POLICY SERIES
No. 191 • FEBRUARY 2017

AS THE CROW FLIES

Transportation Policy in Saskatchewan and the Crow's Nest Pass Agreement

BY MARY-JANE BENNETT

FRONTIER CENTRE FOR PUBLIC POLICY
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No. 191 - Date of First Issue: February 2017.

ISSN 1491-78

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EXECUTIVE SUMMARY

The 1982 Saskatchewan election was an interesting one. It propelled the Crow rate on grain freighting, a distant topic to many Canadians, to the frontlines. The Crow rate, one of the undertakings in the 1897 Crow's Nest Pass Agreement between the CPR and the federal government, was a price guarantee on freighting western grain to export position at Thunder Bay's port. Frozen at levels set in 1898 and 1899, the Crow rate had been creating significant financial problems for the railways since the late 1940s.

Grain — the second biggest user of the railway system after coal — was contributing minimally to railway revenues, not even generating sufficient revenue to pay the cost of fuel. By the 1950s, as losses mounted, it became increasingly difficult for railways to maintain their branch lines and make new rolling stock purchases. As a result, the movement of all goods by rail, not just grain, slowed, impacting economies. The cheap rate created other problems: the rate applied only to grain and only to export grain. Farmers, incented this way, responded accordingly. Export grains were grown, arresting both agricultural diversification and grain processing within the province.

Throughout the 1960s, grain travelled over poorly maintained branch lines and in boxcars, rather than new rolling stock. The sluggish movement and uneven grain deliveries that resulted were responsible for Canada's loss as the world's price maker in grain. By the 1970s, further important studies urged federal intervention in light of mounting economic losses.

To ensure that grain kept moving, Ottawa began a series of makeshift subsidies and new hopper car purchases to replace the tired, obsolete boxcars then used to move grain. Over the course of the 1970s, Ottawa pumped $1.3 billion worth of fixes to Canada's grain transportation system.

By the 1980s, as federal subsidies climbed, intervention became critical. Canada's Transport Minister, Jean-Luc Pépin, native of Drummondville, Québec and a Liberal member of Parliament was tasked with reporting to Cabinet on the action necessary "to modernize" the Crow, a move correctly understood in the farm community as its dismantlement. The federal Liberals, without representation west of Winnipeg, were cautious about changing the cheap Crow rate. An earlier attempt in 1967 had left them scorched. Ties to the Crow were strong in Saskatchewan, where even the Lutheran Church was said to hold a view. In Saskatchewan, the Crow was considered a birthright and a "sacred trust."

Liberal caution was well placed. The Crow's retention became the key plank in the 1982 provincial election campaign of Saskatchewan NDP leader, Allan Blakeney. This caused unease to his opponent, Conservative Party leader, Grant Devine, an agricultural economist by profession. In that capacity, he had argued against the Crow claiming it was causing much economic harm. As a politician he supported it, albeit reluctantly.

"Like Saint Paul of old, he too claims to have experienced something of the nature of a blinding light on the road to Damascus," mocked the NDP's Edward Shillington of Devine's uneasy shift in position.

While Devine secured a landslide win that April, his claim that the people of Saskatchewan had voted to "Keep the Crow, let Blakeney go" was not entirely accurate. Cracks had surfaced, allegiances were shifting and debate over the issue was far from over. Devine inherited the Crow file during its final year of debate and at a time of intense negotiation.

In analyzing Devine's involvement, the paper starts with the history and politics in play in the Crow Agreement. It documents how the harm attributable to the Crow rate, benign at first, escalated over time. The paper reviews the Crow's eventual replacement legislation, the 1983 *Western Grain Transportation Act* and the 2000 revenue cap. Like the Crow of old, they are price controls on grain freighting. Each has created its own unique set of problems.

The paper concludes by stating that modern Canada needs a market-based framework of grain transportation and that Devine's academic position: that the Crow's fixed rate was causing harm to the economy, was the correct one.

INTRODUCTION

Into the Crow debate, some politicians and industry leaders, notably federal ministers Jean-Luc Pépin and Otto Lang, along with Saskatchewan Wheat Pool president Ted Turner, approached the need for change with distinction. Many did not. It was hoped that Saskatchewan premier Grant Devine, an agricultural economist, would provide the needed leadership on the issue, as he had written extensively on the topic as an academic. The July 1978 edition of the Canadian Journal of Agricultural Economics contains his thinking.

In that article Devine, then a University of Saskatchewan professor, reported that the Crow rate was responsible for farm income instability; for increases in retail prices; for freight rate increases on non-grain commodities; for discouraging competition, primarily trucking and for reduced economic and employment opportunities in the province.

Yet, when the Crow came up for discussion in the Saskatchewan legislature, Devine, then leader of the Conservative Party of Saskatchewan avoided that position. With the then rate representing one-fifth the actual cost to railways to freight grain to export, leadership on the issue was desperately needed. In the wheat province, however, the Crow was considered a birthright; the furor surrounding its demise was intense.

Devine's compromised position did not go unnoticed. At the height of the debate, Saskatchewan's NDP leader Allan Blakeney prodded Devine, charging that any change to the Crow was "a call to war" and dismissing Devine as "a general who'd rather talk than fight." While prime minister Pierre Trudeau waved off Blakeney's doomsday tirades of skyrocketing rail rates and shuttered farms in a post-Crow world as "'scare stories,'" there was mounting disappointment in the federal Liberal Cabinet of the alarmist message issuing by some of Devine's party members of "keeping the Crow come hell or high water."

Yet, the Debates show Devine, though solidly understanding the need for changing the Crow as seemingly ambushed by the politics and not prepared to press the business case he had earlier championed. The NDP seized on this, defining his newfound support as a "weak, lame, deathbed repentance."

While the question raged in Saskatchewan, the federal Cabinet was assessing replacement legislation. It was a layered text that included a regulated cap and a cost-sharing formula for grain movement. "Aren't you just going to create a new Crow?" questioned Trudeau.

His question was a good one. While the Crow was ultimately defeated, its successors — the 1983 *Western Grain Transportation Act* (WGTA), the 1995 rate cap and the 2000 revenue cap — each more enlightened than its predecessor, have each in time created profound limitations.

THE 1897 CROW'S NEST PASS AGREEMENT

Canadian railways have often been used as a means to advance federal political goals. Their use for political gain has sometimes been easy to discern, such as the completion of the Hudson's Bay Railway to Churchill, Manitoba prompted by the "pistol to Mackenzie King's head" by the Progressive Party of Canada, a prairie-based political party with socialist leanings that had been propping up King's majority.[1] Sometimes the political drive is more opaque; the Crow's Nest Pass Agreement of 1897 falls into this latter category.

The 1885 completion of the transcontinental mainline through to British Columbia could be described as the creation of modern Canada. Whether as vast a country as Canada could be held together without a railway was tenuous. The completion of the CPR mainline put that question to rest; "like a gavel — the driving of the Last Spike — closed off debate."[2]

The Crow's Nest Pass Agreement of a dozen years later never achieved that same status of constitutional cornerstone for the West. Rather, it represented short-term political action intended to benefit federal goals.

The Crow's Nest Pass Agreement is a 10-page contract signed on September 6, 1897, between the CPR and the federal government. It then became part of Canadian law under the *Crow's Nest Pass Agreement Act.*[3] In exchange for a cash subsidy of $3.6 million and title, the federal government contracted with the CPR to "truthfully and faithfully locate and construct" a 330 mile railway line from Lethbridge, Alberta, to Nelson, British Columbia (known as the Kootenay line).

The Agreement contained a number of important rate clauses, one being the Crow rate. That clause reduced by 20 per cent the existing grain rate, freezing it forever on grain travelling on the CPR lines then existing to Fort William/Port Arthur (later known as Thunder Bay). Another required that the goods travelling on the actual Kootenay line follow normal practice, that is, be first approved by the Governor in Council or by the Canadian Railway Commission and thereafter be subject to revision and control by those authorities. The Agreement also reduced the freight rate on a list of thirteen 'settlers' goods', such as farm implements, travelling west.

The Crow's Nest Pass Agreement provided limited gain to the CPR. While differences exist as to whether the CPR could have built the line out of its own funds, there is uniformity to the view that resort to a government subsidy "was simply normal practice when governments wanted new lines built."[4] In the end, the bargain turned out to be a devastating decision for the CPR and one of the costliest Canadian business decisions in the country's history. The thinking at the time was that the Agreement's grain rates, then at an innocuous level, would trend downwards as costs fell.[5]

For the federal government, a clear motivation to clinch an agreement existed. The Agreement allowed Ottawa to address irritants, enhance trade, benefit Central Canada's business interests and, yet, not interfere with its tariff regime.

The Agreement allowed Western anger about the mounting cost of the eastern customs tariffs to be quelled by providing a rate exemption to westbound shipments of settlers' goods. By lowering the transportation cost of eastbound shipments of grain, the Agreement smoothed over western anger at their railway rates, deemed high despite the fact that higher rates in the less dense routes of the developing Prairies followed normal business practice.

While the Agreement addressed Western Canadian irritants, it also provided two important advantages to Central Canadian business interests. First, by enticing grain delivery through lower rates to the waterways of the east and onward to world markets, lake steamers were developed to handle grain to Buffalo and Georgian Bay for reshipment to Montreal, resulting in a cascade of other economic opportunities to Eastern Canada.

That was why the West was won, claims author Mary Janigan, in her recent book, *The West versus the Rest since Confederation.* She notes the words of Canada's first prime minister, John A. Macdonald: "That is the country of the future [and] in that country there will be sufficient market for our eastern manufacturers for years and years. The Northwest must be an agricultural country."[6] The 1897 Crow Agreement furthered that policy.

Second, the agreement maintained the eastern customs tariff regime. In that era — almost half a century before income taxes — the tariffs were critical. Tariffs on imported goods generated almost 60 per cent of federal revenue.[7] Tariffs included in the 1879 budget, adding 15 per cent on imported goods, were so protectionist toward eastern manufacturers that it became known as the "manufacturers' budget."[8]

In effect, the East gained the best of both worlds: tariffs were maintained, allowing manufacturing to flourish all the while gaining access to the great benefits the wheat economy generated. Not only had the Crow "opened up tremendous economic opportunities for financial, marketing and transportation companies in Central Canada", the country benefited from Canadian wheat sales, which quickly became Canada's second most important export.[9] In that way, the West gained as well.

The Agreement was not the 'sacred trust' it was seen to be on the Prairies. Rather, it was a political arrangement where concessions were exchanged for benefits. This is shown by reference to the above-mentioned gains to each party as well as an examination of the Agreement itself.

First, the essence of the contract — a federal subsidy to build a coal line in exchange for lower grain rates on CPR's then grain lines to Thunder Bay's port — does not suggest the high-minded purpose usually attached to a 'sacred trust':

> It is a minor irony of Canadian history that in the public mind the Crow's Nest Pass is associated with prairie grain. The 1897 agreement for the construction of a railway through the pass actually had nothing to do with grain; its purpose was to provide rail access to the coal fields of the Kootenay region of British Columbia.[10]

And not only did the Agreement have "nothing to do with grain," the rates were unrelated to the line in question, being a line between Lethbridge, Alberta, and Nelson, British Columbia. In effect, the federal government extracted an agreement where "aid granted to one portion of its [CPR] network allowed reduced rates on another portion."[11]

Further, the Agreement only covered the CPR lines then in existence. A 'sacred trust' would have considered railway expansion, especially in light of "the greatest boom in Canada's history, during which the terms of trade shifted radically in Canada's favour," that followed the Agreement's signing.[12]

In light of these matters, it would be misleading to elevate the Agreement to the status of nation-building aimed at an integrated Western economy. Instead, a distortionary rate system where the CPR was subjected to Crow rates and other railways to toll rates under the Board of Railway Commissioners was created. If the federal objective were an integrated Western agricultural economy, the Agreement's structure would have included all railways and all lines.

These reasons, and importantly, the subsequent amendments, beginning in 1925, lead to the conclusion that the 1897 Crow's Nest Pass Agreement represented nothing more than a bargain for limited federal gain. Alexander MacInnes Runciman, the long-time president of United Grain Growers, dismisses the idea that the Agreement is anything more.

> One of the big arguments — and I still hear about those who will not bend on this — is that the Crow was a sacred trust, given to western Canada to ensure development. It was nothing of the sort. It applied on a small number of lines to take grain to Thunder Bay from points that existed then …. How on earth can anybody talk about it as being a sacred trust to develop the west when it didn't apply to the Canadian Northern and the Grand Trunk and all those lines that became the Canadian National? [CN] I can't believe the way that people think, and talk about it.
>
> But you can get away with that in the political arena. It's the way to talk and think, I suppose. But I bet there wasn't one person in a thousand on farms in western Canada who had a clear understanding of the Crow Agreement, what it meant, what it said and why all that grain came under it. It wasn't done by agreement, it was done by legislative fiat.[13]

The "legislative fiat" to which Runciman refers occurred in 1925. It drastically altered the Crow Agreement.

THE 1925 CHANGES TO THE CROW'S NEST PASS AGREEMENT

While a 'sacred trust' is by definition immutable, the Crow Agreement was amended and modified for political gain a number of times over the years, notably in 1925. Moreover, like the Crow Agreement itself, these amendments were a political arrangement.

Due to the sustained inflation on goods and services that occurred during and after World War I, the CPR's operating expenses greatly increased. This and a costly wage award to Canadian railway employees made the continuation of Crow rate untenable. Canada's railways were facing solvency concerns.[14] To ensure that grain kept moving, the federal government invoked the *War Measures Act* in 1919, suspending the Crow rate and allowing freight rates to rise. Its suspension was short-lived. In 1922, the Crow rate was re-instated and in 1925, its reach, greatly extended. At the time, the federal Liberals maintained a majority in Parliament through the support of the left-leaning Progressive Party of Canada.

The serious economic downturn of that time was hardest felt on the Prairies, and prime minister Mackenzie King faced enormous Western pressure for the Crow's return. Yet, to maintain continued support in Ontario and Quebec, King was reluctant to interfere with the protective Eastern customs tariffs. The Progressives broke the deadlock. They "rallied in support of the Crow" and "King was cornered."[15] In 1925, the Crow rate was re-established with a widely expanded scope.

The Crow's Nest Pass Agreement's westbound rates on the 'settlers' effects', being commodities such as farm goods, was cancelled. Despite that loss, deemed a "complete defeat for the West," the grain rates were restored with a greatly extended reach.[16]

An earlier Supreme Court of Canada decision (confining the Crow rate to only CPR lines existing at the time of the 1897 Agreement) was run roughshod over. Parliament placed the rates under the *Railway Act,* extending the Crow rate to cover not only the CPR and the lines and delivery points in existence in 1897 but to all railways and all delivery points on the Prairies. A 1927 amendment extended the rate to include shipments to Pacific coast ports as the port of Vancouver became viable. In 1931, the Crow was expanded to include Churchill when it became a workable port. Over subsequent years, notably in 1961, the Crow rate was extended to cover dozens of crop-based products including oilseeds, alfalfa and pulses.

> The end result was to convert a contractual arrangement between the federal government and the CPR covering the shipment of grain to Fort William-Port Arthur from 289 points on the prairies to a legal requirement applicable to both the CPR and the CNR for the movement of grain from some 1,245 points to what eventually became four ports: Thunder Bay, Vancouver, Prince Rupert and Churchill. The rate was also extended to canola … when that product became a part of western agriculture.[17]

The vastly widened reach proved a popular move in the West. While the 1897 Crow's Nest Pass Agreement was at least connected to a form of economic stimulus and to offsetting the consequences of the Eastern tariffs, the 1925 amendment was driven by pure politics. Politicians quickly fell in line and began referring to the Crow rate on grain as "one of the chief assets of the Dominion."[18]

> The fundamental reason [for the 1925 amendment]… was political. The Turgeon Royal Commission of 1951 phrased it: "abandonment [of the Agreement] would mean that Parliament no longer looks upon Western Canada's production of grain for export as an industry requiring special consideration as in the national interest."[19]

The 1925 amendment left the task of rate-making with the railway commissioners who ensured that the rates, now for all railways and on all delivery points, "were firmly re-established at the 1899 level where they were to stay until 1984."[20] Over the years, as the statutory grain rates became increasingly non-compensatory, Prairie residents became increasingly rooted in the belief that the rates could not be changed.

> Prairie spokesmen sometimes referred to it as "the West's Magna Carta." The East (meaning Ontario and Quebec) had the customs tariff, the manufacturers, the banks and mortgage

> companies, and the rest of the "big interests" but the West at least had the Crow. It was a birthright, and no one was to touch it.[21]

A disaster was looming. The growing attachment to the Crow in the West had politicians approaching reform with caution, certain that "whosoever laid his hands upon the Ark of the Covenant of 1897 would be struck dead politically."[22]

Yet, the rates under the Agreement, frozen for decades, were poised to cause great harm. The stage was set for one of the biggest fiscal and political challenges faced by Canada's Parliament in modern times.

THE CROW'S NEST PASS AGREEMENT RATES: RAILWAY LOSSES AND THEIR EFFECT

"I don't think I altogether understand a country in which a freight rate could be regarded as a constitutional right."

- Carl Snavely, a Washington-based economist hired to deal with Canadian railway losses. (1982)

For the railways, the Crow's effect during the period between the 1920s and the 1940s was benign. Rather, requiring a separate costing analysis, it was "not much more than an irritant."[23] Losses, however, surfaced in the late 1940s when the lifting of wartime controls was followed by a series of wage and price increases across the country.

The economic fallout of rate stagnation was so large and so protracted that two Royal Commissions were convened: the Turgeon Royal Commission of 1949-1951 and the MacPherson Royal Commission of 1959-1961.

While recommending another layer of regulation, W.F.A. Turgeon disregarded a number of important matters including declining railway balance sheets.

> The results [of the Turgeon Commission] were more restrictions at a time when competition from trucks was rapidly expanding, and when railways needed to modernize and expand services to accommodate economic developments. The Commission disregarded the attrition of railway facilities that had occurred during the War, the effect of post-War inflation and did not foresee the coming highway development and the St. Lawrence Seaway.[24]

All this only led to another commission. Convened a few years later, the MacPherson Commission, established in 1959 and reporting in 1961, took a more trenchant approach. Assessing railway losses at $22.3 million in 1961 alone, the Commission termed the problems resulting from the frozen rate of "surpassing importance." If the Crow rate were to continue, the Commission recommended that it must be treated as a public duty imposed on the two railways and that they be compensated for their losses.

A clause to that effect made its way into the bill that became the *National Transportation Act* of 1967. Lester Pearson's minority Liberal government was forced to retract the clause due "to a storm of criticism in the West that was taken up by the opposition parties in Parliament."[25]

Exacerbating the problem was the overbuilt grid of branch lines covering the Prairies. By the end of World War I and after enormous capital expenditure by the railways in building the branch lines — by an average of 600 kilometres a year — the expensive network was now part of the problem.

At the end of railway infrastructure spending, some 3,000 country elevators and 1,295 railway-loading points were strung across the Prairies. Communities that had grown to rely on railway service were not about to let their individual loading points go. Yet, it took a full day for a train stopping at 12 to 14 loading points to cover 90 miles with a typical delivery of only 10 cars of grain per week.[26]

Abandonment of the uneconomic and inefficient branch lines proved next to impossible. Farmers rallied and lobbied for the Crow, fully aware that their costs would increase if they were required to truck their grain to the next collection point under a rationalized system. Not only was the Crow rate economically damaging the railways, it offered no incentive for farmers to move grain efficiently. The government convened a Royal Commission that recommended some branch line closures as a stopgap measure.

By the 1970s, with CN and CPR bearing most of the cost of moving grain in Canada, branch lines and grain elevators were falling into disrepair, causing further inefficiencies and slowdowns to creep into the grain transport system. Double-digit inflation increased railway losses.

It was not just the railways that were affected. The railways' climbing business losses meant they were unable to meet new demands for grain, coal, potash and other commodities shipped by rail, and the economy suffered. Remarkably, these inefficiencies were recognized as early as the 1950s when Canada opened up its wheat markets to China and the Soviet Union. The added burden of the new contracts nearly caused the entire system to collapse with sluggish movement over poorly maintained branch lines and outdated grain elevators. In the end, Canada lost its status as the world's price maker in grain.

Otto Lang, the minister responsible for the Canadian Wheat Board (CWB), addressed the crisis head-on. In October 1974, he recommended either a fund to compensate the railways for losses or the buyout of the Crow for $7 billion as an answer to the looming disaster. In response, "provincial ministers, the grain co-ops and various prairie media all sprang to the barricades in defence of the Crow."[27] Such fury surrounded Lang's proposal that the Saskatchewan Wheat Pool called for his dismissal at its annual meeting later that year. Prime Minister Trudeau intervened, assuring prairie farmers that the Crow would remain.

To assess railway losses properly, Lang engaged Washington-based Carl Snavely, an expert in railway costing. To address the rapidly mounting fallout from a freight rate that had not changed in close to a hundred years, the federal government began the short-term solution of buying hopper cars and, thereafter, repairing the failing branch lines to ensure that goods were at least moving to export. Between 1972 and 1986, the federal government bought 14,000 hopper cars. The CWB acquired a further 4,000 and the governments of Alberta and Saskatchewan, purchased 2,000.

Snavely's 1977 report found that in an era where fuel costs alone had doubled, the railway losses were enormous: $174 million in 1977, $244 million by 1980 and an anticipated $1 billion by 1990. Railway shortfall, Snavely found, had been growing at the rate of 15.5 per cent per year.

The CWB confirmed as much, claiming its export commitments had been impeded by transportation problems. Losses were reported at $150 million in 1978 and $600 million the following year. The poor state of the branch lines and the broken system due to the Crow rates were two of the reasons for the loss. The other was CWB orthodoxy.

Responsible for ordering grain cars, the CWB aligned with the farm community in the ongoing issue of branch line abandonment. The CWB balked at the more efficient means of transporting grain using unit trains, which are trains composed entirely of grain cars. By the early 1980s, while the CWB had ordered only three unit trains over a 12-month period, rival railroad Burlington Northern (BN, now BNSF), across the border, had assembled 1,200.[28]

The need to remedy the situation was urgent: Rapid traffic growth in all commodities lay ahead, with projections of a doubling in grain traffic and a quadrupling in coal. The federal government had spent $1.3 billion during the 1970s to rehabilitate the extensive branch line system and purchase hopper cars, and it projected additional expenditures of $1.8 billion over the first five years of the 1980s. The railways were losing money hand over fist, as the cost of mailing a letter from the prairies to Vancouver was greater than the cost of shipping a bushel of grain between the cities.[29] The problem, seemingly intractable, required a political solution. That proved almost impossible.

ENDING THE CROW

STAGE 1: CABINET ADDRESSES THE LOSSES

In the spring 1980 election campaign, the Liberal platform included a promise to double-track the CN line from Winnipeg to Vancouver. Without studying how it would be funded or whether the capacity was even needed, the Liberals set the stage, said Deputy minister of transport Arthur Kroeger for a "lack of serious thought about railway issues."[30] This and a Liberal Cabinet document reminding its ministers that opening the debate on the Crow was "dangerous" were ominous signs.

While opening debate on the Crow may have been politically "dangerous," it had also become an urgent budgetary priority for the Liberals. Liberal transport minister Jean-Luc Pépin was responsible for tackling the file. Meetings were held in the West and progress was made. Yet, by October 1980, the federal Western Affairs Cabinet Committee signalled a retreat. It claimed that the political risks of Crow reform were too high in light of Saskatchewan's opposition and the furor unleashed by the National Energy Program (NEP). By February of 1981, Trudeau made public his decision to avoid Crow reform.

> Following the Cabinet discussion, the Prime Minister held a press conference at which he said, "I would not have the folly to say that I am going to tamper with the Crow." When a prairie journalist pointed out that the position of the Western Agricultural Conference was endorsed by every major agricultural organization in the West with the exception of the National Farmers' Union and asked whether this did not represent sufficient consensus, Trudeau simply replied, "no."[31]

Railway losses and their effect on the efficient movement of shippers' goods, claimed Kroeger, seemed to have "made no impression on Trudeau and his advisors."[32] While some were perplexed by the turn-about position, many were outraged.

Alberta's indomitable premier, Peter Lougheed demanded that the Crow be "right at the forefront of decision-making in Canada and no longer left on the backburner."[33] The Canada West Foundation, the Alberta Wheat Pool, the Saskatchewan Federation of Agriculture and the Western Transportation Advisory Council, whose membership included ministers from all four Western provinces, expressed their concern with the position taken by the federal Liberals in light of railway losses and the very real risk of traffic rationing in the future.

By the summer of 1981, delegations from the three wheat pools renewed their request that Ottawa address the problem. By the following summer, delegations representing non-agricultural bulk shippers including the Canadian Manufacturers Association and the Canadian Exporters Association expressed alarm about the impact of congestion from grain shipments and their ability to get their goods to market. A task force was established with representation from Canada's most significant agricultural, commodity and industrial groups.

In September 1981, finance minister Allan MacEachen outlined to the Liberal Cabinet the financial crisis created by the Crow. The government was forecast to spend $2.2 billion over five years on hopper cars and branch line fixes alone. Added to that was the $3.2 billion to cover CN's and CP's shortfalls in capital expenditure that was needed to meet future traffic growth. In the years ahead, the amounts would get even higher: $13 billion was rumoured. This level of subsidy was unsustainable.

MacEachen's directive was unequivocal: The government, already running record deficits, would be unable to fund future railway losses. The Crow needed to be tackled; Western farmers would be required to pay more of the cost of transporting their grain.

"Modernization of transportation" and "reform of the freight rate structure" were listed as priorities in the ensuing Cabinet document.

STAGE 2: THE THORNY QUESTION OF THE CROW'S REPLACEMENT: THE PRODUCER PAY CLAUSE

Despite the clear statement from MacEachen, new events and mixed messages from the federal Liberals destabilized the momentum for change. Some Saskatchewan producers had begun a Keep the Crow movement. Senator Hazen Argue, appointed by Trudeau to the Liberal Cabinet due to its lack of western representation, began a perfidious campaign to undermine his government's modernization message on the Crow file.[34] He dismissed the independent experts on railway losses as simply not believable.

Despite these setbacks, Pépin pursued a proposal that would allow the railways to charge compensatory rates for moving grain and upgrading their network. In return, the gap between those rates and the Crow rate would be covered by subsidies from the government. Farmers would be required to pay a portion of that rate. The 'producer pay clause' as it became known, created great controversy in the farm community.

The *Western Producer,* the storied agricultural trade magazine owned by the Saskatchewan Wheat Pool, placed its finger on the pulse of the question, issuing a foreboding in its May 15,1980 issue.

> If he (Pépin) enters the debate with enough federal money to pay the difference between compensatory and statutory rates, his attempt to find a solution will be welcome.[35]

The warning was well founded. A contribution by farmers to cover a portion of railway shortfall became the hurdle and Trudeau left it understood that there would be "no strong commitment by the government to see it through if he [Pépin] ran into trouble."[36]

Pépin carried on, disregarding the disquieting messages. He hired Clay Gilson, a University of Manitoba agricultural economist, to outline and report on how his proposal could be accomplished. While Gilson was conducting his analysis, Ed Broadbent, leader of the federal NDP, along with key members of Saskatchewan's Blakeney government and provincial Liberal leader, Ralph Goodale, began a series of public meetings to stir up resentment concerning changes to the Crow.

In March 1982, Trudeau retreated, confining government reform only if there were a Western consensus. His actions, he said, would be governed by "what westerners wanted."[37] The Western grain pools endorsed the prime minister's position, saying that if they told Clay Gilson they did not want a new rate structure, there would not be one. The Privy Council Office intervened, claiming that the prime minister's remarks had been "off-the-cuff and did not take precedence over the collective decisions of the Cabinet that had ... led to the Gilson consultations."[38]

Gilson's report in June 1982 said that the railways were facing a "crisis in financing and rail capacity."[39] With only 20 per cent of their costs in grain transportation covered, their losses over the next four years would amount to $2.4 billion. He called for a formula wherein losses would be partially covered by federal subsidies, with future cost increases to be borne by producers.

At the time, the cost of shipping represented 2 per cent of the producers' costs. Although the cost increases to producers under Gilson's formula were minimal — approximately $675 a year for an average farm and they would take effect three years later — the pool presidents termed producer payments "absolutely unacceptable."[40]

The Saskatchewan NDP government fell to the Conservative government of Grant Devine in late April 1982. With the Gilson report issued just over a month later, the Crow debate returned to the front lines.

While a Prairie consensus to change was being pursued, Devine stepped into the fray. He opposed changes to the Crow, a reversal of his earlier position as an agricultural economist, when he had been an "open exponent of changing the Crow and of paying a subsidy to producers."[41] The Devine government, said Kroeger, was "erratic and difficult to gauge."[42]

Devine sees things differently. In a recent interview with the Frontier Centre for Public Policy, he described himself as an unabashed free marketer and supporter of agricultural diversification, but he thought that there was a federal agenda at play, and to "pull the pin" on the Crow, a cash payout to farmers was necessary. "So we played our cards close to the chest." His campaign against Gilson, he explained, was an attempt to "bargain it up" and "put money in the bank." The legislative Debates show that there was some discussion of a producer buyout to move grain at a commercial rate. In fact, this occurred in 1995 with the ex gratia payment to Crow-affected producers of $1.6 billion under the Western Grain Transition Payments Program along with a $300 million, three year Western Grain Transportation Adjustment Fund.

The frustration with Devine was that he understood the business case for change but did not champion it. His opposition to change, while superficially similar to that of NDP leader Allan Blakeney, differed in important ways. Blakeney, seemingly unconcerned about impairing the famers' capacity to market grain, was urging the removal of hopper cars in protest; was opposed to branch line closures even though they were blatantly uneconomic; was unconcerned about the deterioration of the grain handling system, growth in the industrial sector as well as productivity and agricultural diversification. The NDP dismissed Devine as "the professor" and "the good doctor" for supporting those issues in his earlier writings and referred to the CPR as a "our well-known welfare client."[43]

Devine's positions were never as strident, and he was left countering Blakeney's attacks with a pro-Western offensive. Listing off the western politicians in the Clark government that had been "fighting for us", he dismissed the NDP as having "betrayed us" by helping to bring about the defeat of a government that was "western-oriented, farm-oriented, energy oriented."[44] The contribution by Western Canadians in producing and marketing grain throughout the world requires transportation shortfalls be covered by the federal government, he said, adding that the Mississippi River system is financed by the U.S. federal government to help market US farmers grain through Gulf ports. Ottawa should do likewise and put "hard cash" into the Canadian system.

On the specific issue of the producer pay clause, Devine drove home that he was particularly concerned about any change in light of the precarious economic climate of the time. If Ottawa wanted change, his June 28, 1982 telegram to Trudeau said, then Ottawa would have to pay the revenue shortfall. "Farmers are faced with rising costs of production, falling grain prices, and therefore cannot afford further cost increases."[45] Devine's agriculture minister was dispatched to relay the same message to Pépin.

Saskatchewan Wheat Pool (SWP) president, Ted Turner headed an agricultural grain handling and marketing behemoth with 70,000 farm members and a staff of 4,000. Importantly, as the grain handler of 40 per cent of all Canadian grain, the SWP was a force; what it endorsed would have had immediate impact on the Alberta Wheat Pool and Manitoba Pool Elevator.

Turner, "the type of leader who introduces his followers to the future", would have had an easy time leading his members in revolt against a change to the Crow rate.[46] Yet, he too recognized the desperate need to reform a failing system. In a speech in 1980, he addressed his members:

> None of us, whether we are farmers, grain firms, businessmen or governments can afford to ignore the problem of railway handling capacity, or the associated problem of providing adequate compensation to the railways for their legitimate costs.[47]

Despite valiant attempts, he was unable to carry his Board, and the Saskatchewan Wheat Pool joined the revolt against Gilson's recommendation that producers should pay a share of the cost increases. While that year, the SWP had a rate of return on equity at 23.6 per cent, the CPR's was 4.8 per cent.

While Western farmers remained absolute in their opposition to Gilson's producer pay recommendation, the federal Cabinet had grown to embrace it. Government calculations were that Ottawa would be on the hook for payments estimated at $1 billion annually by 1991-1992, barring a producer pay clause.

With the federal government running deficits just short of $30 billion, the Cabinet members were concerned that Western grain would become their most heavily subsidized industry at a cost of more than double that of financing the entire Canadian civil aviation system, including airports and air navigation, then running at

$400 million annually. Western grain subsidies could be a hard sell to Canadian taxpayers.

Quebec intervened and broke the stalemate. It claimed that by providing payments to producers, their livestock industry would lose its competitive advantage. Over the years, the price distortion caused by the Crow's cheap transportation costs had worked to their advantage. They claimed that a change in the Crow would "completely destroy the Quebec hog industry." The "near panic" in Quebec, said Kroeger, was not matched in neighbouring Ontario, where the change was viewed as negligible.[48]

These combined pressures, from west to east, resulted in the producer pay clause being dropped. The Liberal seats in Quebec, said Kroeger, were a key component.

> So far as we were concerned, the Cabinet's decision was a clear case of politicians knowing the better and choosing the worse. The evidence suggests that we could have overcome the Pools' opposition had producer payments remained a purely western issue.[49]

Rejecting the key recommendation to have the producers cover any cost escalations rather than Ottawa subsidizing railway losses delayed the process of Western transportation rationalization and agricultural diversification for another decade. Pépin's reform package went down to defeat.

Despite the rout, there was the final question of whether a federal subsidy should be paid to the producers or the railways. The SWP demanded that the subsidy go to the railways reasoning that this would help prevent branch line rationalization. Value-added processing and diversification, however, could only happen if the money were paid to the producer.

And here is where the story takes an interesting twist. Devine's 1978 treatise had called for an end to the Crow as the only way to encourage important changes to agriculture, such as the development of secondary grain-reliant businesses within the province. Yet at the close of debate, he appeared to give the SWP position: to pay the federal subsidy to the railway instead of the farmer directly, tacit support. The result was ironic.

"Premier Devine's strategy appears to be to seek a "pay the railroad" solution." wrote Alberta's Deputy-Minister of Inter-governmental Affairs Peter Meekison in a February 25, 1985 letter to his Minister, "If Premier Devine then wished to encourage value-added agricultural processing in Saskatchewan, the Saskatchewan government would have to undertake long-term provincial programs to this end,"[50] That was the path followed during Devine's premiership.

PREPLACEMENT LEGISLATION: THE *WESTERN GRAIN TRANSPORTATION ACT,* 1983

Ottawa enacted the *Western Grain Transportation Act* (WGTA) in 1983. While not ending the Crow, it nonetheless began the move away from that era. The WGTA replaced the earlier makeshift subsidies and fixed Crow rate. In that way, it was historic.

On the downside, the WGTA legitimized the payment of a federal subsidy (called the Crow benefit) to the railways as freight rates rose to a compensatory level. The benefit, initially set at $658 million, rose to $720 million in 1989-1990. Farmers were paying 30 per cent of the total freight costs. In the early 1990s, the federal government began to reduce its contribution, and at the time of the WGTA's demise in 1995, the federal contribution was $565 million.

Beyond consistent, albeit changeable, federal support, there was a familiar ring to the WGTA. Like the Crow, it stifled value-added industries as well as consideration to agricultural diversification.

Regulated rates raised the cost of the grains needed by the canola crushers and livestock breeders. The low rates discouraged secondary processing within the region, all the while raising farm-gate prices. Processors continued to ship unprocessed products out of the region under the subsidized rates. It was more advantageous to ship raw goods outside the region rather than pay the much higher transportation rates on processed goods shipped out of the region.

> Over the 12 years that the WGTA was in force, the subsidy averaged $15.98 per tonne to Thunder Bay and $20.98 per tonne to Vancouver. Lower shipping costs raised farm-gate grain prices and encouraged the production of grains for export.
>
> Diversification of agriculture was hampered by the subsidy. By offsetting part of the handling and shipping costs to export markets, the subsidies raised feed grain prices and discouraged livestock production. It also discouraged certain kinds of value-added processing as well as the production of non-qualifying crops, such as potatoes.[51]

While five pasta plants were being established just across the border in North Dakota alone, the lower Canadian shipping cost made grain export the only real option. The CWB's single desk command structure added to this.

While the Crow rate was an incentive for famers to ship wheat for export, the CWB demanded it. When Canadian farmers were offered a delivery opportunity and shares in a pasta plant in Carrington, North Dakota, just southeast of Minot, the CWB refused to allow farmers to divert their own grain inventory in this way, claiming the Board needed to control all export grains.

"It's why we fought so hard to keep canola unregulated," said Bill Cooper, former governor of the Winnipeg Grain Exchange and long-time executive director of the Saskatchewan Canola Growers Association, in a recent interview with the Frontier Centre for Public Policy.

> We learned through wheat that the value-added industry, which is where the money is by the way, just won't happen where rates are low and encourage export of raw product. I'm proud to be part of the movement that fought it. At the end of the day, we've got 11 major canola crushing plants in Western Canada as a result.

Canola contributes $19.3 billion annually to the Canadian economy.

Further, other Canadian farm industries were quick to respond to the distorted incentives created by the transportation subsidy.

> During the 1970's when the real costs of transportation were rising rapidly and the real price of regulated grain on the prairie was rising in tandem, a major shift to central and eastern Canada occurred in hog and, to a lesser extent, beef production.[52]

The price distortions caused by the WGTA payment resulted in the implementation of retaliatory subsidies by Alberta, Saskatchewan and Manitoba as they fought to maintain their industries.

Not only distortionary and a deterrent to crop diversification, the WGTA's transportation subsidies were responsible for the lowering of grain prices in eastern Manitoba and Saskatchewan when grain movement shifted to Asian markets and Western ports, requiring changes to the distance-related pooling formula.

The WGTA allowed the railways to earn money for three years, keeping any productivity gain. But following extensive regulatory costing hearings in year four, any productivity gain was clawed back. The resetting was done, it was reasoned, to ensure that the rates were aligned with as recent as possible an actual cost base. But by denying railways the benefit of productivity gains ultimately proved a disincentive for railway investments and investors.

Subsidies were outdated, expensive and detrimental to economic development, diversification and railway investment. These sound reasons prompted the WGTA's repeal in 1995. It was replaced by a short-lived regime of a cap on railway grain rates, originally under the 1995 *Budget Implementation Act* and thereafter as set by the National Transportation Agency (and then by its replacement agency, the Canadian Transportation Agency). The 1995 *Budget Implementation Act* not only eliminated federal subsidies, it also granted farmers a one-time cash payment of $1.6 billion. In 2000, the new revenue-cap regime came into being.

THE REVENUE CAP ON GRAIN MOVEMENT, 2000

The revenue cap places a ceiling on the total revenues that CN and CP can earn on a per tonne basis for moving non U.S.-bound western export grain. Although the revenue cap continues the cost-based approach to grain freight rates, its intention was that it be a halfway house of sorts: a short-lived measure before moving to a fully deregulated market-based pricing system. The 2016 Canada Transportation Act Review noted that it "was envisaged that it (revenue cap) would end five years from implementation, and that a review under the Canada Transportation Act's grain provisions would be undertaken."[53]

The revenue cap was sold as being forward thinking in its design. In anticipation of a fully de-regulated system five years hence, the revenue cap would, the government claimed, replicate the market by permitting "clearer market signals to be sent" and providing for "more scope for innovative service offerings." It has failed on all counts to meet those objectives.[54]

Unlike a market-driven system, the revenue cap leaves railway productivity gains (i.e., the gains made by railways when running an efficient operation by burning less fuel or running longer trains, for example) open to poaching through federal government claw-backs. This occurred in 2000, clawing back railway revenue by 18 per cent, and again in 2008, with a further claw-back of 8.4 per cent on railway revenue. In December 2014, the Agricultural Producers Association of Saskatchewan, a powerful Saskatchewan farm group, lobbied the federal government to further claw back railway productivity gains, urging a return to the ruinous levels in the 1983 WGTA formula.

Politically driven, these moves ignore the fact that productivity gains have already been passed on to shippers in dramatic cost reductions — a discount of 20 per cent compared with other commodities. Farmer demands for claw backs are nothing more than a case of "having your cake and eating it too" says Barry Prentice, a professor of supply chain management at Manitoba's I.H. Asper School of Business. "If you have a revenue cap," he says, "then the productivity gains go to the provider."[55]

The Conference Board of Canada was of a similar mindset. Terming the claw back by Parliament in 2000 "the equivalent of an imposed public duty without adequate compensation," the Board claimed that it "call[s] into question how committed the government really is to a market-driven rail system."[56]

Farm groups that demand claw backs and politicians who use them to their advantage ignore the market-driven system that the revenue cap was intended to replicate. So while Conservative Minister of transport Cannon championed the 2008 claw back in a media release as one that would "reduce transportation rates for western farmers," CN's president, Hunter Harrison asked why that should be considered good policy.[57]

> There is no sound policy rationale for arbitrarily lowering grain rates, nor is there any fairness or equity in favouring grain producers over rail shippers from all other sectors who have to pay market rates consistent with a privately funded railway industry.[58]

The debate is an important one. Producers, who under the revenue cap benefit from an average 20 per cent discount compared to other commodities, should be concerned about getting goods to export markets through a long-term, top-quality railway service. In effect, grain shippers step on their own message when they endorse claw backs, as they are a poor fit with the regulatory constancy and stability that railway investors require. Railway investors remain "suspicious" of regulatory environments says Frank Wilner, contributing editor of trade magazine *Railway Age.*[59]

The Conference Board of Canada came to a similar position. Charting key railway legislation, it found that economic regulation results in a chill on investment that defers investment, impacting capacity and economies. For example, when the 1990 recession occurred, regulations prevented CN and CP from quickly exiting unprofitable branch lines. Traffic density dropped to about half that in the United States, impacting investment decisions. When the Canada Transportation Act became law in 1996, it created a favourable climate and investment in rail doubled.[60]

Grain shippers that seek further rate reductions to the below-commercial rate they now are charged ignore the costly rail line fixes and added capacity needed for their own benefit. When the grain sector does not pay its share of infrastructure upgrades and new capacity improvements, says the Conference Board of Canada, railways have three options: reduce overall spending on the network, limit spending on the grain sector or charge non-grain shippers higher rates to compensate.[61]

"If the railways are to invest in future system improvements," replied Arthur Kroeger to Minister of Transportation Collenette's request for a stakeholder's report on grain handling, "grain must offer them returns commensurate with those of other products. Otherwise, investments in grain transportation would undoubtedly be given a lower priority, with the result that efficiency would decline in future years." The Crow years, his September 1999 letter said, provide insight into the problem with non market-based rates: the system "deteriorated" and "governments had to assume responsibility for investments that would otherwise have been made by railways."[62]

CN president at the time, Hunter Harrison admitted that grain regulation affects investment decisions: "[T]he continued erosion of grain profits by re-regulation will force CN to review investment decisions in grain transportation and to restructure its services for the sector."[63]

Also dampening investment is the revenue cap's "free rider" problem. The revenue cap formula is not sufficiently sophisticated to distinguish individual railway investment. Thus, investments by CN, for example, are applied equally to both railways. The recent Canada Transportation Act Review found this especially problematic for investment: "Thus, benefits from one railway's investments accrue to both railways equally, creating the (investment) disincentive and the 'free rider' effect."[64]

Another problem is found in the revenue cap's treatment of switching activities. To solve the pressing issue of Vancouver port congestion, CN and CP had entered into co-operation agreements aimed at reducing the number of trains entering the port. CN's movement of CP-originated grain to the port's North shore elevators, however, resulted in CN being apportioned revenue for the switching under the cap. Without offsetting tonnage, CN had been penalized close to five million dollars annually for exceeding the revenue cap. After years of unsuccessfully attempting to resolve this inequity, CN finally issued a media release notifying of its intention to withdraw from the program.[65]

The "more innovative service offerings" the revenue cap was intended to set in motion never materialized. While normal business practice rewards efficient behaviour, the revenue cap prevents this. As performance incentives earned from providing a premium service are counted as revenue under the cap, they must be offset by equivalent reductions in order to avoid penalties for exceeding the cap. In this way, the revenue cap, rather than creating "more innovative service offerings" has created a zero-sum game.

And perversely, if railways do not charge enough and are under the cap, the revenue cap rules do not allow the loss to be recouped. It is money left behind, a matter that further encourages railways to be precise in their costing and to avoid efficiency incentives.

Importantly, there is also no advantage to a railway to upgrade equipment or infrastructure. The design of the revenue cap — where shippers only pay for the tonnes they move — places the high-risk element involved with capacity investments entirely with railways.

Despite grain shippers' demands for costly upgrades, rail company executives, legally responsible to shareholders, question the assumption of the greater risk these capacity improvements create, such as new hopper cars, without remuneration or any form of compensation. In effect, rail companies are asked to assume the risk of these investments, while shippers, governments and the public are relieved of any cost.

Barring new investment, however, capacity is constrained, creating bottlenecks and service issues. A market-based system would accept that equipment, resources and labour to meet peak times would require offsetting revenue. The revenue cap does not. Level of service complaints can be traced directly to this. The revenue cap also prevents the movement of grain in containers, a developing trend in the United States due to its ability to provide exact specifications.

Not only does it deter investment and encourage inefficiencies, the revenue cap is creating a growing crisis in grain shipment in Canada. It is preventing the purchase of new hopper cars that could carry more grain. While the federal government had purchased 14,000 cars, former Supreme Court of Canada justice Willard Z. Estey noted in December 1998 that the fleet stood at 13,000 cars. Aware of the need to upgrade cars, he warned:

> The cars are subject to technological obsolescence as well as wear and tear. The fleet is apparently in reasonably good condition, but new hopper cars of different dimensions and different equipment are entering the field around North America. Sooner or later, this fleet of government-owned vehicles will age to the point of necessary replacement.[66]

Last August, there were 8,400 cars in active service from the government fleet, down from 12,000 cars five years earlier. Further, the fleet is aging: the 5,600 Government of Canada grain cars with CP are of an average age of 37 years of a 40 year lifespan.

The 2016 Canada Transportation Review Report framed the problem this way:

> 75 per cent of the total hopper-car fleet is likely to be retired as they each reach the end of their service life during the five-year period from 2025-2030. Given that new hopper cars cost approximately $100,000 each, the replacement of the cars will require a large capital investment in the medium and longer term. Replacing the cars during the five-year span in which three-quarters of them will likely be retired would make the task even more financially daunting.[67]

The new ‘jumbo’ cars are capable of boosting grain capacity by at least 20 per cent, increasing efficiencies throughout the supply chain. But at $100,000 per car, the cars are expensive. Added to that is the cost of locomotives necessary to pull and push the cars and new loading sites necessary to accommodate them. However, “[u]nder the current regulatory regime, railways are effectively prevented from replacing government-owned hopper cars with modern ones.”[68]

Hopper car replacement is the “elephant in the room”, John Brooks, CP’s vice-president in charge of grain told trade magazine, *The Western Producer* in August, 2015. Confined to replacement of cars “leased, disposed of or withdrawn from the fleet”, the revenue cap will not allow railways a regulatory discount if they attain new cars to meet higher demand. Neither can railways avail themselves of the discount if they upgrade to more efficient cars — even though that would enable faster movements of grain and benefit the economy. And the financial discount allowed is minimal and, bizarrely, benefits both the investing railway who must share the discount with its competitor. While railways worry about assuming the full risk and cost of new cars, grain shippers — unlike other shippers that pay for upgrades — are unencumbered by these concerns. For their part, non-grain shippers worry about whether the below market rates in grain restrict capital investment in the network and whether this will impact the movement of their goods. Just across the border in the U.S., operating under a market-based system, rival railway BNSF has acquired a full fleet of new hopper cars over the past ten years. In Canada, a similar purchase remains elusive. Quite the elephant.

Not unlike the Crow, the revenue cap has created a system where investors lack interest, where necessary equipment purchases such as hopper cars are left unaddressed and where inefficiencies are ingrained. The result is that Western Canadian farmers may lose market share and income, and other commodity shippers, caught in the historical bramble bush of grain rates, will continue to fall captive to the inefficiencies, distortions, capacity and investment problems that the revenue cap creates.

CONCLUSION

As an agricultural economist, Devine's position on regulated grain freighting rates has withstood the test of time. As a politician, his failure to champion that position is less attractive. Devine's failure to promote a market solution may be explainable.

The strongest attachment to the Crow was in Saskatchewan. Although each of the four Western provinces had a healthy grain industry, by then, western Canada was no longer united behind the Crow's premise that grain should receive preferential treatment. Each of the Western provinces pursued matters that suited its own economic best interests: British Columbia wanted track upgrades to enhance non-grain bulk traffic. Alberta remained concerned about the Crow's distortionary effect on its livestock producers. Manitoba's mixed loyalties to the Crow reflected its mixed economy.

In Saskatchewan, where 50 per cent of the primary grain producers farmed, the emotional attachment to the Crow was strongest. This may have made Devine's academic position difficult to advance.

> For years, some prairie politicians have 'campaigned on the Crow. Sometimes ignoring other issues, behaving like fundamentalist ministers at a revival meeting, they have preached the gospel of the Crow. Some farmers believed that the Crow Rate was essential to their economic survival as was the good life to the salvation of their soul. Such feelings were widespread and they were deep.[69]

Further, much of the Crow debate occurred before and during the 1982 election year, where the NDP had hoped to galvanize the province behind the issue. The course that Devine followed — to deflect the Crow debate — may have been considered politically wise. Devine had been thrown into a difficult arena.

And there was some attraction to Blakeney's position, which perhaps explains Devine's reluctance to advance his earlier writing. In a resource-rich province, far from seaboard, the concern of the Saskatchewan farm vote was income security.

While Blakeney sought endless protections to his stable of state enterprises, he represented, as did Devine, says Barry Cooper, a political scientist, part of the enduring 'Saskatchewan myth.' In that myth, Saskatchewan is a place of infinite potential, a 'promised land' not yet fully realized. To Blakeney, the 'promised land' was attainable only through regulation and market interference — to the point of petitioning Ottawa to set Soviet inspired production guides and price guarantees on agriculture.

Without state intervention, went the argument, was the market, a malfunctioning institution where prices varied widely and farmers took the brunt of falling prices, confined to taking home the 'export price' for grain, that is, one where the transportation, storage and grain handling charges were all deducted. So while railways and grain companies were shielded from the effects of falling prices, farmers were on the frontlines. Added to that, farmers' input charges, such as fertilizer, repairs and fuel, were always on the rise and railways, monopolists really, would exploit their position without a fixed rate. Beginning in 1925, every federal initiative to change grain transportation price controls has prompted these very same arguments. Each has been disproved and the argument has only superficial attraction.

Yet, it may have been challenging for Devine, mid-campaign, to argue against the security the fixed Crow rate provided. This was an unfortunate as few had better insight on the Crow's devastation than he.

Devine's position as Premier is harder to explain. While Blakeney's understanding of the economic imperatives at play was ideologically driven, Devine fully understood that the Crow was in the process of destroying railway companies and shippers alike and required the leadership he could have brought. In fact, some Conservative MPs, such as Manitoba's Jack Murta and Charles Mayer along with Alberta's Bert Hargrave spoke openly in support of Pépin's proposal.

If fault lies, it is with politicians who elevated expectations, referring to the Crow as "one of the Dominion's chief assets" when it was not. By vastly extending the reach of the Crow's low rates — to include grain moving on CN as well as CP, to thousands of kilometres of new lines, to three other ports and a wide range of grain products, including canola, one of Canada's largest crops, the Crow's amendments beginning in 1925 were the taking of rail company assets without compensation. "Let us reiterate," wrote the 1961 Royal Commission on Grain Handling and Transportation, "for those obligations which involve losses imposed on railways by law, there is an obligation to assist."[70]

In Devine's defense, when questioned by the Frontier Centre for Public Policy as to why he had not taken a more pro-market approach, he said that he had assumed a Crow buy-out was under discussion and for that reason had "played his cards close to the chest." Beginning with Otto Lang's buy-out option of October 1974, a continuous rumour of Crow rate buy-out had circulated. The possibility of a buy-out, he suggests, interfered with a strong position on Crow reform.

The failure to fully reform the Crow in the early 1980s, however, resulted in furthering price controls, the most recent being the revenue cap. The continued drag on farm income caused by this latest form of rate regulation should alarm prairie farmers.

Canada, formerly the world's price maker on grain, began a significant loss of market power by the 1960s. The loss was tied to Canada's logistics and transportation problems under the Crow rate. Rather than tackling the problem, the issue was studied, debated and allowed to drift. As a result, Canada's grain exports became tied to transportation capabilities, with an attendant decline in Canada's position. Canada became a price taker with the U.S. and Australia advancing.

Today, Canada's transportation, storage and handling remain problematic. The U.S. Department of Agriculture estimates that Kazakhstan, Russia and Ukraine will forge ahead due to low production costs, high quality wheat and better transportation links from Russia to both the E.U. and the former Soviet Union countries. It is estimated that within 7-10 years, these countries will capture 30-35 per cent of global wheat exports.

And while Canada's past is one of lost market share due to rate-related transportation problems, the future points to opportunities ahead at risk. The March 2016 Conference Board of Canada report lists wheat as one of the six commodities projected to have the largest increase in car-loadings in the next 10 years. The Board also forecasts the largest growth in total volume to occur on the route between Saskatchewan and the United States (with canola being the third-largest growth category on that route following crude oil and potash). Predictions on the Saskatchewan to British Columbia route are for a quick escalation in growth in traditional agricultural products, primarily wheat and canola, with peas and lentils on the rise.[71] While this type of growth is forecast, it may be of little benefit to farm income if movement continues to slow due to the revenue cap's inability to accommodate new car and other infrastructure purchases.

The arguments of the 1980s are of slight relevance today. The claim of an exorbitant rise in grain freight rates without the Crow's restraint was, as Pierre Trudeau noted, nothing more than "scare stories." In fact, The Board ranks Canada's grain freighting rates as "highly competitive" with rates fully one-third less than those in the United States and substantially below Australian rates.

> When standardized by distance, Canada's rail transportation for wheat is highly competitive costing about 2.1 cents per tonne-km (2013 constant US$). Australia and the U.S. have much higher rates, at 10.7 and 3.1 cents, respectively. So, while Australia has a much shorter distance from farm to port and the U.S. has lower production costs, Canada is able to remain competitive in the Japanese wheat market largely because of the low-cost rail transportation available to grain shippers in Canada.[72]

Unlike the days of the Crow debate, the parties are more attuned to how a global grain market works, the economic imperatives of the stakeholders and the need to broaden horizons. Many have reflected and changed course.

Ralph Goodale, who had championed against changes to the Crow in his early days, is one. By 1995, he was preaching the benefits of a grain freighting system that would be "more efficient, less expensive and faster than the one we have had." He called for a system that eliminated "the built-in discrimination" that "impeded broader economic diversification and growth."[73] This position has resonance even today.

Following the repeal of earlier price controls, such as those under the *Western Grain Transportation Act,* Agriculture and Agri-Food Canada not only outlined the distortions attendant with that regime's rate regulation, but also the important benefits that followed its lifting. These included greater diversification away from export grains in prairie farms; "significant" increases in grains for domestic consumption, including feedlot; a jump in livestock production, in both cattle and hog; and the dramatic growth in value-added regional processing, at fully 56 per cent between 1990-1999. "In the twelve years that followed the repeal of the WGTA, processed agricultural products displaced raw grain as Canada's leading agricultural export."[74]

The deregulation of the revenue cap's price controls would spur a similar list of real and long-term benefits. For shippers, that would include an immediate splurge in rail infrastructure spending, future greater sharing in productivity gains and a more efficient service.

The need to deregulate grain rates is hardly new. Starting with the MacPherson Royal Commission of 1959-61, all fulsome *Canada Transportation Act* reviews, government writing and direction have pointed unwaveringly towards a market-based commercial system as best accommodating Canada's needs in hauling grain. With the benefit of more than fifty years reflection since, the path ahead should be clear. Professor Devine was on to something in his 1978 treatise about the problems with fixed freight rates. It's just too bad he tacked.

CHRONOLOGY OF EVENTS AND POLICIES ON GRAIN TRANSPORTATION: 1897 TO PRESENT

1897: An agreement is signed between the CPR and the federal government. In exchange for $3.6 million and provincial title to land, the CPR agrees to build a 330 mile rail line from Lethbridge, Alberta through the Crowsnest Pass to Nelson, British Columbia. CPR also agrees to reduce its rates: on settlers' effects (such as coal, farm implements, household goods) heading west and for grains and flour on some CPR lines moving to the port at Port Arthur/Fort William (later, Thunder Bay).

1919: Due to high inflation, rail companies face possible insolvency. The War Measures Act is enacted to suspend the Crow rate, allowing grain rates to rise above the 1897 level.

1922: Crow rate on grain is restored.

1925: Rates are extended from the original 289 prairie points to all shipping points.

1927: Crow rate is extended to shipment to the Pacific coast.

1961: Rapeseed and flaxseed are added.

1961: MacPherson Royal Commission reports on the grain transportation system. Murdoch MacPherson, a Regina lawyer, claims that the over-regulation of railways may not be in the public interest and that the railways' revenue shortfall must be compensated. MacPherson recommends the government provide an annual grant equal to the shortfall of revenues on railway variable costs as well as a grant to cover their fixed costs.

1967: A clause to this effect makes its way to the new National Transportation Act but is withdrawn following a "storm of criticism" in the West.

1972: The federal government begins purchasing hopper cars. By 1986, the federal government had purchased 14,000. It also begins a series of ad hoc payments to railways.

1975: Snaveley, a Washington-based rail economist hired by Otto Lang, Minister responsible for the Canadian Wheat Board, reports on railway losses. Railway losses can no longer be considered a matter of conjecture. They are, Snaveley says, real, substantial and rapidly mounting. The net revenue railway shortfall from moving grain in 1974 was $103 million; losses were growing at the rate of 15.5 per cent per year.

1980: Prime Minister Pierre Trudeau appoints Jean-Luc Pépin as Minister of Transport. In March1980, Pépin asks Arthur Kroeger, his Deputy-minister to assist him in dealing with the threat to the railways due to the 1897 Crow rate. A series of stakeholder meetings, predominantly in western Canada, follow.

1982: In April 1982, Donald Grant Devine is elected premier of Saskatchewan and the question of whether producers should pay part of the revenue shortfall is debated.

1983: With a clause providing that producers pay a part of the shortfall having been soundly defeated, the Western Grain Transportation Act becomes law. The federal government makes large annual payments to railways to ensure they remain viable.

1995: The WGTA ends. Along with its end, federal subsidies to the railways are eliminated. The 1995 Budget Implementation Act sets the maximum rate scale for the 1995-96 crop year. Thereafter, the rate cap—a distance-based cap on railway rates for the movement of grain—becomes law. The federal government also sets aside a fund of $1.6 billion under the Western Grain Transition Payments Program to assist Crow-affected producers along with a $300 million, three year Western Grain Transportation Adjustment Fund.

1999: Following the 1998 report on Grain Handling and Transportation conducted by former Supreme Court of Canada justice, Willard Z. Estey, Minister Collenette calls on the former deputy-minister of Transport, Arthur Kroeger to provide detail regarding the implementation of a new form of price control, known as the revenue cap. In particular, Collenette requests that the level of railway revenue for the base year of the revenue cap be investigated. Kroeger's December reply notes that the federal government has "progressively moved away from regulation and central controls" and that the current government had sought a "more commercial, contract-based system in which there is more competition, clearer accountabilities and greater scope for market forces to influence decision-making." The revenue cap regime begins with Parliament imposing an 18 per cent reduction (claw back) of railway revenue. Claw-backs, says The Conference Board of Canada in 2001, call into question how committed the government is to a market-based solution.

2000: In August 2000, the revenue cap replaces the rate cap. Intended to replicate the market, it is responsible for a number of problems. It deters port efficiencies, notably at the port of Vancouver; it disallows price incentives; prevents the purchase of modern grain cars; dissuades investment and investors and discourages efficiencies. It is directly responsible for level of service complaints.

2016: On February 25, 2016, the Minister of Transport tables the Canada Transportation Act Review Report (the Emerson Report) in Parliament. It lists the problems with the revenue cap concluding that its eventual elimination "will finally place the grain sector on an equal footing with all commodities transported by rail in Canada. It will reflect the changing nature of the sector, including the growth in specialty crops, higher crop yields the entrepreneurial ingenuity of producers and the elimination of the Canadian Wheat Board's single-desk monopoly. Further, it will harmonize Canada's grain pricing with the United States. Finally, an unfettered commercial framework will provide greater assurance that supply chain partners who handle and transport grain will invest in innovative supply chain solutions to move grain in years to come."

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