The Canadian Intercity Bus Industry:

Shaped by Public Policy

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Canada is well known for its forward looking national transportation policy introduced with the National Transportation Act of 1967 (NTA, '67). That policy established reliance on intermodal competition with government policies neither burdening nor aiding modes as the key to achieve greater efficiency in the transport sector. The policy was modified in the National Transportation Act of 1987 (NTA, '87), which came into force January 1, 1988. The current national transportation policy (NTP) seeks to achieve safe, economic, efficient and adequate services to meet the needs of shippers and travellers by reliance on intramodal as well as intermodal competition, in an environment of modally neutral government policies. Unfortunately, the principles laid down in the NTP have not been applied to the surface passenger industry. The bus industry is mired in regulations thought appropriate in the 1930s while it is facing heavily subsidized railway services and a vibrant, deregulated airline industry.

The pressures created by public policies at variance with efficiency in passenger transportation are mounting. But it still remains to be seen when the economic pressures will be great enough to overcome deep-rooted attitudes towards passenger transportation services.

The circumstances of the bus industry must be set against the geographic, economic and political conditions of Canada. These conditions are described briefly in the first section of the paper before the major government policies are outlined. The structure and recent development of the bus industry are described in section three. The paper concludes by describing current policy issues and suggest that these can only be addressed successfully in the context of a broad policy initiative. The experience of other countries will be important as Canada considers its policy options.

I. The Geographic, Economic and Political Setting

Canada is a large country with a small population (26 million) which is concentrated close to the U.S. border in separate areas of development. Communities in Atlantic Canada are of modest size; Halifax, the largest metropolitan area, has a population of 300,000. The region is some 1000 kilometres from Montreal. The Montreal, Ottawa and southern Ontario region is the only area in Canada with a significant population concentration; Toronto has a population of 3.5 million, Montreal nearly 3 million and Ottawa over 800,000. In Western Canada over half the population (56 percent) is in the metropolitan centres which range in size from Vancouver (1.4 million) to Regina (190,000) and which are separated interprovincially by 600 to 1000 kilometres.

The long distances between regions and major metropolitan areas result in air travel being a major competitor with surface intercity public transportation. The affluence of the country results in the dominance of the automobile for short distances. Consequently, bus and rail shares of travel are small and they have been declining. The last estimate of Transport Canada for intercity passenger trips by mode is for 1986. It shows the percentage shares were, automobile 85.8, air 5.5, bus 6.8 and rail 1.9.[1] Passenger-kilometre data are available only for total travel. The percentage shares for 1983 show, automobile 84.6, air 11.8, urban transit 1.5, bus 1.3 and rail 0.8. [2]

The strong regional characteristics of the country are reflected in the separation of powers between the federal and provincial governments and the zealousness with which the provinces guard their powers. This has been particularly significant for the regulation of motor vehicle transport.

As the trucking and bus industries grew from small local firms, they were first subject to regulation by the provinces. The rationale for regulation in Canada was similar to that found elsewhere; concern for destructive competition with adverse effects on the economics of highway and railway services, and on public safety. In spite of periodic consideration of the jurisdiction of the federal government over interprovincial services, it was not until the 1954 decision by the Privy Council in London in the Winner case (which had started in 1949), that the legal question was decided. The federal government was found to have jurisdiction over bus and trucking companies engaged in interprovincial or international services. Faced with a situation in which existing provincial laws were ultra vires and the provinces and industry sought to retain provincial regulation, the federal government passed the Motor Vehicle Transport Act, 1954 (MVTA, 1954). This allowed the provinces to regulate extraprovincial motor vehicle undertakings in the same way that they regulated intraprovincial operations, if they wished. This set in place a system of provincial regulation with multiple and conflicting regimes. The provinces remain reluctant to give up their powers.

The intercity bus industry is affected directly by regulation and indirectly by government policies dealing with airline and railway passenger services. The development of these policies up to the NTA, 1987 are dealt with next.

II. Public Policies Affecting Intercity Passenger Transportation

The regulation of the bus industry which has remained unchanged over fifty years, has played an important role in shaping the bus industry. Policies applied to railway and airline services have changed and have resulted in a significantly more competitive environment for bus lines.

A. Regulation of the Bus Industry

During the 1920s and 1930s, the provinces passed legislation requiring bus companies to obtain operating authorities based on the public convenience and necessity of the service proposed. Application of this test to avoid

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, 1986, by Carrier and Service*
ı dollars)

School	Other	Total	Percent
7.6	9.6	235.6	10.8
6.5	3.3	981.1	45.1
37.9	89.9	177.3	8.2
574.4	46.0	632.9	29.1
12.2	2.9	24.0	1.1
0.8	2.6	126.4	5.8
639.5	154.4	2174.5	100.0
29.4	7.1	100.0	

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industry provides school and commercial ervices to corporations for employees and arge number of school bus operators, the companies operating multiple systems with

d for 10.8 percent of the industry revenue mainly by firms that specialize in those

are available for carriers with revenues I and II carriers, and for those with ,000, Class III carriers. In 1986, the r over 99 percent of the revenue earned by companies involved was 20, the same number

companies with over 1000 route miles.[8] centage of the total scheduled intercity cent, Voyageur 14.4 percent, Saskatchewan oose Lines 9.1 percent and Gray Coach Line .te different network.

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ɔompetition, gave rise to a system ists to this day. The provinces services including unremunerative ining monopoly franchises and by rovincial mileage levels. In the ıte along a route, joint tariff tion has been limited, also, by ıg certain communities along the 7.

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Table 1

.dustry Revenue, 1986, by Carrier and Service*
(million dollars)

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37.9	11.6	37.9	89.9	177.3	8.2
1.9	10.6	574.4	46.0	632.9	29.1
2.3	7.6	12.2	2.9	24.0	1.1
76.4	46.5	0.8	2.6	126.4	5.8
35.9	1044.7	639.5	154.4	2174.5	100.0
l5.4	48.0	29.4	7.1	100.0	

ld due to rounding

Canada, Passenger Bus and Urban Transit Statistics
-215, 1988.

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routes are mainly in British Columbia and Alberta with through routes to Ontario and other routes in that province. Its operations have been less exposed to the severe competition experienced in the Montreal-Ottawa-Toronto region. It has also benefited more from expansion in the parcel business and in the level of tourist activity for charter services in Western Canada. Although Greyhound has claimed to operate some unremunerative low-volume routes, Reschenthaler concluded that (for the mid 1970s) "There is clearly no cross-subsidization occurring on a large scale."[9]

The second largest company is Voyageur, which is privately owned by CSL Inc. of Montreal. The major interest in the company is held by Paul E. Martin Jr. who was elected to Parliament in 1989 and is regarded by many as a strong leadership candidate for the Liberal Party. Voyageur is the largest bus company in Quebec and also has operations in Ontario. It has been the most outspoken opponent of VIA's pricing.

Saskatchewan Transportation Company is a provincial Crown corporation which provides all scheduled passenger services between communities within Saskatchewan. Greyhound provides interprovincial transport but does not provide intraprovincial service on its corridor routes. Similarly, in Manitoba, interprovincial service is provided by Grey Goose Corporation and its subsidiaries.

Ontario has the largest number of intercity carriers (16 in 1978). Gray Coach is owned by the Toronto Transit Commission. It operates mainly from Toronto into Northern Ontario.

In spite of the number of companies, the structure of the industry is dominated first, by the monopoly conditions enjoyed by carriers on their routes. The 1977 decision of the Ontario Highway Transport Board which allowed Greyhound to operate on a route already served by Gray Coach Line, was unusual. It was the exception, not the rule.

Over the last decade, the companies have faced competitive pressures not from other bus lines but from other modes of transportation, namely, the automobile, train where available, and the airlines. Bus ridership fluctuated in the mid to late 1970s between 33 and 39 million. Statistics Canada data show the drop in ridership from 33.3 million in 1980 to 22.9 million in 1986. During this same period, VIA ridership has dropped from 7.5 to 6.3 million. Efforts by the industry to arrest the decline in patronage by operating executive class services on high density corridors in Eastern Canada, and to reduce costs by using larger articulated buses, have not been successful.

Bus lines have dropped some unprofitable routes but, consistent with their public service 'contracts', they have retained unremunerative or low return routes while expanding their profitable service niches. For some carriers, this has involved the expansion of their charter services. Between 1976 and 1986, charter and tour service revenues of the bus industry in Canada have expanded 2.7 times in comparison with intercity revenue growth of 1.75 times. However, for intercity companies, charter and tour revenues have only grown from 9.4 to 11.3 percent of total revenue. Of more importance for the intercity carriers has been the growth of revenue from the parcel business.

The expansion of the bus lines in this market has been aided by the late growth of other package services in Canada. The bus parcel express business was started by taking advantage of the belly capacity of buses. The growth of the business is evidenced by Greyhound which introduced combo passenger and parcel vehicles and now operates some highway trucks. Parcel revenue has grown from less than 28.4 percent of Greyhound's revenue in 1973 to 38.5 percent in 1987.

However, the bus industry has not found strategies to arrest the decline in passenger traffic. The consequence is pressures on management practices and on public policies affecting industry returns. These pressures are not new, but they are stronger now than ever before. They also vary by region, depending on the intensity of the competitive pressures and on the network characteristics of carriers. Because of the intense competition within Central Canada and the mix of routes operated by Voyageur, the circumstances of that carrier feature prominently in current issues. However, policy response will likely be national in scope.

IV. Current Policy Issues

A major concern of the bus industry is the level of subsidy provided to VIA Rail. This is not a new concern. In 1980, Paul Martin complained that "VIA has taken dead aim at the bus industry" to the detriment of its ability to serve low density rural routes and to invest in new technology.[10] The same complaint was heard in 1984 when Voyageur's vice president marketing complained that the loss of passengers to VIA threatened the Quebec bus network in which only 3 of 26 routes were considered profitable.[11]

More recently, Voyageur has followed a different track. In April 1987, Voyageur appealed to the Canadian Transport Commission that VIA tariffs between Montreal and Quebec City and the Gaspe region were contrary to the public interest and that they should be raised by 25 percent. VIA's fares were allowed to stay in effect during the hearing. In December 1987, the Commission found that the particular rates complained of were consistent with the general rate structure of VIA. Therefore, it recommended "...that the tariff basis should be studied in greater detail..." in a special study ordered by the Minister of Transport.[12] The Decision further recommended "...that the Federal Minister of Transport should initiate discussions with his provincial counterparts so that a coordinated regulatory policy, regarding transport markets where both rail and bus are competitors, can be developed."[13] No action was taken on these recommendations.

In 1988, Voyageur filed a complaint with the new National Transportation Agency against special discount fares introduced by VIA for off-peak days during the summer on the Montreal-Toronto-Ottawa routes. These fares were suspended during the investigation and never went into effect as the Decision was issued in December 1988.[14] Again, the Agency recommended a general inquiry into VIA's pricing. This time the Minister of Transport has ordered an Inquiry by the Agency, reporting to the Minister by June 14, 1989.

The Inquiry has served to focus the bus industry's and public attention on VIA's pricing at a time when concern for the public deficit is also raising interest in the level of subsidy and the mandate - or, rather, lack thereof- for VIA.[15]

However, VIA's only one part of the bus industry's problem. The general decline of ridership has caused the burden of unremunerative routes to become unsustainable. Voyageur has dropped some routes, still claims to be "...bleeding to death," and has taken strikes to gain wage concessions.[16] Greyhound also experienced a strike over wage concessions needed to offset a decrease in ridership.[17]

The issue of VIA's pricing and the difficulties of the bus industry in general and Vogageur in particular, cast in doubt the sustainability of the current passenger policies of the federal government and those of the provinces, especially Ontario and Quebec. Pressures in other provinces are less acute. Issues about inefficiencies associated with the existing structure of the industry and cross-subsidy practices and with the level of innovation in bus service have yet to be raised in public debate. If, as seems likely, passenger policy issues come to the fore during the second half of 1989, the experience of other countries could be a valuable input to a long overdue consideration of Canadian surface passenger transportation policy.

ENDNOTES

1. R.F. Hinchcliffe, <u>Freight and Passenger Forecast</u>, Transport Canada, unpublished, 1988.

2. Transport Canada, <u>Transport Review 1985</u>, Canadian Transport Commission, 1985, p. 10.

3. <u>The Ontario Motorcoach Industry</u>, mimeo, the Ministry of Transportation, Ontario, undated, p. 3-4.

4. G.B. Reschenthaler, <u>Performance Under Regulation: The Canadian Intercity Bus Industry</u> (Ottawa: Consumer and Corporate Affairs Canada, 1981), p.100.

5. Report of the Royal Commission on Transportation (Ottawa: The Queen's Printer, 1961), Vol. II, p.21.

6. Data are taken from the annual reports of VIA Rail Canada Inc.

7. Senate of Canada, Standing Committee on Transport and Communications, <u>Are We on the Right Track</u>, Interim Report, Rail Passenger Services in Canada, June, 1984.

8. G.B. Reschenthaler, <u>op. cit.</u>, p.4.

9. G.G. Reschenthaler, <u>op. cit.</u>, p.97.

10. A. Charters, "Bus Companies Sing the Blues about Rail," <u>Financial Post</u>, Special Report, April 26, 1980, p.S9.

11. C. Foster, "Voyageur Takes Aim at VIA Rail," <u>Globe & Mail</u>, December 5, 1984, p.B11.

12. Railway Transport Committee, Canadian Transport Commission, <u>In the Matter of the Application of Voyageur Inc.</u>, <u>Decision</u>, File No. 50408, December 30, 1987, p.19.

13. <u>Ibid</u>., p.20.

14. Ironically, during two months of the period for which the discounts were to be in effect, Voyageur was on strike, so that VIA captured additional traffic at regular fares.

15. "Is VIA being Railroaded," <u>Western Report</u>, April 10, 1989, pp. 9-10.

16. P. Poirier, "Voyageur Threat Merely Public Posturing: Union, "Globe & Mail, March 9, 1989, p.B6.

    C. Foster, "Cash-Strapped Voyageur Thretens to Leave Quebec," Globe & Mail, March 8, 1989, p.B6.

17. K. Griffin Tentative pact reached to start buses rolling" The Vancouver Sun, August 8, 1987, p.A8.