views among prairie farmers and, as will be discussed in the following chapter, western provincial governments, meant that the government did not face united western opposition to its initiative. Government officials focussed attention upon groups supportive of the need for changing the statutory freight rate, and encouraged others to vocalize their support. Yet, this same matrix of interests made it difficult to enact more substantial reforms it desired, particularly the removal of the economic distortions caused by the Crow rate. Government officials were unable to convince the Saskatchewan Wheat Pool and other critics of the benefits of producer payments.

The following chapter discusses the reaction of provincial governments and federal opposition parties to the government's legislative proposals. Particular attention is focused upon the methods federal officials employed to mobilize support for the government's initiative, including its decision to change its proposed method of payment.

²¹⁰ United Grain Growers submission to the Standing Committee on Transport, Minutes, 111A:4.

Chapter VI

RESPONSE OF THE PROVINCIAL GOVERNMENTS

6.1 Introduction

The Crow rate, as provided by Section 271 of the Railway Act, fell exclusively within federal jurisdiction and thus any changes to its provisions did not require provincial government approval. Yet, had the western provincial governments adopted a strong and cohesive defense of the Crow rate, the federal government would have encountered greater difficulties in its quest to alter the statutory rate. The prairie provincial governments, however, were divided in their views of the Crow rate. As a result, the federal government was able to overcome their resistance more easily. Nevertheless, the response of some provinces to its initiative, particularly Quebec, demonstrated the barriers that the state had to overcome to succeed in changing the Crow rate. The following discussion provides an overview of each of the four western provincial governments', as well as Quebec's, response to the federal government's Crow initiative. Since the primary interest of this study is how the state translates its preferences into public policy, particular attention is devoted to the interaction between the provincial and federal governments.

By what means was the federal government able to mediate their potential opposition?

6.1.1 Reaction of the Western Provincial Governments

The responses of the western provincial governments to the federal government's plans to change the Crow rate were influenced by the nature of their respective agricultural economies. Saskatchewan and Manitoba, for example, were highly dependent upon grain exports. The province of Saskatchewan included 67,000 grain farmers, nearly half of all Canadian grain producers.²¹¹ Primary agricultural industry was responsible for 34 percent of its gross domestic product, compared to 3.5 percent in Quebec; 9.2 percent in Alberta; and 12.3 percent in Manitoba.²¹²

The effects of ending the Crow rate upon the prairie provinces reflected the varying diversity of their agricultural economies. According to one study, when efficiency gains were taken into consideration, Alberta farmers would gain \$190 million over twenty-five years from the abolition of the statutory grain rate. Manitoba farmers would lose \$33 million, but Saskatchewan farmers' loss would total \$721 million. Alberta and British Columbia were well positioned to benefit from the increased economic activity expected to result from the federal government's proposed

²¹¹ Government of Saskatchewan, Proceedings of the Standing Committee on Transport, Minutes, August 10, 1983, 115:85.

²¹² Ibid., 115:86.

changes, due to their existing infrastructure, diversified resource base, and the significant amount of construction activity that would be located in the mountain ranges within their boundaries. Similar advantages were not as numerous for Manitoba and Saskatchewan. Federal officials, therefore, had to make a concerted effort to convince Manitoba and Saskatchewan farmers of the benefits that would accompany altering the statutory rate, including the economic spinoffs associated with increased railway investment. The following discussion addresses the particular positions and interests of the four western provincial governments, followed by an analysis of the Government of Quebec and Quebec agricultural groups to the federal government's legislation.

6.1.2 Saskatchewan

Saskatchewan's NDP Premier Alan Blakeney responded to the the federal government's announced intention to alter the Crow rate by requesting a provincial election be held to demonstrate the province's opposition. Blakeney argued that the Crow rate should remain unaltered. The Premier's staunch defense of the statutory rate, however, represented a change of view in comparison to earlier comments. Before the federal government's February 8, 1982 announcement, Blakeney had indicated a willingness to discuss changes to the fixed freight rate. On January 10, 1982, during the CBC "Farm Show", Blakeney applauded the federal government's

call for a debate regarding the Crow rate. He stated that:
 "Perhaps a revision of the deal [the Crow rate] makes sense."²¹³

The NDP government attempted to focus the election campaign on the defense of the Crow rate by spending an estimated \$100,000 on television and newspaper advertising, advocating the retention of the Crow rate.²¹⁴ Nevertheless, the Crow rate issue failed to mobilize the electorate. The issue's lack of saliency among voters was partially due to the fact that the other provincial parties adopted basically the same position as the NDP. The Progressive Conservatives supported retention of the Crow rate, arguing that the federal government should cover the railways' grain deficit. The Saskatchewan Liberal party also favored retention. The rate should only be changed, it argued, if farmers could agree on what, and how, changes should be made. Instead, other issues dominated the attention of the electorate, including the issues of cheaper gasoline, subsidized home mortgages, and the belief that it was "time for a change". The result was the largest landslide victory in the province's history. The NDP fell from 44 to 7 seats, while the Progressive Conservatives captured 57 seats.

²¹³ Quoted by Charles Mayer, Conservative MP, *Debates*, February 26, 1982, 15457.

²¹⁴ Winnipeg Free Press, April 22, 1982, 7.

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Crow supporters were concerned with the election's outcome. The new premier, Grant Devine, a former agricultural economist from the University of Saskatchewan, had previously argued that the statutory freight rate was an unacceptable economic distortion that should be removed. Devine and the Conservatives, however, approached the issue with caution, due to the attachment of Saskatchewan grain producers to the statutory grain rate.

Devine contended that the Western Grain Transportation Initiative offered his province's grain producers few benefits. The province would not benefit from the economic spinoffs associated with railway expansion and upgrading programs, since those activities were targeted elsewhere. The Premier and Saskatchewan Agricultural Minister Eric Berntson noted that farmers were skeptical about federal government claims that increases in real output in the region's agricultural economy would compensate for losses resulting from the abandonment of the Crow rate. According to Berntson:

We are not prepared to accept it [Bill C-155] at face value...We have seen in the past the development of a National Energy Program which was based on similar projections and promises. The result has been devastation for the western Canadian oil and gas industry...We submit that Bill C-155 is based on the same misguided logic and would have a disastrous impact on the Saskatchewan economy.²¹⁵

²¹⁵ Eric Berntson, Proceedings of the Standing Committee on Transport, Minutes, August 10, 1983, 115:27.

The Saskatchewan government articulated its major concerns in a nine point resolution tabled during an emergency debate before its legislature, February 22, 1983.

The resolution received unanimous approval the next day.

According to the resolution, Bill C-155:

1. did not recognize the principle of the statutory rate, exposing farmers to the monopoly of the railways and inflation;
2. failed to provide cost protection for farmers;
3. did not recognize that grain must be sold on a competitive international market;
4. left the distortive effects on freight rates untouched as a result of failing to include all prairie crops and their products under the new structure;
5. did not address the unacceptable high levels of taxation on farm inputs such as fuel;
6. lacked sufficient railway performance guarantees;
7. included a 31.1 million tonne volume cap that represented a disincentive for greater production;
8. would provide central Canada with further artificial livestock incentives; and
9. did not enjoy the consensus of western Canadian producers.²¹⁶

Premier Devine suggested that public meetings be held across the province to explain how the federal government's plans would affect businesses and the lives of all Saskatchewan citizens.

The provincial government's opposition, however, was not as categorical as its pronouncements suggested. In its submission to the federal Transport Committee, the

²¹⁶ Ibid., 115:93.

provincial government indicated its support for higher freight rates, specifically, a maximum of seven percent of the price of grain, nearly three times the current freight rate. Agricultural Minister Berntson, in testimony before the Standing Committee, stated that: "...recognizing that there is a potential capacity problem and recognizing that with that capacity problem as producers we stand to suffer considerably, I think most thinking producers in western Canada are prepared to pay some additional compensation to move that grain."²¹⁷ Nevertheless, the government announced its opposition to Bill C-155, prompting critics to charge that it was attempting to play both sides of the debate. Although the government favored higher freight rates, Berntson also argued that: "...[farmers' profit] margins are very skinny and it would be difficult for any producer to shoulder any additional burden relative to transportation."²¹⁸

The Saskatchewan government's ambivalence resulted from the fact that, although both Premier Devine and Agricultural Minister Berntson believed that the statutory rate had become a problem for the prairie agricultural economy, the government did not want to be perceived as supporting the federal government's proposals for political reasons. A survey of Saskatchewan residents in April 1983, for example, found that 64.6 percent of respondents opposed attempts to

²¹⁷ Ibid., 115:91.

²¹⁸ Ibid., 115:99.

change the Crow rate, with 55.4 percent of that total describing their feelings as strong.²¹⁹ Only 7.7 percent favored changing the Crow rate, while 27.7 percent indicated they had no opinion. Furthermore, respondents did not believe federal officials' claims that changes would increase agricultural processing in western Canada. Only 11.1 percent of those polled believed processing industries would expand. Similarly, only 18 percent believed that changes to the statutory freight rate would encourage farmers to diversify their farm operations.

Consequently, the provincial government publicly argued that the status quo was preferable to changes suggested by the federal government. Provincial officials asserted that the \$6 billion worth of grain exports earned annually, and the amount of tax revenue the government would extract from the region's natural resources, justified continued public support of the western rail transportation system.

6.1.3 Manitoba

On March 15, 1983, the Manitoba legislature gave unanimous support to an identical resolution as had been passed by the Saskatchewan legislature, condemning the federal government's Crow legislation. The legislature instructed its Standing Committee on Agriculture to hold public meetings to canvas Manitoban's reactions to the

²¹⁹ These figures are taken from a survey conducted by Canwest Opinion, reported by the Saskatoon Star-Phoenix, July 21, 1983.

federal government's Western Transportation Initiative. The Committee heard sixty presentations from concerned individuals, groups and the CNR, during four days of meetings held between April 8-20, 1983. Reactions ranged from qualified support to outright rejection. The Committee noted the existence of a three-way division of opinion on the issue: those supporting retention of the Crow rate, including the NFU, representatives of several municipal councils and several local councils, and subdistricts of the Manitoba Pool Elevators who objected to their parent organization's support for change; and a split between those who favored Crow reform, but who were divided over the nature of that change. According to the Committee: "Deep as the division between those supporting the retention of the Crow Rate and the other two groups may be, the difference between the positions represented by M.P.E. (Manitoba Pool Elevators) and M.F.B. (Manitoba Farm Bureau) respectively is equally great, whether the organizations are aware of it or not."²²⁰ Whereas the Manitoba Pool was willing to yield on the Crow rate in return for improvements in the grain transportation system, the Manitoba Farm Bureau and other like-minded organizations advocated a redirection of Canadian agricultural policy for western Canada to encourage the growth and expansion of secondary processing, value-added and livestock industries.

²²⁰ Legislative Assembly of Manitoba, Notes and Proceedings. Thirty-Second Legislature, Second Session, Number 84, 300.

On June 10, 1983, the Standing Committee unanimously agreed that the Crow rate should be retained until a fairer formula could be developed. According to the Committee:

Western grain producers may be prepared to accept higher rates in return for improved railway transportation services. However, under the formula which has been proposed by Mr. Pepin, the grain producers will be made to pay a major share of the cost of expanding the capacity of the railway system in Western Canada, a share that is grossly out of proportion with the future demands to be made upon the system by the movement of grain. The willingness of the producers to pay more for transportation to obtain better service must not be exploited.²²¹

The Standing Committee recommended that:

1. until a more equitable formula for establishing grain transportation rates has been developed, the present statutory rate should remain in effect; and that in the interim the Government of Canada should reimburse the railway companies for out-of-pocket losses incurred in grain transportation;
2. an equitable formula must not have a tonnage cap and must provide a ceiling, tied to the price of grain, above which freight rates will not be permitted to rise;
3. processed products such as canola oil and meal, linseed oil, sunflower oil and soybean products be included in the statutory grains;
4. so-called special crops such as sunflower seed, peas, lentils, etc., be included in the statutory grains; and
5. the rail line to Churchill be upgraded so that it could carry hopper car trains. Alternatively, considering the doubts about the cost effectiveness of the heavy cars-heavy loads-heavy tracks combination, a program be launched to develop lighter-weight-smaller load cars and that their cost effectiveness be tested, among others, in the transportation of grain to Churchill.²²²

²²¹ Ibid., 301.

²²² Ibid., 302.

The Standing Committee's recommendations represented a significant shift in the government's initial opposition to any changes in the Crow rate. The softening of the provincial government's position was due partly to the anticipation of potential economic benefits that would flow to its depressed economy. The NDP government eventually indicated that it agreed that the Crow rate had to be changed, and that the railways must receive more money from grain shippers through higher freight rates, rather than from federal government funding.

Initially, however, the NDP government rejected the contention that grain freight rates had to be raised in order to provide the railways with funds to expand the rail transportation network. While the Manitoba government acknowledged the need to expand railway capacity, it argued that that problem should not be linked to the statutory grain freight rate. Whatever losses the CPR, for example, incurred hauling grain, those losses were dwarfed by the profits of its total rail system and its other enterprises, made possible, in part, by government concessions and support.²²³ It noted the recent acquisition of U.S. rail lines, and other large investments by CP Limited in diverse enterprises over the past number of years, as evidence of the corporation's financial wealth.

²²³ The following discussion of the Government of Manitoba's views drawn from its submission and testimony to the Standing Committee on Transport. See Proceedings of the Standing Committee on Transport, Minutes, August 4, 1983, 110:11-36.

Furthermore, provincial officials argued that the 1925 federal legislation, which made the Crow rate a statutory obligation upon all railways, represented the equalization and reformulation of obligations of the railways. Consequently, the Crow rate became an obligation assumed by the railway companies in their early years, and constituted a legitimate and integral part of their cost structure. Officials also defended the statutory rate as a necessary agricultural subsidy which maintained Canadian farmers' competitiveness with subsidized farmers in the U.S. and the EEC. Finally, the Manitoba government posited that lowering the supply price of grain enabled people to purchase it that would otherwise not be able, thereby reducing world hunger.

Government officials attacked the Snavely Commission's costing formula, upon which federal officials had based their estimates of the railways' grain losses. Officials were particularly critical of the inclusion of "cost of capital", that is, return on capital investment: "If that part of the grain freight rate increases, which is due to the inclusion of the cost of capital in the [costing] formula, must be absorbed by grain producers, realized net income from farming in Manitoba would decline by 20%."²²

Manitoba officials also argued that provision of more money to the railways would not guarantee improved services to grain producers, or improvements in the rail system. They cited the deterioration of the branchlines, despite

²² Ibid., 110:17.

extensive government subsidization, as an example. The government also questioned the ability of farmers to pay higher freight rates, arguing that increased transportation costs would not likely be offset by increased grain prices.

The province's objections were premised upon the contention that the federal government was attempting to funnel large amounts of public money to the railways under the guise of subsidies to grain producers. According to the Manitoba Standing Committee on Agriculture:

Farmers should not be made to pay for the expansion of capacity that is not related to grain transportation but to the transportation of coal, sulphur, potash and other mineral resources; Government contributions to that expansion should not be portrayed as subsidies to farmers.²²⁵

Echoing the position of its federal NDP counterparts, the Manitoba government demanded that equity shares be issued by the CPR in return for grain transportation subsidies. Moreover, Manitoba officials argued that the Crow rate was not an obstacle to the processing of agricultural products in western Canada. Rather, the problem was that the Crow rate did not cover all crops grown in the prairie region, whether in their raw or processed forms.

Manitoba government officials also demanded the extension of the statutory rate to the movement of products to the St. Lawrence and east coast ports, as was the case with west coast ports, since the province's farmers shipped their grain either north to the port of Churchill, Manitoba, or

²²⁵ Ibid., 110:20.

east to Thunder Bay, Ontario. For Manitoban farmers shipping goods eastward, the Crow rate was applicable only as far as Thunder Bay. Beyond that point, rates were considerably higher. Yet the government noted that the distance from Winnipeg to Montreal was a few miles less than to Vancouver. Equity demanded that the freight rate to Montreal should be no greater than to Vancouver. The government asked that the railway line to Churchill and its port should be upgraded as part of the improvements to the western Canadian transportation system. Finally, the Manitoba government favored direct payments of the Crow benefit to the railways, in order to prevent its dilution. According to Manitoba Minister of Agriculture William Uruski: "I see no sense in making a payment on railway transportation to a producer who is not transporting a commodity to earn that payment."²²⁶

5.1.4 Alberta

The Alberta government was supportive of the federal government's goal to change the Crow rate. Provincial government officials complained that the statutory rate inhibited expansion of the railway system, thereby limiting the exportation of grain and other bulk commodities. Alberta officials also objected to the artificially low freight rate's effects upon local grain prices which caused a disincentive to prairie livestock production. Reflecting

²²⁶ Ibid., 110:36.

the province's diversified agricultural economy and its desire to achieve greater diversification of its economy, provincial government officials favored a comprehensive grain transportation policy that would meet the needs of grain and livestock stock producers, agricultural processors, and the transportation sector.

The provincial government issued a set of principles, consistent with its own agricultural and transportation objectives, that it believed would result in an acceptable solution:

1. retention of the "Crow benefit" for farmers;
2. removal of disincentives to value-added processing;
3. improvement in rail capacity and efficiency;
4. provision of adequate revenue for railways relative to costs of moving grain; and
5. legislated and regulated rate formulas.²²⁷

The provincial government considered adequate rail capacity essential to its goal of economic development. However, government officials contended that rail investment would only occur if the railways were sufficiently compensated for hauling grains. Alberta officials stressed the need for a freight rate structure that would not discriminate between the export of raw grains, and products processed from these grains, thus removing the disadvantage to local value-added processing. Finally, they agreed that farmers should pay a

²²⁷ Government of Alberta, Submission to the House of Commons Standing Committee on Transport, Proceedings of the Standing Committee on Transport, Minutes, August 2, 1983, 108A:6.

share of future grain transportation costs, but argued that the Crow "benefit" be retained, i.e., that farmers be given consideration for the long distances they had to transport their grain to market.

The Alberta government had undertaken a number of initiatives in support of the rail transportation and handling system, including a \$240 million investment in the Prince Rupert terminal; purchase of 1,000 hopper cars for the grain car fleet; investment in inland terminals at Edmonton, Calgary and Lethbridge; a compensation program for canola crushers to help offset the negative effect of the Crow rate on processed canola products; participation in a joint federal-provincial grant program for building, expansion and modernizing facilities in Alberta's food and feed processing industry; and provision of programs and assistance in the planning, financing, processing and marketing of Alberta food products. During its 1980 energy pricing negotiations with the federal government, Alberta officials offered \$2 billion of unconditional funding over five years from its oil and gas revenues to improve the capacity and efficiency of the western rail transportation system.²²⁸ The provincial government contended that it was the federal government's responsibility to reinvest resource-based revenues in agriculture, transportation and economic development in western Canada. According to the provincial government:

²²⁸ Ibid..

The basis of Alberta's economic strategy is to shift its economy as quickly as possible from dependency on depleting resources to a more diversified economy. The key to such diversification is improved rail transportation facilities. If revenues from oil and gas are required they should be committed. It is in Alberta's interest as well as Canada's that the economy of the entire Western Canadian region also be diversified...The objective would be to benefit Western Canadian agricultural products and to stimulate economic development and diversification throughout Western Canada, as a result of substantially better rail transportation facilities.²²⁹

While Alberta officials agreed with the federal government's policy intent, it argued that Bill C-155 failed to meet these objectives. In its submission to the federal Standing Committee on Transport, the Alberta government listed four major deficiencies of the proposed legislation.²³⁰ First, Bill C-155 lacked a clear statement of policy necessary to provide a guide for effective regulation and interpretation of Parliament's intentions. Secondly, the legislation failed to address the economic distortions and disincentives associated with the Crow rate. Provincial officials argued that raw products and jobs would continue to be exported from western Canada. Paying the entire Crow benefit to the railways would result in grain freight rates remaining below the true cost of transporting grain, and thus perpetuate economic distortions which increased input costs to value-added processing in Alberta:

²²⁹ Ibid., 4-5.

²³⁰ Government of Alberta, Proceedings of the Standing Committee on Transport, Minutes, August 2, 1983, 108A:7-12.

"...the method of paying the Crow Benefit proposed in Bill C-155 denies both Western farmers and investors access to agricultural and economic development opportunities and restricts the development of new transport options. In turn, this reduces the potential for economic and agricultural development which may cost Canadians thousands of future jobs."²³¹

Alberta's Agriculture Minister LeRoy Fjordbotten, offered an alternative means for distributing the Crow benefit, the "Double-80" proposal. The plan would allow individual farmers to choose whether or not they preferred to receive the Crow benefit directly, or have it paid to the railways.²³² Fjordbotten asserted that his plan would meet

²³¹ Ibid., 104A:3.

²³² The main elements of the Double-80 option were as follows:

1. 20 percent of the Crow benefit would be paid directly to the railways with 80 percent available immediately for producer choice, similar to the phased-in proposed by Gilson;
2. all future increases in government payments, i.e., the cumulative government share of the cost change as defined in Bill C-155, plus a reinstated Agricultural Adjustment Fund, would also be available for producer choice;
3. each producer would be able to elect annually whether to receive his or her share of the government payments in cash or in credit toward railway freight payments; and
4. each producer entitlement would be calculated on the basis of the greater of either 80 percent of an acreage payment, including productivity adjustments; or a payment based on the record of actual marketings of the six major grains in the previous crop year as maintained by the Western

the objective needs of the marketplace while accommodating the differing views of who should receive the payment.

Thirdly, the Alberta government contended that Bill C-155 did not constitute a comprehensive approach required to resolve the grain transportation problem, but rather represented an ad hoc approach incapable of bringing about a long-term solution. It proposed measures to ensure meaningful investment, performance and service guarantees from the railways in return for adequate compensation. Suggestions included requiring railways to publish annual statements of source and application of funds, and a schedule of future investment intentions; structuring the Senior Grain Transportation Committee so that a majority of its members would represent western farmers; provision of a system of awards and sanctions with respect to meeting performance objectives; designation of a person responsible for farmers' interests in establishing freight rates and coordinating ship rates (possibly the Grain Transportation Administration); and a method by which farmers could receive the Crow benefit directly.

Finally, Alberta officials charged that Bill C-155 failed to consider grain producers' ability to pay higher freight rates in light of depressed grain prices and rising farm costs. The Alberta government proposed that a 4.5 percent limit be placed on the producers' share of future cost increases, instead of the proposed 6 percent, subject to

Grain Stabilization Administration.

future reviews. The provincial government also objected to the 31.1 million tonne volume cap. Officials asserted that it was contradictory to charge more for extra production while at the same time encouraging grain farmers to increase export sales.

The Government of Alberta favored payment of the federal subsidy to producers. Giving money to farmers, it argued, would increase efficiency in the grain handling and transportation system. Farmers would have control over where and how the money would be spent, allowing them to search out and demand the lowest cost alternatives from all components of the grain transportation and handling system. Giving farmers control over the decision-making process of introducing efficiency measures would ensure that improvements would be in the interests of farmers and of ensuring that costs would be kept to a minimum.

Payment of the Crow benefit directly to producers would also mean that local grain users, for example, oilseed crushers or livestock feeders, would be on an equal footing with export grain buyers when competing for grain supplies. Producer's net returns from the local market would be the same as from the export market. Local Alberta grain users would have access to supplies without having to pay an export premium, and therefore, would be in a better position to compete on a cost of production basis with other regions of Canada and the United States. Thus, as a result of the

removal of price distortions, value-added activities, such as oilseed crushing and livestock feeding, would expand. Provincial government officials also contended that producer payments would be resource neutral, i.e., management decisions regarding allocating resources would more closely reflect the true value of the crop or livestock enterprise. Finally, producer payments would allow farmers to choose alternative transportation modes and services, thus introducing a greater measure of competition in the transportation sector.

Nevertheless, despite its reservations, the Alberta government believed that Bill C-155 had sufficient merit to warrant support because of its attempt to encourage agricultural diversification. However, the federal government's eventual decision to pay the entire subsidy to the railways caused Alberta officials to feel betrayed. The circumstances surrounding the federal government's decision are discussed below.

6.1.5 British Columbia

The Government of British Columbia was enthusiastic in its support of the federal government's proposals since the province stood to benefit immensely from an improved rail system that would allow increased movement of British Columbia coal, lumber and other natural resource products. Further, much of the railway's investment was slated to be spent in the province: 33 percent of the construction

money, representing 87,000 person-years worth of jobs and \$5.4 billion of spending.²³³ The province was also anxious about the spectre of rail rationing and the level of rail freight rates in view of its desire to be competitive in world markets. According to British Columbia Premier William Bennett: "For years our products have been threatened - our lumber, our coal, our minerals - have been threatened with quotas because of the lack of rail capacity. Our resources have paid higher freight rates than our competitors in other parts of the world because we have been subsidizing other Canadian products."²³⁴

The provincial government argued that the railways should receive compensatory rates for the movement of grain. If a grain subsidy was required, it should be paid directly to the farmer. The government acknowledged that compromises had been made in drafting Bill C-155, and therefore the legislation was not completely satisfactory to each and every group. The British Columbia government, however, argued that:

Everyone...can find something missing in the Bill, but if we focus on the positive aspects we must conclude that they are sufficiently attractive that the Bill should pass now. This Bill is the first step in the renewed development of the western transportation system and that renewed development must begin now.²³⁵

²³³ Donald Johnston, federal Minister of State for Economic Development and for Science and Technology, *Debates*, May 16, 1983, 25474.

²³⁴ *Vancouver Sun*, February 2, 1983, A2.

²³⁵ Province of British Columbia submission, Proceedings of

6.1.6 The Quebec Factor - Betrayal?

Quebec farmers, primarily livestock and pork producers, were concerned that the federal government's proposals would alter the competitive balance in the Canadian feed industry, particularly its plan to pay part of the Crow benefit directly to producers. Quebec producers believed that feed grain supplies would be diverted to secondary processing within western Canada, for example, livestock feeders, resulting in an offsetting reduction in feed grain availability in eastern Canada; that western feeders would have an economic advantage over eastern feeders by virtue of having access to "cheap" feed grain, and that the domestic market for livestock products would be unable to absorb increased western production, thus driving down prices for their products.

The federal government's legislative proposals prompted the formation of the Coalition pour la survie de l'agro-alimentaire. The Coalition included a number of member organizations, including Quebec agricultural groups, the Quebec Department of Agriculture, Fisheries and Food, the Quebec Department of Transport and the Quebec Liberal Party. The Coalition expressed a number of concerns with Bill C-155.²³⁶ The Crow benefit, it argued, represented a transportation subsidy, and therefore should be paid to the

the Standing Committee on Transport, Minutes, August 12, 1983: 117A:87.

²³⁶ See Proceedings of the Standing Committee on Transport, Minutes, August 16, 1983, 118:9-16.

railways rather than to grain producers. Producer payments would permit western grain producers to convert their export grain into animal feed to sell to prairie livestock producers, and keep the subsidy payment supposedly paid for transportation of grain. As a result, costs for western Canadian livestock producers would be lowered, to the detriment of eastern livestock and pork producers.

The Coalition opposed the addition of any new products to the list of crops and products eligible for the Crow rate. One of the federal government's stated goals for changing the statutory rate was to reduce the economic distortion resulting from the artificially low freight rate structure. Yet, according to Coalition spokesmen: "It is crazy to want to correct by means of a second subsidy the distortions created in the economy by a first one, since this new subsidy would create further distortions, to be corrected by further subsidies, and so on until all produce is subsidized equally."²³⁷

The Coalition demanded that eastern Canadian grain growers be given assistance at the same level as that granted to prairie producers. Since prairie grain growers would receive assistance of \$20 per tonne of grain, in terms of equity, eastern producers, therefore, should receive funds to address problems specific to their concerns, including research into developing new grain varieties.

²³⁷ Ibid., 118:12.

Coalition representatives were also critical of the federal government's attempts to address the crisis in rail transportation capacity, and the promotion of development and diversification of the prairie agricultural economy, by means of changing the statutory rate. Coalition members were not troubled by the government's plans to deal with the annual grain rail transportation deficit, but objected to what it perceived as the Department of Transport's attempt to promote the diversification and development of agriculture in one region, the West, at the expense of another, Quebec.

The Quebec government challenged the assumptions upon which the federal government based its predictions of a western railway capacity crisis. According to Quebec's Ministry of Transport, the capacity crisis forecast for 1985 was based upon unrealistic traffic forecasts:

We feel that the capacity crisis, which is the basis for changes in federal grain transportation policy, is obviously nowhere nearly as serious as has been presumed. Projected expansion will simply give the Western rail network a capacity that far exceeds demand. As a result, the marginal cost of goods transportation for the new portion of the rail line will be relatively low. This will allow the railways to offer rates that will encourage use of the new railway line rather than the St. Lawrence/Great Lakes system.²³⁰

The Quebec Ministry of Transport questioned Bill C-155's railway investment plan, observing that a large part of the promised spending in western Canada would be spent before

²³⁰ See Proceedings of the Standing Committee on Transport, Minutes, November 11, 1983, 145A:141.

the 1985-86 review²³⁹ (55%). Spending in eastern Canada, however, would be minimal. For example, only 25 percent of the \$1.4 billion investment for Quebec slated for 1983-87 could be considered relatively firm.²³⁹ The remainder of the projected investment would be vulnerable to changes during the review process. Moreover, the difference between spending in western and eastern Canada would be widened by inflation. Quebec government officials noted that the province would only receive 8.5 percent of the projected \$16.5 billion of investment, while the West would receive a "shocking" 57.6 percent.

The Quebec government also complained that most of the Bill's benefits would accrue to the West. The Quebec Ministry of Transport estimated that, of the \$6.8 billion total investment forecast between 1983 and 1986-87, apart from benefits related to work carried out in Quebec (approximately worth \$350 million), Quebec would obtain contracts worth only approximately \$300 million for the manufacture of rolling stock. Furthermore, in its February 1, 1983 policy statement, the federal government had announced that it planned to allocate \$75 million over a five year period to the development of the western railway equipment industry. The Quebec Ministry of Transport claimed that such a program would damage the eastern railway

²³⁹ These and the following statistics are taken from the Quebec government's submission to the House of Commons Standing Committee on Transport. See Proceedings of the Standing Committee on Transport, Minutes, 145A:131-153.

equipment industry.

Finally, the Quebec provincial government argued that, in the five year period between 1983 and 1986-87, the federal government's proposals would cost the federal treasury \$2.3 billion, more than the total cost of funding existing programs. Thus, revenue for other transportation needs would be lacking, namely, in eastern Canada, particularly Quebec.

In summary, the Quebec government argued that Bill C-155 demonstrated a lack of equity between eastern and western Canada. According to the Quebec Ministry of Transport: "In the matter of Western grain transportation, the Federal Government must stop acting as if Canada ends at Thunder Bay. It must begin to consider the impact of its decision on the East, especially Quebec."²⁰⁰

Federal government officials and western agricultural groups which favored producer payments attempted to dispel the concerns of Quebec agricultural groups. Studies by Agriculture Canada, the University of Alberta, and Econolynx, for example, were cited as evidence that payment of the Crow benefit directly to farmers would lead only to a modest expansion of livestock production in western Canada. The competitive position of eastern producers, therefore, would not be threatened. Concern that higher grain freight rates would increase the price of feed grain delivered to

²⁰⁰ Proceedings of the Standing Committee on Transport, Minutes, 145A:165.

Quebec, thus harming the Quebec livestock and hog industry, was deemed to be unfounded for two basic reasons. First, Quebec's level of self-sufficiency in feed grains had improved dramatically over the last decade. (See Graph 5) Secondly, the price of feed grain in eastern Canada was not affected by prairie freight rates. Instead, feed grain prices were determined by U.S. corn forwarded to Montreal.

Attempts to quell Quebec opposition, however, failed. Western agricultural leaders complained that Quebec agricultural groups were unwilling to display any flexibility. Ted Allen, First Vice President of the United Grain Growers, described the attitude of the UPA and la Coop federee leadership, in testimony before the federal Transport Committee as follows: "We do not care how our position is affected; if your livestock people are better off, we must be worse off. Therefore, we are opposed."²⁰¹

Quebec agricultural groups pressured their Members of Parliament to convince the federal government to alter its plans. The Quebec MP's efforts proved to be effective. Despite arguments by the Prime Minister himself that the federal proposals would have little effect upon Quebec agricultural interests, Quebec MPs warned that the party might lose as many as twenty-five Quebec seats in the next federal election if the split method of payment was adopted. In view of the Liberal Party's unpopularity throughout much

²⁰¹ Ted Allen, Proceedings of the Standing Committee on Transport, Minutes, August 5, 1983, 111:39.

of the country, and the likelihood of an upcoming election, the prospect of losing a substantial number of Quebec seats was serious.

On May 4, 1983, Transport Minister Pepin announced the government's decision to change its method of payment of the Crow benefit. Instead of the annual payment eventually being equally divided between grain producers and the railways, the entire subsidy would be paid to the railways. Pepin also announced that future transportation charges would take into account the producer's ability to pay higher freight rates, thus linking grain price levels and freight rates. Additional crops and their products would also be included under the new statutory rate regime, to encourage diversification in western Canadian agriculture.

In explaining its decision, the government noted that a number of groups favored a system of railway payments, including: the three prairie wheat Pools, Saskatchewan Federation of Agriculture, Unifarm (Alberta), Ontario Federation of Agriculture, Union des producteurs agricoles (Quebec), Cooperative federee du Quebec, Association professionnelle des meuniers du Quebec, New Brunswick Federation of Agriculture, and the Canadian Federation of Agriculture. Government officials, therefore, claimed that they were responding to these preferences. Furthermore, in an attempt to placate groups who had supported producer payments, Pepin argued that the improvements in the grain

transportation system, the addition of new crops to the statutory rate eligibility list, and a reduction of economic distortion as a result of gradually increasing freight rates, would ultimately lead to agricultural diversification.

Nevertheless, the government's announcement infuriated supporters of the split-payment method. Some western Canadian agricultural leaders charged that the government's decision confirmed western Canadians long suspected belief that Quebec interests controlled Parliament and the Liberal federal government. The perception that the Quebec caucus had been responsible for the government's decision to alter its method of payment, a significant component of legislation of major importance to western Canada, upset even those who favored such a change. Some western Canadian agricultural leaders found it unacceptable that the government would change its legislative proposals, not as a result of western opposition, but rather, because of pressure from Quebec agricultural groups. According to Chris Mills, Manager of the Alberta Cattle Commission, by bowing to pressure from Quebec farmers, the Trudeau government had dissolved the hopes for agricultural diversification and neglected western Canadians. Rather, the federal government had relegated the region to "hewers of wood and drawers of water."²⁴²

²⁴² Chris Mills, *Calgary Herald*, November 14, 1983, A1.

The reason behind the government's decision was indicated by Transport Minister Pepin's warning shortly before the announcement of the government's decision. Pepin warned that supporters of his proposals should be more vocal in approval. Otherwise, he stated, changes might have to be made to placate eastern Canadian opposition. Yet, as one western agricultural group leader observed, many of the groups supporting the federal government's attempts to promote agricultural diversification in the prairie region had limited resources, both in terms of finances and manpower. It was difficult, therefore, for these groups to counter the well-financed efforts of other groups.²⁴³

The view that Quebec opposition was solely responsible for the government's decision to alter its method of payment, however, is not totally accurate. As discussed, support for the government's proposals was far from unanimous within western Canada. In an open letter to Transport Minister Pepin, his predecessor, Otto Lang argued that the decision to pay the annual subsidy to the railways was: "...inevitable in view of the mounting support for the wrong solution by certain Prairie farm organizations and by two of the three Prairie governments. It is more than frustrating to see some voices now ignore the support of these formidable groups in the West for the change in method of payment which was made and put the responsibility upon

²⁴³ Ken Stickland, Prairie Farm Commodity Coalition, personal interview, March 15, 1986.

the views of Quebec."²⁴⁴ Arthur Kroeher, Deputy Minister for Transport Canada, echoed the same sentiment. According to Kroeher, the one argument neither he nor Pepin could overcome was that, as Quebec MPs noted, the Pools were opposed to split-payment of the subsidy. "They would argue," Kroeher said, that "the Pools represented the majority of grain growers so why are you pushing a split payment that is opposed in the West and the East?"²⁴⁵

6.1.7 Conclusion

The responses of each of the four western provincial governments to the federal government's Crow initiative were influenced by the nature of their respective economies and political agendas. Saskatchewan, highly dependent upon grain exports, was most concerned about the effects of removing the fixed grain freight rate. Although members of its government, including the Premier, were concerned with the Crow rate's economic distortion, its importance to the province's grain producers made officials wary of endorsing the federal government's plans.

Alberta was more receptive to the federal government's initiative, primarily because of the legislation's provisions which would eliminate the distortive effects of the fixed grain rate. The provincial government had long pursued the goal of enhancing the province's economic

²⁴⁴ Otto Lang, The Pioneer Grain Company, News Release, June 3, 1983, 2.

²⁴⁵ Calgary Herald, May 5, 1983, A1.

diversification. Moreover, Alberta's agricultural economy was more balanced than Saskatchewan's, including sizable groups of both grain and livestock producers. Yet Alberta government officials were also hesitant to embrace the government's initiative. Provincial officials adopted a wait-and-see posture before announcing any definitive position until the federal government unveiled its final legislation. In retrospect, Alberta provincial officials seemed to be more sensitive to the complaints the federal government's initiative would provoke from Quebec agricultural groups than were their federal counterparts. Furthermore, relations between the Alberta and federal governments had been soured as a result of the controversial National Energy Program and the protracted and bitter energy-pricing dispute.

Manitoba's agricultural economy was similar to that of Alberta's in terms of diversification. Consequently, groups within the province would benefit from the removal of the Crow rate. However, the province's NDP government was ideologically opposed to the provision of more money to the railways without what it believed to be adequate accountability. Government officials also objected to the idea that grain producers would be required to pay higher freight rates so as to increase the railways rate of return. The government's plan, they asserted, was an attempt to shift more public revenues to the railways under the guise of higher grain freight rates.

Finally, the Government of British Columbia was enthusiastic in its support of Bill C-155. Provincial officials believed that the competitiveness of the industries within the province was being diminished as a result of the Crow rate's financial drain upon the railways. Mounting grain deficits, they contended, resulted in higher freight rates for other bulk commodity shippers, and threatened the viability of the western rail network. The B.C. government also looked with favor to the economic spinoffs that would accompany increased railway investment within the province.

Thus, the provincial governments were divided among themselves about what changes should be made, if any, to the Crow rate. The federal government's intent to alter the status of the Crow rate, however, seemed to be accepted by the western regions' governments. Consequently, each provincial government put forward principles to guide the federal government's reforms, as well as a "shopping list" of items each desired in exchange for abandonment of the Crow rate. The federal government's spending power, therefore, was useful in convincing reluctant governments to soften their opposition to the government's legislation.

Pepin encouraged provincial officials to express their views upon the provisions of the government's initiative, allowing them access to the government's decision-making process. The ongoing consultations between Pepin and his

officials with their provincial counterparts also allowed provincial officials to demonstrate, for the benefit of their respective constituents, that they were expressing those concerns to the federal government. Pepin stressed that the outright rejection of the need for Crow reform by any of the provincial governments would only lead to an open disagreement with another western provincial government supportive of the need for change. The lack of consensus among western governments, therefore, would be exposed. Pepin told provincial officials that his government was willing to absorb the criticism for removing the Crow rate.

Finally, due to the division within western Canada, provincial officials were hesitant to adopt a stance which might alienate any group, be they grain growers, livestock producers, processing and agri-businesses, or other bulk commodity shippers. Politically, it was easier for provincial officials to criticize various aspects of Bill C-155 than make pronouncements regarding the trade-offs that would ultimately have to be made among the interests of those affected.

Consequently, the division among the western provincial governments provided federal officials with the means to mediate the extent of the region's opposition to its Crow initiative. The government's decision to alter its proposed method of payment of the Crow benefit, however, coalesced opposition to Bill C-155. The following chapter outlines

the positions of the federal opposition parties, as well as the stormy debate on Bill C-155 in the House of Commons. Parliament became an important decision-making arena in which opposing groups battled to affect the outcome of the Crow debate.

Chapter VII

REACTION OF THE FEDERAL OPPOSITION PARTIES

7.1 Introduction

The federal Liberal government commanded a comfortable majority in the House of Commons, holding 146 of 282 seats.²⁴⁶ Nevertheless, it was concerned about the reactions of the Progressive Conservative and New Democratic parties to Bill C-155. The federal government did not want to be perceived as imposing important legislation upon the region. Officials were mindful of the strong opposition that had accompanied the government's introduction of the 1980 National Energy Policy.

In an attempt to diffuse the political controversy that was expected to accompany its attempt to alter the Crow rate, the federal government decided to take its case directly to those individuals and groups who would be affected. Transport Minister Pepin's many trips throughout western Canada, for example, to meet with agricultural groups and to address annual conferences and public meetings; the Gilson consultation process; and the numerous meetings between federal politicians and civil servants with

²⁴⁶ In the 32nd Parliament, the Liberal Party held 146 seats, the Progressive Conservatives, 103; and the New Democrat Party, 32. However, one Liberal MP left the party to sit as an Independent.

their provincial counterparts and farmers, were aimed at building as broad a consensus as possible for Crow reform.

The federal government's strategy angered opposition MP's, some of whom charged that the cabinet was demonstrating its contempt and disregard for the House of Commons. Conservative Transport critic Don Mazankowski, for example, complained that instead of ministers making substantive policy announcements in the House of Commons, they merely tabled documents, or issued press releases. The government had issued a statement in Winnipeg announcing its intention to change the Crow rate. The Gilson report was similarly released, with Pepin holding a press conference in Winnipeg. Pepin also chose to announce his government's response to the Gilson report at another press conference. According to Mazankowski: "I believe that [this] is contemptuous and totally disregarding the role, the responsibility and the obligations that we have as Members of Parliament....There is no opportunity for opposition members to respond. There is no opportunity to seek clarification."²⁴⁷ In fact, Parliament was not able to study the government's plan until Bill C-155 was introduced in the House of Commons, May 10, 1983.

The Conservatives were generally supportive of the need to change the Crow rate, but were cautious in their response to Bill C-155. Unlike the federal Liberals, the Conservative caucus included MP's who represented a broad

²⁴⁷ Don Mazankowski, *Debates*, August 4, 1982, 20016.

spectrum of groups and interests in western Canada: grain growers, livestock producers, specialty-crop growers, and other bulk commodity producers. The inability of the Conservatives to arrive at a firm policy response or alternative reflected, in a microcosm, the lack of consensus among western Canadian agricultural groups on how the statutory rate should be changed. It was only after the federal government decided to pay the entire Crow benefit to the railways that the Conservatives were able to unite in opposition against Bill C-155. The NDP was adamantly opposed to any changes to the statutory rate, reflecting ideological and political considerations. The Conservatives' tacit consent that the statutory freight rate should be changed, however, eroded its ability to prevent alterations of the Crow rate. Thus, the federal government, through a combination of government strategy and fortuitous circumstances, was able to weather much of the political opposition to its plans. The following discussion analyzes the positions of the federal opposition parties, and their effect upon the government's plans to change the Crow rate.

7.1.1 The Progressive Conservatives and the Crow Rate

The Conservatives supported the need for reform of the Crow rate. Plans were being made to address the issue during the short-lived Clark government (May 1979-February 1980). In a November 1979 speech to the United Grain Growers, Conservative Transport Minister Mazankowski,

suggested that changes to the Crow rate be discussed. Mazankowski stressed that his government would not take any action until a consensus was reached, but that both the statutory rate obligation had to be retained, and the railways had to be fairly compensated. However, in the words of an aide to the Minister: "The speech blew up in his face...The NDP had a field day with it."²⁴⁸ The NDP's criticism of the party for suggesting any alterations to the statutory grain freight rate caused Mazankowski to shelve temporarily the idea, despite pressure from western livestock groups, the railways, and the federal civil service. In the view of the Minister of Transport, federal civil servants were pushing too hard for the abandonment of the Crow rate. Politically, the federal Conservatives were not prepared to incur the opposition from western Canada that would attend any attempt to alter the statutory rate.²⁴⁹

In preparation for the 1979 parliamentary Christmas recess, Mazankowski asked his party's western MP's to ascertain the attitude of their constituents toward the Crow rate. Reflecting the controversy caused by his speech before the Grains Council, and the government's minority status, Mazankowski was intent upon avoiding any political minefields. Thus, he was interested in how farmers would

²⁴⁸ Doug Rimmer, Executive Assistant to Transport Minister Don Mazankowski, personal interview, December 5, 1985.

²⁴⁹ Ibid..

respond if the government moved to change the statutory freight rate, or if, on the other hand, it did nothing. The unexpected downfall of the government, however, precluded any further action by the Conservatives.

The Tory party's response to the government's decision to reform the Crow rate was tempered by the fact that its political base, unlike the Liberal's, extended throughout western Canada. The Conservatives had a large western caucus (33 of 103 MP's), including all 21 members from Alberta, as well as seven Saskatchewan and five Manitoba MP's. The Liberals, on the other hand, had only two members west of Ontario, both of whom represented Winnipeg urban ridings. One-half of its total caucus, 75 members, represented Quebec. For its part, the NDP caucus included seven MP's each from Manitoba and Saskatchewan, half of the total number of MP's in the two provinces. Those 14 prairie MP's constituted over 40 percent of the party's national caucus. The views of Mazankowski and the party's Canadian Wheat Board critic, Len Guftason, illustrate the division of views among Tory MPs. Mazankowski personally favored payment of the Crow benefit directly to producers. Guftason, however, favored government payments to the railways and retention of the Crow rate.

The Tories were especially concerned about the impact the Crow issue would have upon the party's electoral fortunes in the upcoming federal and provincial elections, particularly

in relation to the NDP, its main electoral competitor in the region. The federal strength of the Tories in Saskatchewan and Manitoba, for example, had eroded during the 1970's. In Manitoba, the number of Conservative MP's had fallen from nine in 1974, to seven in 1979, and five in the 1980 election. The NDP, on the other hand, had moved from two, to five, to seven seats during the same election period. Meanwhile, in Saskatchewan, the Tories had lost three seats to the New Democrats in the 1980 election. Thus, the Tories were cautious in their approach to the issue as illustrated by statements from the party's 1983 leadership candidates. Newfoundland MP John Crosbie, for example, stated that:

"Initiatives have to be taken to improve freight transportation in the West. You can't improve it if you leave the Crow rate intact. The share paid by users has to be increased but I'm not sure 60 percent is the right figure [the amount that the federal government planned to raise the freight rate]."²⁵⁰ Crosbie, however, offered no alternatives. Future Conservative party leader and Prime Minister, Brian Mulroney cautioned: "You go and tamper with something that has been around for 100 years...and you see what is going to happen to you. You'd better do it slowly, generously and with a very thoughtful purpose in mind."²⁵¹

Mulroney compared changing the Crow rate to altering language legislation in Quebec. Thus, he counselled, Bill

²⁵⁰ John Crosbie, Regina Leader-Post, May 2, 1983, A16.

²⁵¹ Ibid..

C-155 should not be rushed through Parliament.

The Conservative's were able to differentiate their view of Crow reform from that of the NDP as a result of the latter's support for retention of the statutory freight rate. If the NDP had also favored some form of change, it would have been more difficult for voters to discern the differences between the two federal opposition parties. Critics, however, contended that the Conservatives in fact had no policy, due to its policy vacillations. Nevertheless, Conservatives were satisfied with their performance in the Crow debate. According to one Conservative political aide, the Tories:

...spent a great deal of time developing a position that all members of the party could live with and speak to and I think we were quite successful in doing that...I think the...[1984] election results showed that we did not pay a price in any part of the country for the position that we took on the Crow.²⁵²

The Conservative's position changed over the course of the parliamentary debate of Bill C-155 as a result of its attempt to resolve, or hide, the differences of opinion within its caucus, particularly regarding the method of payment. MP's representing livestock areas in Alberta and Manitoba supported subsidy payments to producers. Alberta Conservative MP Bert Hargrave, for example, had supported the Gilson report's recommendation regarding the method of payment, and later, Pepin's 50-50 split payment plan.

²⁵² Doug Bimmer, Executive Assistant to Don Mazankowski, personal interview, December 5, 1985.

Hargrave, however, stated that:

...two Crow debate developments took place that changed everything in western Canada. This was the turning point for me personally concerning how I feel about this whole debate. First, Bill C-155 was introduced...with the totally unexpected provision of paying the full amount [of the Crow benefit] to the railways....Second was the time allocation or closure...that was moved by the Government after only two days debate on second reading. These two developments caused an explosion of opposition by western farmers to Bill C-155, especially the 'pay the railways only' provision. There was widespread anger, frustration and disbelief that such legislation could develop after all the good work done by the Gilson group.²⁵³

MP's from grain-growing regions of Saskatchewan, on the other hand, were pressured to oppose any changes to the statutory rate. As Hargrave's comment indicates, however, the federal government's eventual decision to pay the entire subsidy to the railways allowed the Tories to unite in opposition to Bill C-155. The railway payment option would still result in higher freight rates for grain producers. Thus, supporters of the retention of the Crow rate remained unsatisfied. However, they were now joined by groups who had favored the government's attempts to remove the economic distortion caused by the Crow rate. Direct payment of the annual subsidy to the railways would leave the distortive effects of the fixed grain rate intact.

In March of 1982, Tory MP Raymon Hnatyshyn had stated in the House of Commons that western Canadian producers could not afford any increases in the Crow freight rate. His

²⁵³ Debates, June 20, 1983, 25362.

party's position, he announced, was that the railways should receive adequate compensation for hauling grain, but that the existing statutory freight rate should remain intact.²⁵⁴ Conservative Transport Critic Mazankowski reiterated his party's Crow policy in February 1983, stating that producers should not pay higher freight rates. Yet, on May 12, 1983, the first day of second reading of Bill C-155, Mazankowski announced a change in his party's position, namely, that producers were willing to pay more for transporting grain.

In September 1983, the Tories reversed their position once again, proposing the provision of subsidies to the railways, but recommending a three-year freeze on any freight rate increase to allow further study of the impact higher rates would have on grain growers. The Tories contended that more time was necessary to determine a fairer formula for changing the Crow rate, including the assessment of Mazankowski's "freedom of choice" method-of-payment and the railways' controversial costing figures and methods. There was no need to pass Bill C-155 by June or the fall of 1983, the Tories argued, since the federal government had provided an interim payment of \$313 million to the railways as compensation for moving grain in the 1983-84 crop year. A temporary proposal could be arranged if further payments were required to continue rail expansion and upgrading. The Tory decision was generally attributed to political considerations, specifically, an attempt to consolidate

²⁵⁴ Debates, March 26, 1982, 15820.

support for the party's western base among Crow retentionists, particularly in Saskatchewan.

7.1.2 The Conservative Party's Response to the Crow Initiative

The Tories expressed a number of criticisms in reaction to the federal government's February 8, 1982 Policy Statement on Western Rail Capacity. The party's transport critic, Don Mazankowski, outlined the party's concerns in the House of Commons.²⁵⁵ The Conservatives opposed abandoning the historical and statutory "right" of western grain producers by proposing an end to the Crow rate. Mazankowski stated that: "The statutory freight rate...is tantamount to a constitutional right for the producers of Canada. If it is to be traded or bargained away, the end result should be something as good as, or something better in place than, we have had before."²⁵⁶ Thus, the Conservatives were careful not to rule out the possibility of changes to the Crow rate itself. Instead, they defended the "benefits" of the Crow rate. Changes to the statutory freight rate were acceptable as long as consideration was given to the historic commitment represented by the Crow rate. By adopting this position, the Conservatives attempted to find a middle ground between supporters and critics of the Crow rate. Yet, while supportive of the need

²⁵⁵ Don Mazankowski, *Debates*, February 26, 1982, 15434.

²⁵⁶ *Ibid.*, May 12, 1983, 25384.

for reform, the party argued that change should occur only if it was favorable to western interests, and enjoyed the support of western Canadians.

The Tories also objected to a number of features regarding the Gilson consultation process. They complained that the inquiry lacked clearly defined terms of reference; provided inadequate grain producer participation; and had no reference to Parliament. The Conservatives further objected that financial guarantees were to be provided to the railways, but not grain producers. Moreover, the lack of a fixed freight rate would lead to an open-ended escalation of transportation costs to be borne by grain producers. The volume cap would further saddle grain growers with the burden of paying future inflation and cost increases. Finally, Mazankowski asserted that grain farmers could not afford increased freight rates in view of high interest rates and depressed agricultural commodity prices.

Mazankowski, however, expressed his party's approval, in principle, of payment of grain-related revenue shortfalls to the railways, provided adequate performance and capacity guarantees were required. The Conservatives also called upon the federal government to refer the February 8 Policy Statement on Western Rail Transportation to the Standing Committee on Transport for full consideration.

The Tories put forward five principles which they argued should govern reform of the Crow rate:

1. the Government of Canada and the railways had a continuing obligation to provide a special low rate to assist producers competing with subsidized grain-export nations;
2. railways should receive adequate and fair compensation for the movement of grain to provide the necessary capital, and maintenance of plant and equipment;
3. producers should be guaranteed an efficient, cost-effective and reliable grain transportation system;
4. the distortion of the low freight rates in grain and oilseeds vis-a-vis processed products should be removed and the natural advantage be retained; and
5. grain producers should have a statutory freight rate which preserves the benefits of the Crow rate and must be protected from open-ended escalation.²⁵⁷

Finally, the Conservatives defended the maintenance of the freight rate subsidy, both in relation to its importance to the prairie wheat economy, and the amount of energy taxes that would be extracted from the region.

On May 12, 1983, during Second Reading debate of Bill C-155, Mazankowski enunciated his party's position.²⁵⁸

Mazankowski outlined a position designed to show concern for the interests and views of all groups affected by the federal government's plans to change the Crow rate. The Tories, in effect, attempted to avoid alienating any particular constituency. Mazankowski reiterated the Conservatives' charges that the principles of the statutory

²⁵⁷ Don Mazankowski, Memorandum to the PC Caucus, May 19, 1983, 5.

²⁵⁸ Mazankowski's executive assistant, Doug Rimmer, described it as the best political speech he had ever heard, since it succeeded in appealing to the concerns of all those involved in the Crow debate, even though many had contradictory interests. Doug Rimmer, personal interview, December 5, 1985.

rate were not being retained, and that the proposed freight rate structure would result in an open-ended escalation of freight rates, without consideration of farmers' profit levels or the value of grain. The party also objected to the 31.1 million tonne volume cap; the exclusion of specialty crops from statutory rate coverage; and the costly bureaucratic mechanisms that would be necessary to implement the Bill's provisions.

Mazankowski argued that the status quo was not satisfactory, but that it was not appropriate to make changes to the statutory grain freight rate that would impose additional burdens on economically hard-pressed prairie grain farmers. The Conservatives contended that it was inappropriate to impose further costs on the agricultural community at a time when farm commodity prices were declining and farm input costs increasing. According to the federal government's own estimate, freight rates would rise five and one-half times, from \$4.89 to \$27.21 per tonne by 1991, an increase of 456 percent. Yet, Bill C-155, for example, would require farmers to pay for the first six percentage points of transportation costs due to inflation after 1986-87. Farmers' net income had plummeted by 35 percent in 1982; input costs had tripled in the previous ten years; and interest costs had increased over 500 percent. In 1973-74, farmers had received \$4.57 a bushel for their grain (Number 1 Red Spring wheat). In 1983, farmers were

receiving approximately \$4.63 a bushel. However, during that time period, the rate of inflation had increased 135 percent. If the rate of inflation was applied to the price of grain, the Tories observed, producers would be receiving approximately \$11 a bushel. Given this situation, the Conservatives argued against the imposition of ever-escalating freight rates upon producers.

Furthermore, higher freight rates, they claimed, would erode the international competitiveness of Canadian grain producers. As Table 7 indicates, subsidies provided to Canadian producers amounted to only one-half or one-third of those provided to Canada's major competitors over the previous decade.

Even with the Crow rate, the Tories observed, Canada's share of the world wheat trade had dropped from 25-28 percent in the early 1960's, to 17-18 percent in 1983. Removal of the Crow benefit would further erode Canadian grain producer's share of the world grain market.

A reduction in grain exports, in turn, would have a severe impact on Canada's economy. The Tories marshalled a number of statistics to illustrate the importance of the export grain trade to the Canadian economy.²⁵⁹ In 1982, grain accounted for 70 percent of Canada's agricultural exports, and contributed over \$6 billion to the country's balance of payments. Based upon an economic multiplier of

²⁵⁹ The following statistics are taken from PC Research,

"Background Notes on Producers Ability to Pay."

^aSeptember 13, 1983, 4-16.

Table 8: Comparative Subsidies: Canada - USA - EEC
Average 1972-1981 (\$US/Ton)

	WHEAT	BARLEY
Canada	\$ 6.35	\$ 6.32
U.S.A.	11.41	7.57
E.E.C.	19.96	32.80

1982 - 1983 (\$US/Bushel)

Canada	\$.37
U.S.A.	1.12

Other

Argentina: Free rail freight

Australia: 50 percent freight cost subsidy

Source: PC Research, "Background Notes of Producers Ability to Pay," September 13, 1983, 2.

four, in 1982 export grain was estimated to have provided approximately a \$24 billion contribution to Canada's gross national product. In 1981, prairie farmers spent over \$2 billion on farm machinery and repairs, \$760 million on energy and \$640 million on fertilizer, thus providing an important market for Canadian manufacturers. Over 150,000 farm families, and approximately 23,000 workers, were directly involved in the production, shipping and handling of export grain. Grain was the largest single commodity shipped through the St. Lawrence Seaway, and provided back haul opportunities for vessels moving iron ore upstream. The Great Lakes movement of grain also generated significant

activity in Ontario's ship-building and ship-repairing industries. Thus the prairie grain economy, Conservatives claimed, generated a high level of activity throughout the Canadian economy.

Hazankowski also expressed doubts about the monetary mechanism by which railway service would be guaranteed. Concern that the railways be required to improve their services in return for increased government subsidization and higher grain freight rates reflected the historic mistrust of the railways by many western Canadian farmers, and the repeated railway requests for more money. The federal government had attempted to provide mechanisms that would ensure railway accountability. Yet, according to the terms of Bill C-155, the railways would not be subject to performance guarantees until three years after the passage of the legislation, subject to the 1985-86 parliamentary review. Furthermore, only a "notional" scheme of railway performance objectives would be provided whereby sanctions would be tallied, but not levied, until the passage of the bill. Consequently, the Conservatives complained that the railways would enjoy a "free ride" for three years, subject to the 1985-86 parliamentary review. The Conservatives reiterated their view that the federal government's legislation was too generous to the railways. Bill C-155 provided that the railways would receive 100 percent of their long-range variable costs, 20 percent of overhead

costs, and a 20.5 percent return on investment capital. By 1990, the railways would receive a 1,000 percent increase in the level of grain freight rates as compared to the 1983 rate.

The Tories also objected that the membership of the railways and major grain companies on the Senior Grain Transportation Committee constituted a conflict of interest at the expense of grain producers. The Committee's responsibilities would include advising the Minister of Transport and the Grain Transportation Administrator (GTA) on performance objectives. However, since the railways and grain companies were "system participants", responsible for carrying out activities related to performance objectives, they would have the opportunity to influence how the government's performance objectives would be enforced in relation to their particular activities.

The Conservatives criticized the Bill's failure to make provision for reducing freight rates in the event of dramatically falling grain prices. They also charged that the concentration of power in the hands of the Transport Minister and the Grain Transportation Administrator would erode the power of the Canadian Wheat Board to set production quotas and market grain production.

The Conservatives noted the possibility of variable rates as a result of the government's legislative proposals. According to Tory MP Raymon Hnatyshyn:

...[An] aspect of the plan which causes me concern is the imposition of variable rates into the freight rate equation. Economically it probably makes sense. The costs on the main lines are lower, the quantities of grain to be moved are potentially greater, therefore a discount should be offered to reflect the economies of scale. What it means to people living on the branch-lines, however, is that in order to obtain this discount they will have to haul a considerable distance to the main line. Not every farmer will be able to do so, simply because of the costs involved. The larger operator will be the one who can afford the whole process. But now that he and three or four other large operators in a given area are no longer hauling to the local elevator,...[it will become]...less and less viable. If that elevator closes, many of the smaller farms will go as well, simply because the increased costs of hauling to the next point are unbearable. Who buys out the smaller farmers? The large operators. What happens to the local community? It loses family after family. It loses its local store, its high school and its hospital.²⁶⁰

Thus the Conservatives warned that Bill C-155 might threaten the existence of many small prairie communities and, by extension, a distinctive way of life.

Finally, the Tories claimed that Bill C-155 lacked the consensus that the federal government claimed it sought before any changes would be made to the statutory rate. The government's decision to pay the entire annual subsidy to the railways had left western Canadian livestock producers bitter and angry. They noted Pepin's own projections that failure to remove the economic anomaly resulting from the artificially low Crow rate would result in a loss of an additional \$1 billion in livestock production, and an

²⁶⁰ Raymon Hnatyshyn, Conservative MP, Debates, May 16, 1983, 25506.

additional \$350 million worth of economic activity with respect to processing, packing plants, and the feed mill industry in western Canada.²⁶¹ Furthermore, despite the government's decision to change the method of payment, the wheat Pools remained dissatisfied with the legislation.

7.1.3 "The New Democrat Party and The Crow Rate"

The New Democrat Party was adamant in its opposition to any change to the Crow rate. The party argued that the statutory rate was based upon an agreement signed "in perpetuity" and that changes to the Crow rate would have disastrous effects upon the entire western Canadian economy. NDP leader Ed Broadbent, in a December 17, 1981 letter to Transport Minister Pepin, sought assurances that the rate would be retained. In defense of the Crow rate, Broadbent argued that:

The reason for retaining the Crow rate is simple: the natural integration of this continent would have been north-south instead of east-west but for the decision reached at the time of Confederation to transform British North America into a political and economic unit independent of the United States. Tariffs developed the central region and transportation opened up markets for eastern manufacturers and western agricultural producers. The Crow rate, like tariffs, are simply the legitimate, indivisible costs of Confederation.²⁶²

²⁶¹ Minister of Transport, Public Affairs, "Western Transportation Initiative, Background Note: Agricultural Impacts of Crow Rate Change," February 1, 1983, 1.

²⁶² Ed Broadbent, letter to Transport Minister Jean-Luc Pepin, December 17, 1981, 1-2.

Broadbent further noted that the CPR had agreed to maintain the Crow rate in perpetuity. Consequently, he argued, if the statutory rate obligation was removed, how could the CPR justify keeping the benefits of the 1881 and 1897 contracts? The NDP leader claimed that abandoning the statutory rate would not solve the problem of railway financing, nor would public financing of specific railway projects, without corresponding equity. The party advocated the nationalization of CP Limited and the creation of an integrated rail system as an instrument of national development.

The NDP argued that the social fabric of rural western Canada had grown up around grain elevators on branch lines. Tampering with the Crow rate would eventually lead to a system of variable rates, the consolidation of the grain delivery system, and the uprooting of hundreds of small prairie communities. The Crow rate, Broadbent argued, was: "...the key to an entire way of life in Western Canada."²⁶³ Rather than removing the statutory rate, the party recommended that freight rate parity be established between raw and processed goods by reducing the rate on processed goods to the level that would apply to the shipment of the quantity of raw material that went into the product, as had been proposed by the Hall Royal Commission.

²⁶³ Ibid., 2.

In a briefing paper prepared for Broadbent, the party's Transport critic, Les Benjamin, listed a number of reasons why the federal government was planning to abandon the Crow rate and what the party's strategy should be in defense of the statutory rate.²⁶⁴ Federal government officials, Benjamin contended, wanted to stop subsidizing grain transportation losses as had been done in the past through branchline subsidies, branchline rehabilitation and hopper car purchases. The federal government was also under pressure from non-agricultural bulk commodity shippers who believed that their freight rates were inflated as a result of the railway's attempt to recover some of the revenue they were losing hauling statutory grain. According to New Democratic MP Jim Pulton: "...CN and CP have been saying to...raw resource and commodity movers...petroleum or coal, 'Look, we cannot lower the rates to you. We cannot be more competitive because we have this Crow rate around our necks....' They have always used...[this] excuse, getting the producers off their backs and putting them on the back of the Minister of Transport."²⁶⁵

The problem facing government officials, however, was who would pay for grain transportation costs. The grain rail losses could not be shifted to overseas customers. Canadian grain producers were "price-takers" since they did

²⁶⁴ The following discussion is drawn from Les Benjamin, "The Politics of the Crow," December 11, 1981, unless otherwise indicated.

²⁶⁵ Jim Pulton, NDP MP, Debates, May 19, 1983, 25572.

not control the price of wheat. Nor could the railways be forced to absorb the losses. The railways, for example, could ration transportation capacity among bulk commodity shippers, as they had threatened, if revenues were not made available for upgrading and expansion of the western rail network. Finally, direct government intervention, Benjamin argued, was not likely because of the "ultra-conservative" nature of the Department of Transport, namely, the Department of Transport's preference to rely upon market forces rather than government regulation.

Farmers, however, could be required to pay higher freight rates because of their inability to withhold production. They lacked the degree of organization required for such an effort. Moreover, withholding production would result in a reduction of farmer's income at a time when they had to contend with high interest payments. Nevertheless, Benjamin noted that it would be politically difficult for the government to alter the historic freight rate. In an attempt to win support for its plans, Benjamin warned that the federal government would attempt to co-opt farm leaders into discussing the Crow rate issue. However, if the Crow rate was changed, Benjamin warned, the agenda would be set for future changes which would threaten the interests of farmers, including the establishment of variable rates:

Once the Crow rate is opened up the railways could charge higher rates for grain moving off branch lines in order to force farmers to haul grain longer distances. Should the railways be allowed to abandon branch lines through these

discriminatory pricing policies or should society retain the right to determine the value of a line to community development and rural life?²⁴⁶

Benjamin listed a number of reasons why the NDP should defend the Crow rate. Low cost transportation, like tariffs, he contended, were legitimate, indivisible costs of Confederation and an important factor in prompting national unity. While the low statutory freight rate caused the railways to lose money hauling grain, on balance, there were economic and social justifications for maintaining the Crow rate. Foreign competition necessitated continuation of the Crow rate since other countries subsidized grain hauling, or had less expensive transportation systems, such as water. The location of American grain production near heavily subsidized river transport benefited U.S. farmers, while Canadian producers had to move their grain an average of 900 miles overland. The Crow rate, therefore, was an important factor in the competitiveness of grain growers whose exports earned Canada \$4 billion a year in foreign exchange.

Benjamin contended that the "user-pay" philosophy, which deemed the Crow rate as an "uneconomic" subsidy, was an oversimplified application of market economics inconsistent with Canada's geography. The fact that western Canadian producers had to transport their products over great distances to export markets necessitated low freight rates. More importantly, the Crow rate represented an important

²⁴⁶ Les Benjamin, article submitted to the Globe and Mail, December 7, 1981, 5-6.

link in maintaining Canadian unity by encouraging east-west trade. Abandoning the Crow rate, Benjamin asserted, would represent a major step toward a user-pay transportation policy which would encourage north-south trade with the United States, and thereby erode Canadian control of the grain economy, including grain gathering, marketing and transportation.

NDP MP Bill Blaikie articulated his party's fears about the effects altering the Crow rate would have upon the decentralized political economy of prairie Canada.

Blaikie's description bears extensive quotation:

The Crow rate opened up the grain economy and prevented non-agrarian capital from exploiting the prairie region. By preventing variable freight rates, the Crow rate made inland grain terminals uneconomic. But the international grain companies are anxious to move in once the barrier has been removed, and no doubt it is their advice...that the federal Government is heeding. Variable freight rates will change more than the elevator system. Ending the Crow will centralize and stratify prairie society, making farmers and workers less aware of each other's contribution to the community. Today the elevator agent knows farmers and their problems and is a respected member of the community. Division of labour in inland grain companies will isolate workers from farmers and relegate many of them to repetitive, mundane tasks, alienating them from this new industrial process. For the farmer, delivering grain will mean long truck hauls and waiting in line-ups. As farm incomes are reduced, ownership of land will be concentrated into fewer and corporate hands. Those farmers who cannot afford to expand will have to quit farming or work off the farm, which will reduce the number of farm families to support the community businesses and services. Therefore, the quality of life in small towns will decline and the social infrastructure, made redundant, will have to be replaced at high costs in cities to which the landless will have to

move.²⁶⁷

The New Democratic Party also feared that ending the fixed statutory rate would threaten the Canadian Wheat Board's quota system. The quota system sought to equalize delivery opportunities so that large production farmers could not burden the capacity of local grain elevators to handle their grain to the exclusion of others. Large centralized inland terminals, however, would require large volumes of grain at any given time. Grain companies, therefore, would require preferential quotas. Pressure, the NDP claimed, would be placed upon the railways to offer incentive rates to farmers who would then bypass local grain elevators, and instead truck their grain to centralized inland terminals. Multinational grain companies would be able to change the Canadian Wheat Board's practice of averaging the price of grain to protect farmers from wide price fluctuations. During periods of temporarily high grain prices, multinational grain companies would press farmers to lobby politicians to stop price averaging. During periods of low prices and surplus grain, large private grain companies would pressure farmers to end the quota system so that the large grain companies could store large volumes of grain at low prices to be resold later, at higher prices. The very existence of the Canadian Wheat Board would be threatened in such an environment. Canadian grain policy would become more vulnerable to manipulation by

²⁶⁷ Bill Blaikie, NDP MP, *Debates*, May 12, 1983, 25418.

the large U.S. multinational grain companies. Thus, according to Blaikie: "It is...[the] will to be a country separate and distant from the United States of America that is at stake in this debate. In the battle against those who would change the Crow rate."²⁶⁸

Benjamin argued that defense of the Crow rate would also be advantageous for the NDP since its membership was highly motivated by the issue. The Crow rate debate would provide the opportunity to restore an understanding by labor groups of agricultural problems, of building labour party links within the party by highlighting the importance of agricultural economic activity to industrial activity; and the benefits that would result from expanded rail transport capacity. The Crow debate would also allow the party to promote its policy of public ownership of the railways. In 1981, a NDP policy convention had recommended the nationalization of CP Limited. The railways, the NDP argued, were instruments of national development, similar to telephone and hydro systems. To ensure fairness and equity for users, the party proposed that CPR and CNR be combined. Furthermore, Benjamin contended that Canadians had already paid for the CPR and the Crow rate as a result of the land, cash, rail lines and other benefits the CPR Syndicate had accepted in exchange for a commitment to: "...therefore and forever efficiently maintain, work and run the Canadian

²⁶⁸ Ibid..

Pacific Railway."²⁶⁹

Benjamin advised that the NDP should be prepared "to steal [the] ball" from the Conservatives by taking an active role before the federal government formally announced its plans to change the Crow rate by holding meetings and conducting advertising campaigns. Benjamin also suggested that the party should seek the views of western provincial premiers regarding Crow reform, particularly from the Alberta Conservative government which supported change. Alberta's position could in turn be used against the federal Tories who claimed to support the Crow "benefit", but who the NDP accused of being willing to abandon the Crow rate. Benjamin also suggested that the party highlight the fact that the federal Conservatives had supported changing the statutory rate when they were in government in 1979.

7.1.4 The NDP Response to the 1982 Crow Initiative

On February 16, 1982, NDP leaders, including Ed Broadbent, Saskatchewan Premier Allan Blakeney, Alberta NDP leader Grant Notley and Manitoba Premier Howard Pawley, released a statement condemning Pepin's announced intention to change the Crow rate. In the "Crow Communique", the New Democrats stated that they found the federal government's plan to abandon the Crow: "...a destructive proposal not only for the prairie provinces, but for all of Canada. We are fully committed to developing for all Canadians a fully

²⁶⁹ Ibid..

modern railway system....However, we do not believe that Mr. Pepin's proposal will achieve that...system. Nor is it fair to Canadian farmers."²⁷⁰ The leaders noted that the international price of wheat was dropping dramatically, and that farm incomes were expected to fall between 15 and 20 percent in 1982. Farmers, therefore, could not afford to pay more to ship their grain to market. They reiterated the view that it would be inequitable to relieve the CPR of its commitments under the Crowsnest Pass Agreement without, at the same time, asking the railway to relinquish any of the benefits it received as a result of the agreement.

The communique expressed doubts about the federal government's rationale for seeking to end the statutory rate, namely, that the Crow was an obstacle to upgrading the western rail system's capacity. Capacity pressure, they asserted, resulted not from grain shipments, but from those from other bulk commodity producers. Grain comprised only 21 and 17 percent of the CPR's and CNR's total traffic, respectively. Coal volume to be moved by rail, on the other hand, was forecast to increase 278 percent by 1990. Furthermore, the New Democrat leaders argued: "Does it not stretch credibility to suggest that because grain is not paying a higher toll, the railways will pass up the opportunity to move increased volumes of other commodities, including coal?"²⁷¹

²⁷⁰ Saskatchewan Intergovernmental Affairs, "Crow Communique," February 16, 1982, 1.

They also argued that the Crow rate did not represent an unusually large subsidy. In 1980, for example, federal government transport subsidies across Canada totalled \$2.4 billion. Of that total, only \$284 million was related to prairie grain movement. Subsidies totalling \$971 million were related to air travel, \$335 million to marine transport and \$547 million to federal crown corporations, including VIA Rail and CN Marine. Furthermore, in comparison with their international competitors, Canadian producers were not overly subsidized.²⁷²

The NDP posited that expansion of the western Canadian livestock industry was unlikely to result from the removal of the Crow rate as the federal government claimed, at a time when market prices were 30 to 40 percent a pound below the cost of production. Nor did much potential exist for increased shipment of red meat to eastern Canadian and export markets: "Any claim that the livestock industry in western Canada will expand rapidly with the death of the Crow rate assumes that the federal government is prepared to put livestock producers in central Canada at a disadvantage. That simply won't happen."²⁷³

The NDP leaders also claimed that the Crow rate did not impede greater secondary processing in the prairie region. Other factors were responsible, for example, the import

²⁷¹ Ibid..

²⁷² Ibid. 1-2.

²⁷³ Ibid.. 2.

restrictions of Canada's trading partners. Japan, for example, accepted raw Canadian rapeseed to supply its crushing plants, but placed a \$100 per tonne duty on rapeseed meal and oil. In any event, the NDP argued, the federal government would not allow the prairie processing industry to expand at the expense of plants in central Canada.

The communique included a number of general concerns with the federal government's plans:

1. railways would be provided a statutory guarantee of ever-increasing compensation for hauling grain, reversing federal government policy since 1897 that it was western farmers who required statutory protection to prevent the railways from using their monopoly position to increase freight rates at will, and from setting variable rates for different delivery points;
2. the fixed freight rate would be eliminated, which represented part of the Confederation bargain for prairie farmers;
3. failure to provide protection for the principle of equal rate for equal distance would threaten the existence of hundreds of small communities on the prairies and the existence of many family farms. Railways would also be free to set variable rates for different delivery points, thereby allowing them to force farmers to haul their grain to larger collection centers to get the cheaper rate. The result would be large savings for the railways, but the destruction of prairie rural life; and
4. while the NDP recognized the need for railway modernization in western Canada, instead of continuing to provide handouts to the railways, capital funding should be provided jointly by the federal and participating provincial governments, in return for equity.²⁷⁴

²⁷⁴ Ibid., 3.

Thus, the NDP argued, the statutory rate should be retained, and the federal government should ensure increased rail line capacity and modernization through public equity investments.

7.1.5 The NDP's Alternative Rail Transportation Proposal

The NDP announced the details of an alternative rail transportation policy, "Own What You Pay For: An Alternative to Pepin," following a March 4, 1983 meeting of federal NDP party leader Broadbent and his provincial counterparts. The federal government's legislation, the party claimed, was divisive; it would surrender control of the Canadian wheat economy to foreign multinational grain companies; and would force families off their farms. Furthermore, the party charged, the Pepin proposals failed to address the central problem of the railways, that of financing. In the past, the federal government had invested monies in the railway system, particularly to the CPR, but had failed to ensure that the capital funds were re-invested in the rail system itself. Instead, part of the government's aid was lost in the form of dividends, or was lost to other parts of the corporation. While the CP claimed it could not afford to upgrade the western rail system, the NDP noted that it was buying jam factories, pottery plants, mines, shopping centers, and real estate outside the country. While the CPR had been given the resources necessary to maintain the railway as an on-going

enterprise, the railway company had separated those resources from the railway, through the establishment of the holding company, CP Limited. NDP MP Sid Parker observed that: "In the past, CP Rail has separated its land from the railway operation and put it into a subsidiary, Marathon Realty. The profits of that company should be going into the transportation system. However, under the present system, railways are able to diversify and use those profits in other areas. That is wrong and should not be condoned."²⁷⁵

The New Democrats proposed what they contend was a superior alternative whose basic objectives included: maintaining the statutory freight rate for grain farmers; creating jobs; upgrading the rail system for all commodities; and providing fundamental changes in the manner funds were paid to the railways. The NDP plan called for a massive job-creation program to upgrade the western rail network. Although the plan would cost no more than Pepin's proposals, the NDP asserted that it would create 110,000 more person-years of employment over a ten-year period, and would improve the transportation system throughout the country. Pepin claimed that the federal government's proposals would create 375,000 person-years of employment by 1992. The NDP observed, however, that the railways were actually reducing future investment plans after the Crow rate was abandoned. Despite increased government funding,

²⁷⁵ Sid Parker, NDP MP, Debates, May 16, 1983, 25507.

for example, the railways planned to invest 22 percent less in 1983 than they had in 1981. Furthermore, although the federal government claimed that the railways would invest \$16.5 billion in the rail system between 1982 and 1992, Bill C-155 provision's would allow the railways to reduce their investment plans in the future, after the abandonment of the Crow rate.

The New Democrats also warned that higher freight rates would reduce the amount of money farmers would have to spend on machinery and supplies, potentially resulting in the loss of 50,000 Canadian jobs. Furthermore, the Pepin plan would make it less expensive to ship Canadian grain through Duluth or New Orleans than through Canadian ports, threatening 35,000 Canadian grain handling and transportation related jobs.

The Party proposed a fundamental re-ordering of federal government railway investment and subsidies, specifically, arguing for the federal government receiving equity in CP Limited (CP Rail has no capital structure) in return for public investment. According to Broadbent: "For more than a century the profits of the railways have been underwritten by the public treasury. Instead, we would pay operating subsidies for actual out-of-pocket expenses for hauling grain, but not for overhead and profit as envisioned in the Pepin plan."²⁷⁶ To do otherwise, he claimed, would

²⁷⁶ NDP News Release, "Railway Rebuilding, Crow Retention Proposed by N.D.P.," February 11, 1983, 1.

represent a bail-out of the corporate giants, the CNR and CPR, at the expense of western farmers.

The federal government would become the largest single shareholder in CP Limited by 1985 and thereafter, could begin integrating the CN and CP Rail systems in consultations with workers and users. Provincial governments, the NDP suggested, would be able to participate as equity investors in specific projects of interest to them, or through the cooperation of their power utilities in planning rail electrification. The federal government would provide payments to the railways of \$930 million annually for four years, the same amount Transport Minister Pepin had committed the federal government to spend, but on a different basis. The New Democrat plan would provide \$380 million a year to be paid to the railways to cover proven "out of pocket" expenses for hauling grain, with the remaining \$550 million to be allocated for investment in railway upgrading. To prevent the railways from using public funds to reduce the investment of their own money, they would be required to maintain their recent level of investment. Based upon the \$887 million invested in 1981, the railways would invest \$11.8 billion to 1992 after adjusting for 6 percent inflation, creating 300,000 person-years of employment over the course of ten years. Reinvestment of the government's profits arising from its equity shares in CP Limited, the New Democrats claimed,

would result in an extra \$4 to 6 billion investment by the end of the decade, representing an additional 185,000 person-years of employment. The NDP, therefore, argued that their policy alternative would create 485,000 person-years of employment to the year 1992.

Government investments would include branch line rehabilitation, the purchase of 12,000 hopper cars, upgrading of main lines with tunnels, new rail and electrification of some rail lines. By ensuring that public funds would remain in the rail system, the party claimed that additional funds would be available for the improvement of rail lines in other parts of the country that the federal government's plans neglected. Finally, the NDP argued that its capital investment program would make railway operations less expensive and more efficient in the long term, thus reducing costs for taxpayers.

7.1.6 Passage of Bill C-155

Both the New Democrats and the Conservatives attempted to stall the passage of Bill C-155 by exploiting opportunities afforded by parliamentary procedure to prolong the debate and to publicize their opposition to the government's legislation.²⁷⁷ The NDP, for example, vowed to avail itself

²⁷⁷ For a discussion of the stalling tactics employed by the two opposition parties during the debate of Bill C-155, see Barbara Holman, "Influencing the Pace of Controversial Legislation in the Canadian House of Commons: The Crow Bill C-155 as a Case Study in Procedural Tactics of Government and Opposition Parties," unpublished paper, June 1984.

of everything within parliamentary rules to obstruct passage of Bill C-155. Les Benjamin defended his party's decision, arguing that:

Once every 20, 30 or 50 years Parliament is faced with legislation of such consequence that it is incumbent upon people all over the country, but particularly Opposition Parties, not only to oppose and propose, but also to try to prevent. This is one of those rare occasions...[the government is] embarked on a course which harms our nationhood and our confederation.²⁷⁸

The federal government, however, was anxious to pass the bill before Parliament's June 30th summer recess so that the new freight rate would be in place by August 1, the beginning of the next crop year. While the parliamentary session could be extended, either by unanimous consent of all parties, or by the Speaker's order of a special sitting of the House, neither alternative seemed probable given the extent of the opposition to the legislation. The government gave the required 48 hours notice of a motion for leave to present a bill and, on May 5th, outlined its schedule for Bill C-155: a few days for second reading debate and one month for committee deliberations.

The government's attempt to introduce Bill C-155 on May 9, 1983, however, proved to be an omen of what was to follow. The New Democrats surprised the government by requesting a recorded vote on its routine motion to introduce a bill.²⁷⁹ When the government attempted to

²⁷⁸ Les Benjamin, *Debates*, November 4, 1983.

²⁷⁹ Only three times in the previous fifteen years had the government been required to obtain a recorded vote to

proceed later that evening, the Conservatives walked out of the House. It was not until the next day that all parties returned allowing passage of the motion. Consequently, a routine matter had dragged on into a twenty-hour procedural dispute. The NDP would later observe that 37 Tories were absent from the vote. The NDP claimed that the failure of the Conservatives to mobilize its forces illustrated the lack of Tory opposition to the federal government's plans to change the Crow rate.

Efforts by the opposition parties to stall passage of Bill C-155 through the House of Commons continued. During the first day of second reading debate, NDP Transport critic Benjamin moved a "six month's hoist" amendment which, if passed, would in effect constitute the rejection of the legislation. Although the NDP expected the motion would be defeated, it sought to demonstrate its opposition, and the extent of its commitment to the prevention of the legislation's passage, particularly in contrast to the Conservatives.

After two days of Second Reading debate, the government indicated that it would move to limit debate through time allocation. The Government House Leader, Yvon Pinard, had been unable to reach an agreement with the PC and NDP House Leaders to limit Second Reading debate. Pinard feared that

allow a bill's introduction to the House of Commons. See Barbara Holman, "Influencing the Pace of Controversial Legislation in the Canadian House of Commons," 18.

the opposition filibuster would threaten the government's desire to pass legislation by June 30th. Opposition members, however, objected to the government's plan. Because of the representative imbalance in the House due to the lack of western representation in the government party, the opposition parties argued that they alone represented western Canadians, yet the government was attempting to prevent them from being heard. In response, the Conservatives moved that the House be adjourned. Five MP's, the number required, indicated that they wanted a recorded vote on the motion. Conservative MP's then proceeded to walk out of the Commons, leaving division bells ringing, refusing to vote until the government withdrew its plans to place time allocation on the debate. House Speaker Jeanne Sauvé, a former Liberal cabinet minister, surprised opposition MP's by ordering the division bells silenced, and cancelling the vote for that evening.²⁰⁰ The Conservatives, however, were able to claim a temporary victory the next day as a result of the government's announced decision to postpone imposing limits on second reading debate.

²⁰⁰ Speaker Sauvé ruled that the motion for adjournment had lapsed because it conflicted with House rules requiring the Commons to adjourn for the day at six o'clock eastern daylight time. While the opposition parties conceded that the Speaker's ruling was technically correct, they criticized Sauvé for hindering their attempt to prevent passage of what they viewed as unacceptable legislation.

On May 19th, the NDP continued its efforts to stall passage of Bill C-155 by flooding the Commons with petitions from citizens opposed to abandoning the Crow rate. New Democrat House Leader Ian Deans threatened to delay debate for up to fifteen days while he and his colleagues read petitions. When the House resumed the Second Reading debate on May 24th, Deans reiterated his request of Government House Leader Yvon Pinard that the government divide Bill C-155 into three parts, dealing respectively with the improvement of the rail transportation system; the disposition of the British Columbia coal lands; and the issue of grain freight rates. Deans argued that the government should act upon the problems of rail transportation system, but that the controversial proposal to raise freight rates should be further discussed. The NDP was concerned that it appear reasonable by allowing the government to proceed with upgrading the western rail transportation, while maintaining its policy of no change to the Crow rate. NDP strategists feared that any softening of their position would render the party indistinguishable from the Tories, and thus irrelevant in the debate.

As a result of almost three weeks of strong resistance from both opposition parties, the government agreed to work on the details of amendments that it had announced in principle before tabling the bill, including the provision of a "safety net". Federal government officials hoped to

reduce Conservative opposition and secure their cooperation to send the bill to committee. On June 15th, the government moved to extend the sitting hours of the House to accommodate opposition demands for more time for debate while still allowing the government to meet its June 30th deadline. The New Democrats, however, sought to prevent extended hours, believing that the government might decide that the price in terms of House time would be too great and thus would abandon Bill C-155, or recall the House in the summer.²⁸¹ In any event, the New Democrats planned to use its opposition to extended hours as leverage to force the government to allow the Standing Committee on Transport to conduct hearings throughout western Canada.

On June 16th, the NDP continued its attempts to stall consideration by moving that Bill C-155 be set aside for six months, and requesting a recorded vote. Although the motion was defeated, the New Democrats succeeded in delaying proceedings while the government gathered together enough members. On another occasion, a state dinner for Prince Charles and Princess Diana was interrupted by another adjournment motion, this time moved by the Conservatives. Invited MP's, in formal dress, as well as the Speaker of the House, were sent scurrying back to the House for the vote.

²⁸¹ Darrell Richards, NDP researcher, memo, June 14, 1983, 1.

Bill C-155 was finally referred to the Standing Committee on Transport on June 22, 1983. In exchange for a commitment to report back to the House by September 12, the government agreed to allow the committee to conduct hearings throughout western Canada and Quebec. Committee hearings were held in Ottawa, Edmonton, Winnipeg, Regina, Vancouver and Quebec City, during July and August. The opposition parties hoped that the Committee's travels would demonstrate to the government the extent of the opposition to Bill C-155. The Tories believed that, as a result, the federal government would be more willing to entertain changes it sought to the legislation. For its part, the New Democrats were pleased to have an opportunity to publicize their defense of the Crow rate throughout western Canada. During its hearings, the Committee received over 200 submissions.

Due to the nature of the opposition to a number of aspects of the Bill, amendments addressing some issues had to be delayed until the Bill reached Report Stage. This was necessary since the amendments would either alter the intent of the legislation, or would require a change in the Royal Recommendation. Such changes are prohibited once a bill has received Second Reading approval. Concerns included the complexity of the bill, especially the rate-setting cycle; the method of payment of the annual subsidy; the volume cap on the amount of grain qualifying for the new Crow regime; application of the Bill's provisions to BC Rail; and the

addition of more crops to the list of products to be covered by the new grain freight rate regime.²⁸²

During the course of the Committee's hearings, it became obvious that the Committee would be unable to complete its work by September 12th. The House Leaders, therefore, agreed to extend the Committee's deadline. As Barbara Holman wrote: "It was...to the government's advantage to allow the detailed issues to be argued out in committee, and the many technical and substantive amendments to be moved and accepted there, rather than during report stage [sic], taking the valuable time of the House."²⁸³

The amended bill was reported to the House on September 26, with 87 amendments carried after four weeks of clause-by-clause study. Five Liberal MP's voted in support of Section 66 of Bill C-155, which in effect ended the fixed freight rate. The three Conservative committee members abstained, and the single NDP member casted a negative vote.

During the Report Stage debate, over 170 amendments were proposed, of which almost half were ruled out of order by the Speaker. However, the government did agree to a number of changes in its attempt to reduce opposition to the

²⁸² The additional crops included alfalfa pellets, mustard seed, sunflower oil and triticale, a hybrid of wheat and barley. Western Canadian cattle feeders, however, objected to the addition of alfalfa meal pellets, which are used to feed cattle, claiming that the decision would increase the disincentive to finishing cattle to slaughter weight on the prairies.

²⁸³ Barbara Holman, "Influencing the Pace of Controversial Legislation in the Canadian House of Commons," 37.

legislation, including: the inclusion of more crops eligible for the Crow benefit which raised the annual volume cap to 31.5 from 31.1 million tonnes and the annual subsidy to \$658.6 from \$651.6 million; establishment of a "safety net" that limited shipping rates for grain to no more than four percent of the world price of grain in 1984, rising to ten percent by 1988, replacing the flat rate of ten percent originally provided in the legislation; the creation of a Commission of Inquiry to study the method-of-payment question during the period from April 1985 to April 1986; and provision for the inclusion of BC Rail under the terms of the bill.

The Conservatives and the New Democrats, however, claimed that the safety net would not adequately protect grain growers from rising freight rates, contending that the threshold was too high; that many producers would be in serious financial trouble before the safety net would take effect. The NDP proposed that the level of the safety net be set at three percent of the price of grain. The Conservatives, in an attempt to undercut the NDP's position, argued that the NDP's proposal would expose grain producers to substantial freight rate increases. Instead, the Tories argued a three-year freeze of freight rates offered the best protection for grain producers.

The government moved to place a three-day time limit on debate during the Bill's Third Reading on October 18. Bill

C-155 had been studied for sixty hours by the federal Transport Committee and had been debated for eleven days in the House of Commons, when Transport Minister Lloyd Axworthy began the procedure to limit debate. In response, NDP House Leader Deans wrote to Tory House Leader Eric Nielsen asking the Tories to join the NDP in preventing the government from introducing time allocation. In rejecting the NDP's request, Nielsen replied that:

Time allocation, which is simply a form of closure, has always been repugnant to us and it remains so...[but] having said that, our understanding of a parliamentary democracy does not allow us to agree with you that a majority government, however bad, does not have the right to govern in accordance with established tradition and precedents. The attitude expressed in your letter...would have a minority in Parliament exercise a tyranny which is totally foreign to our concept of parliamentary government.²⁸⁴

Notwithstanding Nielsen's argument, the Conservative Party's response indicated the limit of their opposition to Bill C-155. It was Conservative MP's in March 1982, for example, who left division bells ringing for two weeks as a procedural tactic in their opposition to the Liberal government's omnibus energy bill.

Meetings between the Liberal and Conservative House Leaders resulted in a compromise. The Tories agreed to end their filibustering in return for the government's agreement to delay action on Bill C-155 to allow consideration of four other bills by the end of the day. The government agreed to

²⁸⁴ Eric Nielsen, Conservative House Leader, quoted in Times-Colonist, October 30-31, 1983, A4.

discuss possible changes to Bill C-155, but government officials remained adamant that the legislation pass the House before the end of the legislative session in mid-November.

The federal government finally moved to close debate on October 31, by a vote of 216-107. Nevertheless, opposition maneuvers to delay the end of the debate continued. Transport Minister Arworthy moved adjournment at 4:30. The Conservatives, however, failed to answer the division bells until the following day, November 1, at 11:00 a.m. The vote on the motion of adjournment, therefore, terminated Tuesday's sitting. Consequently, allocation of the three days of debate dragged on. While October 31 constituted day one of debate, the Conservative's failure to answer the division bells until Tuesday prevented debate on that day. Wednesdays are set aside for private members' business, so no debate could be scheduled. Thursday, November 3, therefore, was devoted to the second day of the debate. Friday could not be allocated for debate because votes are not scheduled on that weekday to allow MP's time to travel to their constituencies. Therefore, the final vote could not be scheduled before Monday, November 14. Furthermore, votes on more than 100 amendments threatened to consume another week of House proceedings, thus delaying the start of a new session of Parliament. To prevent this occurrence, the federal government agreed to pass several minor

opposition amendments, in return for dividing the 103 amendments into six packages, to speed the bill through report stage approval.

After six months of debate, Bill C-155 passed the House by a vote of 141-114 on November 14, 1983, and received Royal Assent in the Senate on November 17, 1983. As a result, the cost of shipping prairie grain to west coast ports rose from \$4.89 to \$5.76 a tonne on January 1, 1984. The freight rate was predicted to rise five times higher by 1991. Grain shippers would pay approximately sixty percent of the actual cost of hauling grain compared to the eighteen percent they paid in 1983. Transport Minister Arworthy heralded the Western Grain Transportation Act as:

...[an] historic event [which] mark[s] the beginning of a new era and holds the prospect for a future of positive and dynamic economic growth for Canada and Canadians....The multi-billion investment by the railways and the Government of Canada over the next ten years, both in rail expansion, agricultural diversification and industrial incentives that this legislation has enabled, will provide the kind of stable economic environment that Canada needs to be a respected competitor in the world market."²⁸³

Conservative Transport critic Donald Mazankowski stated that if the Tories formed a new government, they would live with the new rate until the 1985-86 review.

²⁸³ Minister of Transport, Information, November 23, 1983, 1.

7.1.7 Conclusion

The New Democratic Party's defense of the Crow rate was obviously based, in part, upon political calculations. Over one-third of its federal caucus, for example, represented Saskatchewan and Manitoba ridings, where support for retention of the Crow rate was strong. The NDP was also aware of the effect the issue might have on western Canadian voters in the upcoming federal election. Consequently, the New Democrats recognized the opportunities that the issue could provide in distancing themselves from their major competitors in the prairie region, namely, the Progressive Conservatives.

The partisan struggle between the two opposition parties was illustrated by the repeated charges and counter-charges issued throughout the Crow debate. New Democrats, for example, accused the Tories of hypocrisy, attempting to create the public impression that they were working to prevent the passage of Bill C-155, but avoiding the full use of their parliamentary powers to oppose the government's legislation. The NDP charged that the Conservatives supported the abandonment of the Crow rate, but were happy to see the federal Liberals pay the political price for bringing about its demise. A future Conservative government would then be able to implement a second phase of changes to centralize the grain collection and handling system.

However, the NDP's support for the retention of the Crow rate was the result of considerations much deeper than strategic political calculations. Like the Tories, the NDP also faced the problem of reconciling the divergent economic interests of Saskatchewan and Manitoba grain producers and feed grain users, primarily in Manitoba. Yet, the party's philosophical, ideological and historical roots dictated that it defend the statutory rate. The NDP viewed the debate as a struggle against continental forces which threatened Canadian unity. The low statutory rate was perceived as not only important to the continued prosperity of the western Canadian agricultural economy, but crucial to the preservation of an east-west flow of trade, and therefore, the economic underpinning of Canada. Abandonment of the Crow rate, the NDP contended, would unleash forces, including the establishment of variable rates, that would expose small farmers to the monopolistic powers of the railways and large multinational (mostly American) grain companies. Finally, the NDP's traditional mistrust of the railways caused the party to object to what it perceived as another corporate handout at the expense of grain producers.

The Conservatives, on the other hand, contended that the New Democrats were indecisive, opposing any change to the Crow rate, but arguing for particular changes that might result from the legislation. The Tories, for example, ridiculed the NDP's support for payment of the annual Crow

benefit to the railways. Charles Mayer, a Conservative MP, for example, stated that:

Given the fact that the Government is determined to modify the Crow legislation, and given the fact it is willing to put up \$600 million a year, we [the Conservatives] are determined to give the producers a chance to have some of that money. It is the NDP that is in favour of big business, because its Members are the ones who are in favour of giving money to the railways.²⁶⁶

Two issues featured in the debate over Bill C-155 illustrated the divergence of views between the Tories and the NDP, namely, the method of payment of the annual subsidy and the membership of the Senior Grain Transportation Committee. The Conservatives, as noted, were faced with the challenge of arriving at a policy position that would satisfy the divergent views of members within its caucus. The lack of consensus among western Canadian agricultural groups over whether the annual subsidy should be paid to the railways or producers was reflected in the opinion of western Conservative MP's. Mazankowski, therefore, offered a compromise, namely, the "freedom of choice" option, whereby grain producers would be able to decide if their share of the subsidy would be paid directly to them or be given to the railways. Individual grain producers, therefore, would be able to decide what form of transportation was in their own best interests.

²⁶⁶ Charles Mayer, Conservative MP, Debates, June 21, 1983, 26587.

The NDP, however, opposed the Conservative's subsidy payment plan. The scheme, it argued, would coerce farmers to abandon the cooperative elevator system and the orderly market system that farmers had created to protect themselves from the power of large grain corporations and railways. The Tory plan, it charged, would result in higher freight rates; a reduction of the price of grain at the farmgate; the dilution of the Crow benefit to grain producers as a result of spreading the payments to cultivated acres which did not produce statutory grain; reduction of economic choices as local elevators were closed; the creation of a large bureaucracy necessary to administer the subsidy scheme; and an unpredictable price for feed grains. The NDP argued that the psychological attractiveness of the "freedom of choice" plan obscured the fact the railways would be able to exert their power of natural monopoly to redraw the map of rural Canada.

The composition of the membership of the Senior Grain Transportation Committee (SGTC) also became a source of contention between the two opposition parties. Bill C-155 provided that the 21-member committee advise and make recommendations to the Minister of Transport or the Grain Transportation Agency Administrator on any matter affecting the transportation, shipping or handling of grain, including performance objectives; improving capacity and efficiency measures; and railway car allocations. The basis of the

dispute revolved around the question of who would be represented on the Committee.

In representations before the Transport Committee, many groups had expressed dissatisfaction with the size of the SGTC, arguing that its membership should be reduced while the number of groups represented be expanded, particularly those representing grain producers. When Bill C-155 was initially tabled, each prairie wheat Pool was allotted one member. The Conservatives moved an amendment in committee to reduce the number from three to one. They argued that the Committee should represent those involved in the grain transportation, collection and handling system.²⁰⁷ Including three representatives from the wheat pools, however, would mean other interests would be excluded from the committee. According to Alberta Conservative MP Arnold Malone: "It was the Wheat Pools, in their own interest, which took the view that they should be represented and not the producer....How can we say that with all reason that we should single them out for that privilege, among all grain traders?"²⁰⁸ Malone's comments reflected the unhappiness of Alberta grain producers with the wheat Pools and the Canadian Wheat Board. In Alberta, less than half of the grain produced was exported. The remainder was consumed as feed grains in the province. The Pools and the Canadian

²⁰⁷ Charles Mayer, Conservative MP, Proceedings of the Standing Committee on Transport, Minutes, September 1, 1983, 125:42.

²⁰⁸ Arnold Malone, Conservative MP, Ibid..

Wheat Board, however, were primarily concerned with the export of grains. As Malone noted: "Saskatchewan exports almost 85 percent of what it grows. In Alberta, a sister and neighboring province, virtually half of the grain grown is feed grain. Our producers have a different purpose from that of those who belong to grain companies whose first priority is to export."²⁸⁹ Consequently, the Tories argued that the number of pool representatives should be reduced to allow greater direct representation of farmers, thereby increasing the sensitivity of the Committee to the divergent interests of western Canadian grain producers.

The NDP accused the Tories of mounting a blatant attack upon the Pools and the co-operative movement.²⁹⁰ The Liberals and the Conservatives were attempting to eliminate what they considered to be a number of obsolete country elevators. The Tories, the NDP claimed, viewed the Pools as an obstacle to the construction of inland terminals. Moreover, the New Democrats charged, limiting the three wheat Pools to only one member on the Committee was unfair in relation to the number of representatives that were provided to other grain companies, based upon the amount of grain they hauled. The United Grain Growers, for example, hauled 17 percent of prairie grain, and was allotted one representative on the SGTC. Private grain elevators,

²⁸⁹ Ibid--.

²⁹⁰ See, for example, Lorne Nystrom, NDP MP, *Debates*, September 29, 1983, 27584.

responsible for moving 20 percent of prairie grain would be represented by three members. Yet the Pools, which together shipped 63 percent of total prairie grain production, would only be provided one member as a result of the Conservative amendment.²⁹¹

The NDP proposed instead that five members represent grain marketers on the Committee: one for each of the Pools and one as well for each of the UGG and the privately-owned elevators. Each member, therefore, would represent companies that hauled roughly 20 percent of western grain.²⁹² The Tories, however, objected to what it characterized as the "numbers game" argument of the New Democrats. According to Tory MP Gordon Towers: "...it is a matter of getting a cross-section of the greatest majority of people that can elucidate the problems associated with the movement of grain which we are talking about."²⁹³ The Conservative amendment received support from the Liberal members of the Transport Committee and passed September 1, 1983, with only NDP member Les Benjamin dissenting.

In response, the New Democrats attempted to remove railway representatives from the SGTC. Benjamin argued that: "...the railways should not be party to regulating themselves. The railways will be perfectly capable of

²⁹¹ See Stan Hovdeba, NDP MP, Proceedings of the Standing Committee on Transport, Minutes, September 1, 1983, 125:38.

²⁹² See Les Benjamin, Ibid., 125:41.

²⁹³ Ibid., 125:50.

providing all the technical assistance and information necessary to...the grain transportation committee. They should not be part of decision-making regarding their own operations in the transportation and handling of grain."²⁹⁴ Liberal and Conservative members of the Transport Committee, however, rejected the NDP's amendment six votes to one, as well as a subsequent NDP amendment that would have provided only one committee member to represent both national railways. The Conservatives argued that provision of separate representatives for each railway would strengthen the accountability of the railways for their performance.²⁹⁵

The New Democrats also objected to the inclusion of a representative from the trucking industry on the SGTC. They claimed that if more and more grain became dependent upon trucks for transportation, trucking subsidiaries of the railways would move in on a large scale to haul grain commercially, thus driving out of business many small, independent, commercial truckers.²⁹⁶

The Conservatives disagreed with what it termed the New Democrat's "disjointed logic": "The fact that you are going to have a member on the Senior Grain Transportation Committee does not open the door for wholesale trucking. It does open the door for participation of representatives of the trucking industry in terms of trying to facilitate and

²⁹⁴ Ibid., 125:59.

²⁹⁵ See Don Mazankowski, Ibid., 125:66.

²⁹⁶ See Les Benjamin, Ibid., 125:66.

expedite and to create a more efficient and effective and reliable grain handling system."²⁹⁷ The factor inhibiting greater involvement of the trucking industry in the transportation of grain, the Tories argued, was payment of the annual subsidy to the railways, as advocated by the NDP.

As these differences demonstrate, the NDP attempted to protect the status quo, i.e., the decentralized grain collection and handling system based upon local elevators and movement of grain over rail branchlines. Although the party did not trust the railways to act in the interest of the general Canadian public, short of the nationalization of the railways which the Liberals and Conservatives opposed, the party was forced to defend the rail system against other modes of transportation. Both the Liberals and the Conservatives ridiculed the NDP for claiming to be a progressive party, since they opposed any changes to what many considered to be an outdated system.

While the Conservatives and the NDP opposed Bill C-155, the fact that the Conservatives were willing to accept changes to the statutory grain freight rate, provided the federal government's proposals a greater sense of legitimacy. If the Tories had adopted an uncompromising retentionist stance similar to the NDP, the government's success in altering the historic freight rate would have been much more difficult. However, the Conservative's defense of the Crow "benefits" for grain farmers, as opposed

²⁹⁷ Don Mazankowski, *Ibid.*, 125:68.

to the fixed rate itself, illustrated their belief that the Crow rate issue had to change. The Conservative's proposal for a three-year freeze on freight rates near the end of the parliamentary debate of Bill C-155, for example, was motivated more by political calculations than defense of the Crow rate. The Tories attempted to undercut the NDP's retentionist position without opposing changes to the Crow rate. While changes might have to be made to the statutory rate, the Tories argued, higher freight rates were inappropriate in view of the economic hardships facing grain producers.

The federal government was able to deflect the criticism of the NDP by noting the support for changing the Crow rate within the western agricultural community. The NDP's warnings of the effects abandoning the fixed Crow rate would have upon the social fabric of western Canada, as well as upon Canada's economic independence, were not effective in rallying wide support from western farmers, many of whom desired a more flexible and responsive transportation system. The increasing diversification within the western agricultural economy, for example, specialty crop production, agricultural product processing and livestock production, meant that more and more farmers were questioning the benefit of the Crow rate.

The federal government was flexible in responding to specific complaints from the opposition parties, as

evidenced by the number of amendments it allowed to its legislative proposal. As previously noted, Pepin had delayed extending statutory freight rate coverage to other specialty crops so as to appear flexible in the course of the debate when agreeing to such requests. Grace Skogstad, however, posits another explanation for the government's willingness to amend its legislation. According to Skogstad:

The significance of the amendments to Bill C-155 in terms of concessions by the government may be partly explained by the government's...vulnerability on Bill C-155. The government enjoyed a healthy majority and did not have to make concessions to maintain office, but it suffered from a 'moral vulnerability' as a result of the erosion over the preceding decade of faith in the federal government's capability to define the interests of western Canada. Its weakened political credibility was the outcome of the Liberal party's political vacuum there, of the ascendancy of provincial governments with their rival claims to represent the region's groups, and (with respect to Bill C-155) the deteriorating public confidence in the government, as indicated by public opinion polls. It was to enhance its political future that the government made the concessions it did.²⁹⁸

Thus Skogstad offers another example of the federal government's concern with the reaction of western Canadians to its initiative. While seeking to increase their policy autonomy in regard to altering the Crow rate, state officials, particularly politicians, were sensitive to the political consequences of the Crow initiative. The measure

²⁹⁸ Grace Skogstad, "Interest Groups, Representation and Conflict Management in the Standing Committees of the House of Commons," Canadian Journal of Political Science. 18(4) December 1985: 770-771.

of state autonomy, therefore, was constrained by the Liberal party's weak standing in western Canada, the same factor that allowed state officials greater flexibility in approaching the policy issue.

As a result, the federal opposition parties could claim some successes. To this extent, the debate served their objectives. The Conservatives succeeded in bringing about changes in the legislation. Thus they could claim some success in defending the interests of western grain farmers. For their part, the New Democrats were provided an opportunity to distance themselves from their western Canadian political rivals. Finally, the federal government succeeded in removing the historic fixed grain freight rate.

Chapter VIII

CONCLUSION

8.1 Introduction

Altering the historic Crow rate was destined to be controversial in view of its political stature in western Canada, and the conflicting economic interests of those who would be affected, including grain growers, specialty crop farmers, livestock producers and other bulk commodity producers. Why, then, did the federal government decide to alter the status of the statutory rate? The government's decision to change the statutory freight rate, despite the expected opposition it would provoke, also calls attention to the nature of the relationship between state and society in the determination of public policy. This question has been a major focus of this study. Particular attention has been devoted to the ability of state officials to influence public policy outcomes according to their own policy preferences despite significant societal opposition. The identification of state and societal views of the statutory freight rate, therefore, and the means which state officials employed to attenuate societal opposition, have structured this inquiry.

While some western agricultural group leaders had expressed concern about the state of the western rail transportation and handling system in the late 1970's, increasing inflation and declining world wheat prices in 1981 and 1982 elicited little support for higher grain freight rates. Furthermore, powerful agricultural organizations, for example, the prairie wheat Pools, opposed altering the statutory freight rate. The Pools feared the consequences changes might have upon their country elevator grain collection system. Finally, the federal Liberal government enjoyed little electoral support in the region. Changing the sacrosanct Crow rate was not likely to improve its popularity in western Canada.

In light of these factors, analytic frameworks which focus primarily upon societal demands to explain government decision-making are ill-equipped for elucidating the federal government's decision. Despite claims by government officials to the contrary, widespread demand for altering the Crow rate did not exist in the early 1980's. Nor are explanations of the government's decision that focus upon the influence of the railways entirely satisfactory. They had lobbied unsuccessfully for decades to remove the fixed freight rate. The railway companies' predictions of an impending rail capacity crisis was an important consideration in the government's decision to act. Nevertheless, pressure from the railways does not adequately

explain the comprehensive nature of the government's response, including the decision to alter the statutory rate. The federal government, for example, could have continued to provide ad hoc subsidies designed to cope with the rail network's immediate problems. The federal government had provided such subsidies in the past to retain in service uneconomic branchlines considered necessary for grain shipment, and to upgrade and rehabilitate branchlines. The government had also provided cost-sharing agreements to repair old box cars, and augmented the grain car fleet by the purchase and long-term lease of grain hopper cars. These programs were politically attractive since they addressed the immediate needs of the transportation network through increased spending, while leaving the Crow rate intact. .

Instead Transport Minister Pepin and his officials chose to launch a reform package that would affect western transportation, agriculture and livestock production. Increased rail freight rates and the provision of an annual government subsidy were expected to encourage increased railway investment to upgrade and expand the western rail network, including the double-tracking of rail lines. Grain production would be diversified by eliminating the preference for wheat as a result of the elimination of the fixed grain freight rate. Finally, western processing would be encouraged, as a result of paying the Crow benefit to

farmers, as well as the railways, thereby eliminating the preference on export grain rather than meat. Thus, government officials responded to the prospect of an impending rail capacity shortage with a comprehensive legislative package that would have far reaching consequences for western Canada, what Pepin termed the "three revolutions".

Attention to the views of state officials is necessary to explain the government's decision to alter the Crow rate, and the nature of their response. A state-centric approach is particularly well suited for such a focus. Statist approaches reverse the usual direction of causality in the analysis of public policy. Instead of viewing policy outcomes as the result of societal pressures upon state officials, attention is directed to the ability of state officials to translate their policy preferences into authoritative action, either in cooperation or competition with societal groups. Consequently, statist's conceptions of the state and society should not be collapsed.

8.1.1 Decision to Change the Crow Rate

This study has argued that while various groups lobbied for the removal of the statutory rate in order to ensure the integrity of the western rail transportation network and the removal of its distortive effects upon the prairie agricultural economy, the major impetus behind the

government's decision to alter the Crow was its desire to limit the growing cost of subsidizing the western transportation system. Railway traffic was projected to increase dramatically by the early 1980's, particularly for shipments through west coast ports. The ability of the rail system to meet the transportation needs of bulk commodity producers, however, would require major rail improvements and expansion. The western rail system had failed to meet capacity demands placed upon it as recently as the late 1970's, resulting in the loss of millions of dollars worth of exports. Bulk commodity shippers, including grain growers, grew concerned that they would be unable to ship their products to market in the event of a rail capacity crisis. The prospect of a rail capacity crisis also concerned the federal government. Exports of western grain, coal, potash and lumber made a significant contribution to Canada's trade balance.

The upgrading of the western rail transportation system, however, would cost billions of dollars. The railways argued that they could not finance the needed improvements because of their debt load, due in large part to the money they were losing hauling statutory grain. The CPR and CNR linked their ability to carry out the necessary upgrading of the western rail network, particularly completion of the CNR's main line double-tracking and the construction of the CPR's new tunnels and bridges through the Rogers Pass in

British Columbia, to revenues they would receive if grain freight rates were increased.

In the context of economic restraint and a growing deficit, however, the federal government did not want to assume total responsibility for the costs of upgrading the rail system. Rather, state officials sought a means of limiting the government's open-ended commitment to the subsidization of grain transport in an effort to restrain the growth of its deficit.

Grain producers, on the other hand, were enjoying rising grain prices which remained above production costs. If they could be assured of an adequate and efficient rail transportation network, government officials believed, grain farmers would accept higher freight rates. Increased freight rates, in turn, would ease the financial burden of the railways, and the liability of the federal government. In 1981 and 1982, however, farmers had been able to ship record levels of crops to export markets without difficulty, due to the effects of an economic recession which reduced demand for other bulk commodities, including coal, potash and lumber. Railway officials, nonetheless, warned that when the recession ended, the rail system would be overwhelmed by traffic demand. Furthermore, due to the lag time required, upgrading and expansion programs would have to start immediately if a rail capacity crisis was to be averted.

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Yet western grain producers were not as willing to entertain grain freight rate increases as officials had hoped. Increasing fuel costs and interest rates (over 20 percent), coupled with a decline in the price of export grain, caused many farmers to balk at the prospect of higher transportation costs. Western grain producers considered the fixed statutory rate their only hedge against inflation. Thus, the task of convincing western grain producers that higher freight rates were necessary became much more difficult.

The collective attitude of the newly elected Liberal government is also important in explaining the government's decision to grapple with the Crow rate issue. The unexpected return of the Liberals to federal power in 1980 witnessed the arrival of a government committed to bold leadership. Some prominent federal Liberals blamed the Party's 1979 election defeat upon the government's failure to provide effective leadership. According to Marc Lalonde, a prominent cabinet minister in the Trudeau governments:

...the Liberals had lost in 1979 for appearing to be a government that had run out of steam, out of ideas, out of leadership. We had been blocked by the provinces on the constitution. We had tried the gradualist approach in energy and always seemed to be behind events. We had engaged in extensive consultations with business and labour for nationally determined goals with no positive results. For the last few years we appeared to be running around in circles, administering but with no clear sense of direction. So, frankly, we told ourselves that if we were ever elected again, we weren't going to be defeated because of fudgy leadership or, because we haven't indicated where we want to take the country. We'd rather be

defeated for having done something than for having done nothing.²⁹⁹

Tom Axworthy, Trudeau's last Principal Secretary in the Prime Minister's Office, agreed: "Our problem in 1979 was that we had bloody few scalps in our belts. A good record tied to the concepts of nation and activist leadership for the national community could work."³⁰⁰ Members of the 1980 Liberal government, therefore, were anxious to tackle a number of initiatives, one of which was the reform of the Crow rate. Others included the National Energy Program and the patriation of the Canadian Constitution with an entrenched Charter of Rights and Freedoms.

For his part, Pepin was receptive to the need to change the statutory rate for a number of reasons. Upon his appointment as Minister of Transport in 1980, Pepin set out to find what were the most pressing problems within the department's purview. The department's consensus was that the statutory grain freight rate was by far the most important issue. Pepin was persuaded by the economic arguments made against the Crow rate, both in terms of the losses the railways incurred hauling statutory grain, and its distortive effects upon the entire regional agricultural economic activity. Removal of the artificially low grain freight rate, he was convinced, would allow greater diversification of the prairie agricultural economy. Pepin

²⁹⁹ Quoted in Ron Graham, One-Eyed Kings, Promise and Illusion in Canadian Politics. Toronto, Totem, 1986, 61.

³⁰⁰ Quoted in Ibid., 71.

argued that the government had to address the problems associated with the Crow rate, despite the opposition of grain producers. According to Pepin, the statutory rate had to be changed due to economic imperatives, including the need to improve the western rail transportation system, reduce federal transportation subsidies, and encourage the rationalization and diversification of the prairie economy. Pepin contended that: "The Crow was important, but the [adequacy of the] western rail transportation system was more important."³⁰¹ If an impending rail capacity crisis was to be avoided, the federal government would have to act. A senior official from Transport Canada expressed the predominant view of state officials when he argued that it was necessary for the government to provide leadership, rather than simply wait for a rail capacity crisis to develop before acting.³⁰² In particular, Pepin credited the conviction of his Deputy Minister, Arthur Kroeger, for impressing upon him the need to change the Crow rate. Kroeger's advocacy of changing the Crow rate was repeatedly described by those involved in the Crow debate as a "personal crusade". Pepin's critics contended that the Transport Minister, although well meaning, was being led by his department's senior bureaucrats.³⁰³ The role of senior

³⁰¹ Jean-Luc Pepin, personal interview, January 14, 1986.

³⁰² Michael Parquar, Director General of Grain Transportation, Transport Canada, personal interview, November 22, 1985.

³⁰³ Senator Hazen Argue, personal interview, February 7,

federal bureaucrats, therefore, was very important in the government's decision to address the Crow rate, and the nature of its reform package. The bureaucracy had been convinced of the need for change for a number of years. What was needed, however, was sufficient political will to accomplish these changes. Otto Lang had failed in his attempt, but he did succeed in laying the valuable groundwork for Pepin's later success, particularly the establishment of the Snavely Commission.

Pepin's arguments and determination were crucial in cajoling his reluctant cabinet colleagues to approve his controversial initiative, as well as defending the legislation in western Canada. Pepin had to spend a good deal of effort convincing cabinet colleagues of the benefits of the plan. Pepin, for example, noted that projections of increased railway investments that would result from the provision of higher grain freight rates, and the resultant economic spinoffs throughout the country, were stressed for the purpose of convincing his reluctant cabinet colleagues as to the advisability of pursuing Crow reform.³⁰⁴

According to Pepin:

I went to the cabinet, the Priorities and Planning Committee, the Economic Affairs Committee and the Western Affairs Committee maybe twenty times. It was agonizing, and at some point physical stamina became more important than intellectual merit. Most normal human beings would have given up at the work, the patience, and the perseverance

1986.

³⁰⁴ Jean-Luc Pepin, personal interview.

involved, but I was completely possessed by my objective and too far advanced to turn back.³⁰⁵

In particular, Pepin had to convince Prime Minister Trudeau, Jim Coutts, a key advisor to the Prime Minister, and Lloyd Axworthy, head of the Western Affairs Committee, of the desirability of Crow reform. Prime Minister Trudeau was persuaded by the need to remove the statutory rate's harmful effects upon western agricultural diversification. The Prime Minister was also disturbed by the view of many western Canadians that he was insensitive to their needs. The challenge of reforming the Crow rate, Pepin argued, provided the Prime Minister an opportunity to rehabilitate this perception.³⁰⁶ However, Trudeau cautioned that support of western farmers would have to be mobilized for the government to succeed.

Coutts and Axworthy initially opposed the idea, fearing the political controversy the decision would cause. However, Axworthy eventually supported Pepin's initiative after being persuaded that improved rail capacity would be a boom to the western economy, both in terms of maximizing western natural resource exports, and encouraging western manufacturing to supply western rail expansion. Axworthy believed that the economic spinoffs resulting from increased railway investment would become the lever for the return of the Liberals to power in western Canada.³⁰⁷

³⁰⁵ Quoted in Ron Graham, One-Eyed Kings, 96-97.

³⁰⁶ Jean-Luc Pepin, personal interview, January 14, 1986.

Finally, some Liberal party strategists argued that improving the party's political standing in the region in the short term was unlikely. Therefore, the party should devote its attention to building future support. As potential supporters, young progressive farmers with diversified agricultural operations might be attracted by the government's decision to reform the Crow rate.

Government officials also believed that failure to change the Crow rate in the context of the relative economic prosperity of the period would postpone the prospect of changing the statutory rate indefinitely. Politically, the government was in a unique position to reform the statutory freight rate. The Liberal's control of the House, coupled with little western representation, provided a unique opportunity that was unlikely to reappear for quite some time. Thus, it was important, state officials believed, that the government succeed in its efforts to reform the Crow rate.

Finally, Pepin also believed that addressing the problems of the western rail system would demonstrate the federal government's sensitivity to the region's concerns. As Co-chairman of the Task Force on Canadian Unity of 1977-1979, he had been disturbed by the sense of alienation in western Canada. The Task Force had been mandated to obtain and publicize the views of Canadians regarding the state of their country, and to provide ideas and initiatives to the

government on the question of Canadian unity.

8.1.2 Translating State Preferences Into Public Policy

A number of factors affected the extent to which the federal government was able to put in place its comprehensive reform package. The Liberal federal government commanded a comfortable majority in the House of Commons, thus virtually ensuring the passage of government-sponsored legislation. However, the government was in an awkward, but at the same time advantageous, position in regard to the Crow issue. Although securely in control of the House, the Liberals lacked substantial representation from western Canada. Consequently, the legitimacy of the government's decision to alter the Crow rate was questioned. Yet, had the Liberal caucus included a sizable western contingent, it would have been very difficult for the government to alter the historic Crow rate. The absence of a strong western Canadian parliamentary contingent, therefore, allowed government officials greater autonomy in dealing with western opposition to its plans to change the Crow rate.

The federal government's position was further strengthened by the lack of consensus within western Canada regarding the Crow rate. The diversity of opinion was evidenced by the range of responses of the western Canadian provincial governments. The B.C. government applauded the idea of scrapping the Crow rate. It argued that such action

would restore equity in the transportation system for B.C. coal and lumber producers who had to pay full compensatory rates. The Manitoba government, however, opposed any changes to the Crow rate. The Alberta and Saskatchewan government's reactions fell between these two polar positions. The official Saskatchewan government position was that farmers should not have to pay for increased transportation costs. But the provincial government was not totally opposed to changing the Crow rate, provided that the federal government pay for the higher costs. Finally, the Alberta government was cautiously supportive of the federal government's plans, in exchange for the federal government's support of the province's efforts to encourage diversification of Alberta's economy. This diversity of opinion contributed to the federal government's success in changing the Crow rate. Government officials were able to dampen prairie provincial government opposition by noting this divergence of interests and views, and by promises of economic benefits resulting from the massive spending that would accompany railway investment in the western rail network.

The means by which the federal government attempted to mobilize support for its Crow initiative demonstrates the resources which state officials can employ in an effort to translate their policy preferences into public policy. Following the efforts of the previous Transport Minister

Otto Lang, Pepin placed the rehabilitation of the western rail transportation system, including Crow reform, on the political agenda. The Minister announced his intention to change the Crow rate shortly after assuming the Transport portfolio. He also traveled extensively and repeatedly throughout western Canada, meeting with agricultural groups and leaders, to discuss the problems of the western rail transportation and handling network. Pepin argued that the Crow rate had to be altered to arrest the deterioration of the rail network. According to Reg Gross, a member of the NDP Saskatchewan government, shortly after he was appointed to the Transport portfolio, Pepin met with the Saskatchewan cabinet in Regina. Pepin announced that: "The Prime Minister appointed me to end the Crow's Nest Pass freight rates and I'm going to do it. That's my mission in life."³⁰⁰ Pepin's determination forced agricultural groups to react to the government's intention to alter the Crow rate. The dire warnings of the railways provided Pepin with ammunition with which to argue the need for reform, as well as raising the consciousness of western grain producers of the potential problems they might experience shipping grain to market.

The decision to establish the Gilson consultation process with groups involved in the grain transportation and handling system was another means by which the government

³⁰⁰ The Commonwealth, "Jean-Luc's Mission," February 9, 1983, 9.

attempted to mobilize support for the government's decision to deal with the Crow rate. Gilson was instructed to: "...identify and enhance [emphasis added] the consensus among agricultural organizations on a number of issues related to the transportation of grain and to propose to the government specific measures which in his judgement...[would]...most effectively achieve the objectives contained in the Government of Canada's Policy Statement on Western Rail Transportation."³⁰⁹ Furthermore, the appointment of J.C. Gilson, a respected agricultural economist, to lead the consultations, was an attempt by the federal government to depoliticize the issue. The choice of an individual of considerable personal stature in western Canada to bring together the various groups involved in the grain transportation and handling system for consultations, it was hoped, would allow the federal government to enact its plan with a minimum of political controversy. The same expectation had accompanied Otto Lang's decision to appoint Emmett Hall to lead an investigation of the branchline problem in the late 1970's.

The federal government's decision to establish the consultation process was significant in itself. In the past, the Trudeau government had been criticised for its "unilateral" decision-making style. The National Energy Program and federal attempts to repatriate the Constitution with an entrenched Charter of Rights and Freedoms, for

³⁰⁹ J.C. Gilson, Western Grain Transportation, I-4.

example, had been severely criticised for lack of government consultation with those who would be affected. The federal government, however, did not adopt a similar approach in the case of the Crow rate. Its legitimacy to enact such an important change to western rail transportation policy was questioned by many westerners due to the lack of the region's representation in the government party's caucus. The federal government attempted to find a means to gather support for its initiative. The Gilson exercise was a major component of that effort.

The consultations, however, failed to provide a lasting basis of agreement among participants. Although many of the participants believed it was extremely useful in helping groups understand each others' positions, what consensus that had been achieved crumpled in the face of opposition to its proposals. Critics, for example, charged that the government's primary aim had been to co-opt agricultural leaders to support its plans to abandon the Crow rate. The National Farmers Union, for example, refused to participate, arguing that involvement in discussions whose aim was to abandon the fixed rate would undermine the ability of grain producers to defend the Crow rate. Pool leaders, on the other hand, argued that they had to participate in order to protect the interests of grain farmers. Failure to do so, they contended, would leave farmers vulnerable to the designs of the railways and other like-minded groups. The

pools' position was, therefore, was defensive in nature. Once it became clear that the federal government was going to change the rate despite their opposition, Pool leaders contended it was incumbent upon them to ensure the best outcome possible for grain producers.

The federal government attempted to soften opposition to its plans to change the Crow rate through the use of its spending powers. Most prominent was the provision of an annual subsidy to help offset higher freight rates. The government also committed itself to additional spending, including the Agricultural Adjustment Fund. Government officials attempted to locate spending programs throughout Canada, lest any region feel overlooked. Projections of economic benefits that would result from increased railway investments, including industrial diversification and job opportunities, were marshalled to convince reluctant cabinet members and societal groups of the political and economic advantages of Crow reform. The federal government also encouraged groups supportive of changing the Crow rate to express their views.

Government officials also attempted to mobilize support through the use of mass advertising. Letters were sent to grain farmers by Transport Canada explaining the government's western rail transportation policy statement. Newspaper ads, extolling the benefits that would result from the government's proposed legislation, were placed in

newspapers across the country. The tactic, however, backfired due to discrepancies between claims made in French and English language newspapers. In full-page ads placed in Quebec newspapers, the federal government made claims contradictory to those presented to western farmers, namely, that higher transportation costs would prevent western pork and beef producers from becoming more competitive with eastern Canadian producers in their traditional markets. Furthermore, western farmers were skeptical of the government's claims in light of the controversy that had accompanied the National Energy Program.

Finally, the expected availability of revenue from the Western Development Fund (WDF) to finance the government's contribution to the upgrading and expansion of the western rail transportation system increased the government's policy discretion. Officials were presented with the opportunity to decide how to spend the revenues that would result from future western energy resource taxes. Thus, as Lloyd Axworthy noted, the decision to address the problems of the western rail transportation system, including the Crow rate, was not the result of interest group demands.³¹⁰ Rather, the decision was the result of the views of state officials who favored the abandonment of the fixed freight rate. State officials felt free to pursue comprehensive reforms of the western rail transportation system, the prairie agricultural economy, and the livestock industry. The

³¹⁰ Lloyd Axworthy, personal interview, November 25, 1985.

"rational" nature of the state's decision, i.e., its non-partisan character, was demonstrated by the eventual use of the WDP. Originally, the Fund was to be used to finance numerous small or medium-sized projects across western Canada, preferably in competitive electoral constituencies and thereby increase the electoral prospects of the government in the region.³¹¹ The decision to devote most of the WDP to solving the problems of the region's rail system reflected the success of those who favored Crow reform despite the political controversy that it would cause.

8.1.3 Outcome And Implications of the Crow Debate

This analysis has focussed upon the federal government's attempt to enact rail transportation, agricultural and livestock reforms, what Pepin termed his "three revolutions". The government's goals included the double-tracking of western rail lines to increase capacity, the diversification of grain production by eliminating the preference on wheat (the Crow rate), and the encouragement of western processing by paying subsidies directly to farmers, as well as the railways, thereby eliminating the preference on producing export grain. The federal government hoped to encourage greater value-added activity in the region, for example, livestock production.

³¹¹ G. Bruce Doern and Glen Toner, The Politics of Energy, 33.

In view of the expected controversy that would accompany any attempt to alter the status of the Crow route, the federal government adopted a number of strategies to increase its autonomy in translating its policy preferences into public policy within the context of interaction with societal groups. As Nordlinger has posited, state officials may employ a number of means in an attempt to neutralize or diminish the constraining resources by societal groups. The federal government's conduct during the Crow debate illustrates the adoption of many of the options Nordlinger has posited are available to state officials.

The recruitment of well-known and respected experts to lead investigations into the problems of the western rail transportation system was aimed at attenuating societal opposition. The selection of Emmett Hall to head a royal commission to recommend which prairie branchlines should be abandoned was intended to lessen the political furor that would result from any attempt by the federal government to arbitrarily make those decisions. The government hoped Hall's stature in western Canada would increase public acceptance of the need for branchline abandonment. Carl Snavely's appointment to investigate railway costs was based upon similar motives. Otto Lang believed railway claims that they were losing money hauling statutory grain. To obtain proof of the railways' losses, and therefore support for his call for Crow reform, Lang chose an American

economist whose findings he hoped would be considered valid and objective.

The government's initiation of these studies also represented a public education campaign through which government officials attempted to convince prairie grain farmers and others of the need to change the status of the Crow rate. Snavely's technical analysis of railway costs and revenues and the public hearings of the Hall Commission were intended not only to gather information and public feedback, but more importantly, to mobilize support for the government's objective to end the fixed grain freight rate.

State officials also sought to increase their autonomy in defining the contours of Crow reform by highlighting their efforts to deal with the problems of western rail transportation. Officials repeatedly argued that they were responding to the concerns of western bulk commodity shippers in their search for remedies to prevent a serious future rail capacity crisis. Transport Minister Pepin's repeated travels throughout western Canada, meeting with affected groups and encouraging them to offer suggestions as to how the rail transportation and handling system could be improved, were aimed at demonstrating the government's concern and leadership. The decision to conduct the Gilson consultations to achieve a solution acceptable to participants in the rail transportation and handling system represented another attempt by the federal government to

translate its preferences into public policy. The primacy of the government's concern with extricating itself from the liability of subsidizing future grain transportation costs was demonstrated by the financial parameters the government imposed upon Gilson. The Gilson consultations were also intended to project the federal government's desire to evaluate the policy alternatives in a rational, apolitical manner. The government portrayed itself as a mediator between opposing groups.

State officials stressed the exigencies of the rail capacity problem in an attempt to mobilize support for the government's decision to change the Crow rate. Officials attempted to deflect criticism of its Crow initiative by noting the railway's predictions of a rail capacity shortage by the early 1980's as the effects of the recession dissipated, and demand for western bulk commodities increased. Government officials argued that prompt and decisive action was required if a major rail capacity crisis was to be avoided. The government's belief in the urgency of the matter was illustrated by its decision to make interim payments of up to \$313 million in crop year 1982/83 to enable the railways to proceed immediately with construction projects, rather than awaiting passage of Bill C-155. The threat of rationing rail capacity among shippers aroused the concern of agricultural and non-agricultural bulk commodity shippers alike.

Finally, state officials turned to those groups which had convergent policy preferences for support. The views of western livestock groups, specialty crop producers, and private grain companies were highlighted by government officials in defense of their proposals. The Prairie Farm Commodity Coalition, for example, a fusion of small farm groups that had banded together during the Crow debate, were encouraged by the federal government to articulate their case for removal of the Crow rate in the Gilson consultation meetings. The opinions of other groups supportive of the Crow initiative were also important in the government's attempts to gain support for its initiative, including the Palliser Wheat Growers Association, and the Coal Association of Canada. The Coal Association, for example, had arranged a meeting of parties involved in rail transportation in Vancouver, August 6, 1981. As a result of that meeting, the Task Force on Canada's Crisis in Rail Transportation was established to lobby for a comprehensive plan to improve the western rail network.

Thus, state officials employed a number of strategies in an attempt to translate their preferences into public policy. The federal government's failure to enact all three revolutions, however, illustrates the need to consider the interaction between the state and societal groups in the determination of public policy. The state is not completely autonomous from society. Both state and societal actors

attempted to influence the outcome of the Crow debate according to their own interests. The limited success of the federal government, for example, resulted from its decision to placate the demands of Quebec livestock producers. The government's decision to pay the entire Crow benefit directly to railways, rather than dividing it between the railways and individual grain producers, meant the abandonment of efforts to remove the economic distortion caused by the fixed freight rate, and the enhancement of diversification of the prairie's agricultural economy. The extent of opposition to the government's proposed method of payment was deemed too great. The federal government had been willing to withstand western Canadian opposition, but it succumbed to the threat of the desertion of twelve rural Quebec Liberal caucus members. These MP's were considered too important to the party's prospects in the next federal election.

The attempt to diffuse opposition to its split method of payment, however, only alienated those who had supported the government's effort to remove the distortive effects of the Crow rate. Some western agricultural leaders protested that the federal government had not been willing to change the method of payment, despite western opposition, until it faced pressure from Quebec pig producers. Thus, in its effort to diffuse opposition, the government actually lost support.

Yet, state officials were successful in accomplishing their primary goal of changing the Crow rate. Improvements would be made to the western rail transportation system. Although the federal government committed a substantial amount of money for the continued subsidization of grain transportation, it succeeded in capping its contributions to future transportation costs. Finally, although the economic distortion resulting from the Crow rate was not removed, with the passage of time, the gradual erosion of the proportionate contribution the Crow benefit would make in covering grain transportation costs would result in the concomitant reduction of the subsidy's distortive effects.

The government's decision cannot be fully understood as simply an instance in which officials were responding to societal demands for change. The inadequacy of such an explanation is demonstrated by its inability to explain either the timing of the government's decision, or the scope of the Crow initiative. Its comprehensive initiative represented a major departure from previous responses to problems with the western rail network. The federal government's proposals would not only raise freight rates, but affect the nature of the prairie agricultural economy. Payment of government subsidies directly to farmers was aimed at removing the economic distortion caused by the Crow rate. Furthermore, any effort to alter the statutory rate was fraught with such controversy that it was highly

unlikely the government would politically benefit from the implementation of such a plan. The government's ability to end the fixed grain rate represented the success of state officials to translate their preferences into public policy despite societal opposition, and thus illustrates the need to consider the interaction of state and societal preferences and resources in the determination of public policy.

State-centric approaches are useful in capturing the dynamic between state and societal actors in the analysis of policy outcomes. The nature of this relationship is given insufficient attention by analytic approaches that assume public policy to be merely the result of government attempts to respond to societal demands. As well, approaches which focus upon the bureaucratic process in the determination of public policy are not completely satisfactory. Intra-state competition is ascribed to the representation of competing societal interests within the state. State officials are accorded little independence from societal groups. Statist analysis, on the other hand, assumes that state officials have policy preferences independent of societal interests or pressures. These preferences may result from a number of sources, including ideology, conceptions of the public good, or personal material considerations. Thus, an understanding of the determinants of public policy is enhanced by the consideration of the policy preferences of state and

societal actors, and their abilities to affect public policy.

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INTERVIEWEES

The following individuals were interviewed by the author during the conduct of the research for this study. This work would not have been possible without their cooperation: Don Adnam, Department of Agriculture; Vic Althouse, MP (NDP); Senator Hazen Arque (Lib); Lloyd Axworthy, MP (Lib); Les Benjamin, MP (NDP); Albert Chambers, former Executive Assistant to Senator Hazen Arque; Michael E. Parquhar, Director General, Transport Canada; Jesse Flis, former MP (Lib); John Heads, Canadian Transport Commission; Michael Kalnay, NDP researcher; Arthur Kioeger, Deputy Minister, Transport Canada; Don Leitch, former Executive Assistant to Dr. Clay Gilson; Arnold Malone, MP (PC); Malcolm Mclean, former CNR researcher; Howard Mique, Department of Agriculture; David B. Miller, Policy Advisor, Federal Liberal Party; Chris Mills, Manager of the Alberta Cattle Commission; Ken Mohilitny, Executive Assistant to LeRoy Fjordbotten, Minister of Agriculture (Alberta); Andre Ouellet, MP (Lib); Lorne Parker, Jr., Manitoba Farm Bureau; Jean-Luc Pepin, former MP (Lib); C.D. Radke, Assistant Deputy Minister, Department of Agriculture (Alberta); Darrell Richards, NDP researcher; Doug Rimmer, Executive Assistant to Donald Mazankowski; Henry Ropertz, Chief,

Policy and Program Liaison, Grain Transportation Grains Group, Transport Canada; Geoff Seaborn, former Legislative Assistant to J.-L. Pepin; Stanley Schellenberger, MP (PC); Peter Smith, former Senior Policy Advisor to Lloyd Axworthy; Ken W. Stickland, former policy advisor and researcher for the Prairie Farm Commodity Coalition; A.R. Thumlett, Executive Director, Federal and Intergovernmental Affairs (Alberta); Melody Tomka, former research assistant to Donald Mazankowski; and Clifford N. Weber, Assistant Director, Agricultural Transportation, Department of Economic Development (Alberta).

GLOSSARY

Variable Costs: Costs incurred as a result of and attributable to the movement of identified blocks of traffic, e.g., fuel, labor, cost of capital, and roadway maintenance.

Fixed Costs: Costs which ordinarily do not vary with increases or decreases in traffic, e.g., ownership and maintenance of tunnels, bridges, culverts, snow sheds and snow removal, and corporate services such as legal and policy departments.

Compensatory Rate: A rate which recovers at least all variable costs, and in most instances makes a contribution to fixed costs.

Commercial Rate: A rate which recovers all variable costs, makes a contribution to fixed costs, and normally includes a margin of profit determined by the market place.

Crow Gap: The difference between what it costs the railways to move grain and the sum of what the railways receive for moving grain from (a) grain producers, and (b) the Government of Canada's branchline subsidy.

Crow Benefit: The difference between a reasonable compensatory rate including a contribution of fixed costs and the statutory rate.

Statutory Grain and Grain Products: Those grains and grain products which are transported at statutory rates.

END

19.08.88

FIN